

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM S-1/A[^]

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

FIRST PACTRUST BANCORP, INC.

(Exact name of registrant as specified in its charter)

Maryland

6035

[^]04-3639825

(State or other jurisdiction of
incorporation or organization)

(Primary Standard Industrial
Classification Code Number)

(I.R.S. Employer Identification No.)

610 Bay Boulevard, Chula Vista, California 91910
(619) 691-1519

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Hans R. Ganz, President and Chief Executive Officer
First PacTrust Bancorp, Inc.
610 Bay Boulevard
Chula Vista, California 91910
(619) 691-1519

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Please send copies of all communications to:

Robert L. Freedman, PC
Martin L. Meyrowitz, P.C.
Beth A. Freedman, Esq.
SILVER, FREEDMAN & TAFF, L.L.P.
(a limited liability partnership including professional corporations)
1700 Wisconsin Avenue, NW
Washington, DC 20007
(202) 295-4500

Approximate date of commencement of proposed sale to the public:
As soon as practicable after this Registration Statement becomes effective.

If any of the securities being registered on this Form are being offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933 check the following box. [X]

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered(1)	Proposed Maximum Offering Price Per Share (1)	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration Fee
Common Stock, par value \$.01 per shares	4,099,750 shares	\$10.00	\$40,997,500	\$3,772.00 ⁽¹⁾
401(k) Plan Participation Interests	\$ 691,654	---	---	--- ⁽²⁾

(1) Estimated solely for the purpose of calculating the registration fee which was previously paid.

(2) The \$691,654 of participations being registered based on the assets in the Pacific Trust Bank Employee Stock Ownership Plan and Trust at December 31, 2000 which are available to purchase common stock in the offering. Pursuant to Rule 457(h)(2), no additional fee is required with respect to the interests of plan participants.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

Interests in

FIRST PACTRUST BANCORP, INC.
401(k) and Employee Stock Ownership Plan and Trust

and
Offering of 69,166 Shares of

FIRST PACTRUST BANCORP, INC.
Common Stock

In connection with Pacific Trust Bank's conversion, First PacTrust Bancorp, Inc. is allowing participants in the Pacific Trust Bank 401(k) Employee Stock Ownership Plan and Trust (the "KSOP") to invest their 401(k) Contributions Account, Rollover Account, Matching Contribution Account, and Profit Sharing Accounts (such accounts being collectively referred to herein as the "401(k) Plan" - which 401(k) Plan is part of the KSOP) in the common stock of First PacTrust Bancorp, Inc. (the "Common Stock"). Based upon the value of the 401(k) Plan assets at March 31, 2002, the trustee of the 401(k) Plan could purchase up to 69,166 shares of the common stock assuming a purchase price of \$10.00 per share. This prospectus supplement relates to the initial election of 401(k) Plan participants to direct the trustee of the 401(k) Plan to invest a portion of their 401(k) Plan accounts in the First PacTrust Bancorp, Inc. Common Stock Fund at the time of the conversion.

Neither the Securities and Exchange Commission, the Office of Thrift Supervision, the Federal Deposit Insurance Corporation, nor any other state or federal agency or any state securities commission, has approved or disapproved these securities. Any representation to the contrary is unlawful.

This prospectus supplement may be used only in connection with offers and sales by First PacTrust of interests or shares of common stock pursuant to the 401(k) Plan. No one may use this prospectus supplement to reoffer or resell interests or shares of common stock acquired through the 401(k) Plan.

The prospectus dated May [___], 2002, of First PacTrust, which we have attached to this prospectus supplement, includes detailed information regarding the conversion, the common stock and the financial condition, results of operations and business of First PacTrust. This prospectus supplement provides you with information regarding the KSOP. You should read this prospectus supplement together with the prospectus and keep both for future reference.

Please refer to "Risk Factors" beginning on page of the prospectus.

The date of this Prospectus Supplement is May [___], 2002.

[Next Page](#)

TABLE OF CONTENTS

	<u>Page</u>
THE OFFERING	i
Securities Offered	i
Election to Purchase First PacTrust	
Common Stock in the Conversion	ii
Value of Participation Interests	ii
Method of Directing Transfer	ii
Time for Directing Transfer	ii
Irrevocability of Transfer Direction	ii
Direction to Purchase First PacTrust	
Common Stock After the Conversion	iii
Purchase Price of First PacTrust Common Stock	iii
Voting and Tender Rights of First PacTrust	
Common Stock	iii
DESCRIPTION OF THE PLAN	1
Introduction	1
Eligibility and Participation	1
Contributions Under the Plan	2
Limitations on Contributions	2
Investment of Contributions	4
Benefits Under the Plan	6
Withdrawals and Distributions from the 401(k) Plan	6
Administration of the 401(k) Plan	7
Reports to Plan Participants	7
Plan Administrator	7
Amendment and Termination	7
Merger, Consolidation or Transfer	8
Federal Income Tax Consequences	8
ERISA and Other Qualification	10
Restrictions on Resale	10
Securities and Exchange Commission Reporting	
and Short-Swing Profit Liability	11
Financial Information Regarding Plan Assets	11
FIRST PACTRUST BANCORP, INC. 401(k) PLAN FINANCIALS	12
INVESTMENT ELECTION FORM	13

[Next Page](#)

THE OFFERING

Securities Offered

The securities offered in connection with this prospectus supplement are participation interests in the 401(k) Plan. As of March 31, 2002, assuming a purchase price of \$10.00 per share, the trustee of the 401(k) Plan may acquire up to [_____] shares of Common Stock for the Common Stock Fund known as the First PacTrust Bancorp, Inc. Common Stock Fund. Eligible employees, previously eligible employees, alternate payees and beneficiaries of the preceding parties may participate in the Plan. The interests offered under this prospectus supplement are conditioned on the consummation of the conversion. Your investment in the Common Stock Fund in connection with the conversion is subject to priorities set forth in the plan of conversion of Pacific Trust Bank.

Your ability to invest in the Common Stock Fund is based on your status as an eligible

account holder, supplemental eligible account holder or voting member of Pacific Trust Bank. An eligible account holder is a depositor whose account totaled \$50.00 or more on December 31, 1999. A supplemental eligible account holder is a depositor whose account totaled \$50.00 or more on March 31, 2002. A voting member of Pacific Trust Bank is a depositor who was a member of Pacific Trust Bank as of the voting record date. To the extent you fall into one of the subscription offering categories, you have subscription rights to purchase shares of common stock in the subscription offering and you may use funds in your 401(k) Plan account to pay for the common stock for which you subscribe.

The trustee will acquire Common Stock after the conversion in open market transactions. The prices paid by the trustee for shares of the Common Stock will not exceed their fair market value. The trustee will pay transaction fees associated with the purchase, sale or transfer of the common stock after the conversion.

The trustee will hold common stock in the name of the KSOP. The trustee will allocate shares of Common Stock acquired at your direction to your account under the KSOP. Therefore, earnings with respect to your account are not affected by the investment designations of other participants in the KSOP.

[Next Page](#)

Election to Purchase First PacTrust Common Stock in the Conversion

In connection with the conversion of Pacific Trust Bank, First PacTrust has amended the existing 401(K) Plan to become a combined Employee Stock Ownership and 401(k) Plan and to permit you to direct the trustee to transfer a portion of the funds which represents your beneficial interest in the assets of the 401(k) Plan to the Common Stock Fund. The trustee of the 401(k) Plan will subscribe for Common Stock offered for sale in connection with the conversion in accordance with each participant's timely direction. In the event the conversion offering is oversubscribed and some or all of your funds cannot be used to purchase common stock in the conversion offering, the trustee will reallocate the amount not invested in Common Stock on a proportionate basis to the other investment options you have selected. If you fail to direct the investment of your account, your 401(k) Plan account balances will remain in the other investment options of the 401(k) Plan.

Value of Participation Interests

As of December 31, 2001, the market value of the assets of the 401(k) Plan equaled \$691,654. The plan administrator informed each participant of the value of his or her beneficial interest in the 401(k) Plan as of December 31, 2001. The value of plan assets represents the past contributions to the 401(k) Plan by the participants of Pacific Trust Bank, plus or minus earnings or losses on the contributions, less previous withdrawals and forfeitures, if applicable.

Method of Directing Transfer

The last page of this prospectus supplement contains a form for you to direct a transfer to the Common Stock Fund, the investment election form. If you wish to conduct a transfer, in multiples of not less than 1%, of your beneficial interest in your available account balance of the 401(k) Plan to the Common Stock Fund, you should complete the investment election form. If you do not wish to make such an election at this time, you do not need to take any action.

Time for Directing Transfer

The deadline for submitting a direction to transfer amounts to the Common Stock Fund in connection with the conversion is June [___], 2002. You must return the investment election form to [_____] in the Human Resources Department at [_:_] [_]m., Pacific Time, on this date.

Irrevocability of Transfer Direction

Your 2002 direction to transfer amounts credited to such account in the 401(k) Plan to the Common Stock Fund cannot be changed after June [___], 2002. Such election will remain

in effect until you elect to change it. Changes in your investment directions may be made [].

[Next Page](#)

Direction to Purchase First PacTrust Common Stock After the Conversion

After the conversion, you may direct the trustee of the 401(k) Plan to transfer a certain percentage (in multiples of not less than 1%) of the net value of your available account balance in the 401(k) Plan to the Common Stock Fund or to the other investment funds available under the 401(k) Plan. Following your initial election, you may change the allocation of your investments in the Common Stock Fund on the first day following any calendar trimester by submitting an appropriate form to the plan administrator. You may obtain a form from the Human Resources Department of Pacific Trust Bank. Special restrictions may apply to transfers directed by those participants who are officers, directors and principal shareholders of Pacific Trust Bank.

Purchase Price of First PacTrust Common Stock

The trustee will pay the same price for shares of common stock as all other persons who purchase shares of the common stock in the conversion.

Voting and Tender Rights of First PacTrust Common Stock

The plan administrator generally will exercise voting rights attributable to all of the common stock held by the Common Stock Fund. With respect to matters involving tender offers for Pacific Trust Bank, the plan administrator will vote shares allocated to participants in the 401(k) Plan, as directed by participants with interests in the Common Stock Fund. The trustee will allocate to you voting instruction rights reflecting your proportional interest in the Common Stock Fund. The number of shares of Common Stock held in the Common Stock Fund that the trustee votes in the affirmative, negative or as an abstention on each matter shall be proportionate to the number of the voting instruction rights exercised in the affirmative, negative or as an abstention, respectively. For matters not involving a tender offer, the plan administrator will direct the vote of allocated shares and participants will not have an opportunity to direct the voting of shares.

[Next Page](#)

DESCRIPTION OF THE PLAN

I. Introduction

Effective January 1, 1997, Pacific Trust Federal Credit Union, the predecessor to Pacific Trust Bank, adopted the Pacific Trust Federal Credit Union Bank 401(k) Incentive Savings Plan and Trust. Effective January 1, 2002, Pacific Trust Bank assumed sponsorship of the Plan and the Plan was renamed the Pacific Trust Bank 401(k) Incentive Savings Plan. On January 1, 2002, Pacific Trust Bank amended the 401(k) Plan to include an Employee Stock Ownership Plan component to the 401(k) Plan (the "KSOP Plan"). Pacific Trust Bank intends for the KSOP Plan to comply, in form and in operation, with all applicable provisions of the Internal Revenue Code and the Employee Retirement Income Security Act, most commonly referred to as "ERISA." As a plan subject to ERISA, federal law provides you with various rights and protections as a plan participant. However, your benefits under the KSOP Plan are not guaranteed and are not required to be guaranteed by the Pension Benefit Guaranty Corporation.

Pacific Trust Bank may amend the KSOP Plan from time to time in the future to ensure continued compliance with all applicable laws. Pacific Trust Bank may also amend the KSOP Plan from time to time in the future to add, modify, or eliminate certain features of the plan, subject to applicable laws.

Applicable federal tax law imposes substantial restrictions on your ability to withdraw amounts held under the KSOP Plan prior to your termination of employment with Pacific Trust Bank, Federal law imposes an excise tax on withdrawals made from the KSOP Plan prior to the time you reach age 59-1/2, unless a permitted exception applies, such as your death, or your separation from service after your attainment of age 55.

Reference to Full Text of Plan. The following portions of this prospectus supplement summarize certain provisions of the KSOP Plan. Pacific Trust Bank qualifies these summaries in their entirety by the full text of the KSOP Plan, which shall have priority. You may obtain copies of the KSOP Plan document by sending a request to: Plan Administrator, Pacific Trust Bank, 610 Bay Boulevard, Chula Vista, California 91910. You should carefully read the full text of the KSOP Plan document and your KSOP summary plan description to understand your rights and obligations under the Plan.

II. Eligibility and Participation

Any employee of First PacTrust or Pacific Trust Bank may participate in the 401(k) Plan as of the first day of the month following completion of one "year of service" and attainment of age 19 with the exception of non-resident aliens and union employees, unless a collective bargaining agreement expressly provides for union participation. (Participation in the Employee Stock Ownership portion of the KSOP occurs on the January 1 or July 1 following completion of the eligibility requirements. Under the KSOP Plan, you generally earn one "year of service" if you complete 1,000 hours of service with First PacTrust or Pacific Trust Bank within the

[Next Page](#)

applicable 12-consecutive-month computation period. Participation in the Plan is automatic, although each Participant may elect whether or not to make 401(k) contributions under the KSOP.

As of March 31, 2002, approximately [___] out of [___] then eligible employees had elected to participate in the KSOP Plan.

III. Contributions Under the 401(k) Plan

401(k) Contributions. The KSOP Plan permits you to annually defer receipt of up to 50% of the compensation that Pacific Trust Bank and/or its affiliates would otherwise pay to you. The amounts you defer are known as 401(k) Contributions. For purposes of calculating your 401(k) Contributions, the KSOP Plan considers compensation to include your total pay reportable on Internal Revenue Service Form, including certain pre-tax deferrals. However, by law, the KSOP Plan may not consider more than \$200,000 of compensation for purposes of determining deferrals for 2002. You may modify the rate of your future 401(k) Contributions by filing a new deferral agreement with the plan administrator prior to the effective date of the modification. Modifications of your rate of 401(k) Contributions take effect at the beginning of each calendar quarter, i.e., January 1, April 1, July 1, and October 1.

Catch-Up Contributions. In addition to the 401(k) Contributions described in the preceding paragraph, if you attain age 50 by the end of a plan year, you may elect to defer an additional amount. This additional amount is known as a "catch-up contribution". Federal law limits your annual catch-up contributions under the KSOP Plan, and any similar plans, to \$1,000 for 2002. This limitation will increase by \$1,000 for each subsequent year until 2006, when the annual catch-up contribution limit will be \$5,000. Although catch-up contributions are considered to be 401(k) Contributions, they are not subject to the dollar limit described in the preceding paragraph, or the discrimination testing described below that applies to 401(k) Contributions and

Matching Contributions.

First PacTrust Matching Contributions. Pacific Trust Bank has discretion whether or not to make matching contributions for you under the KSOP Plan. Matching contributions, if made, will be made on behalf of participants who make 401(k) Contributions during the year, and who have completed at least 1,000 Hours of Service during the plan year and are actively employed on the last day of the plan year (December 31). Matching contributions will not be made on 401(k) Contributions in excess of four percent (4%) of your compensation. For 2000, Pacific Trust Bank made matching contributions to the KSOP Plan equal to \$165,199.

First PacTrust Profit Sharing Contributions. Pacific Trust Bank has discretion whether or not to make profit sharing contributions for you under the KSOP Plan. Profit sharing contributions, if made, will be made on behalf of participants who have completed at least 1,000 Hours of Service during the plan year and are actively employed on the last day of the plan year (December 31). For 2001, Pacific Trust Bank made no profit sharing contributions to the 401(k) Plan.

[Next Page](#)

Rollover Contributions. You may also rollover or directly transfer accounts from another qualified plan or an IRA, provided the rollover or direct transfer complies with applicable law. If you want to make a rollover contribution or direct transfer, you should contact the Plan Administrator.

IV. Limitations on Contributions

Limitations on Employee Salary Deferral. Although the KSOP Plan allows you to defer receipt of up to 50% of your compensation each year, federal law limits your total 401(k) Contributions under the KSOP Plan, and any similar plans, to \$11,000 for 2002. This annual limitation will increase by \$1,000 for each subsequent year until 2006, when the annual deferral limit will be \$15,000. 401(k) Contributions in excess of this limitation are considered excess deferrals and will be included in an affected participant's gross income for federal income tax purposes in the year the 401(k) Contribution is made. In addition, any such excess deferral will again be subject to federal income tax when distributed by the KSOP Plan to the participant, unless the excess deferral, together with any income allocable thereto, is distributed to the participant not later than the first April 15th following the close of the taxable year in which the excess deferral is made. Any income on the excess deferral that is distributed not later than such date shall be treated, for federal income tax purposes, as earned and received by the participant in the taxable year in which the distribution is made. This limitation does not apply to catch-up contributions.

Limitations on Annual Additions and Benefits. Pursuant to the requirements of the Internal Revenue Code, the KSOP Plan provides that the total amount of all contributions and forfeitures (annual additions) allocated to participants during any plan year may not exceed the lesser of 100% of the participant's compensation for the plan year, for 2002, or \$40,000. Annual additions for this purpose generally includes 401(k) Contributions, Matching Contributions, Profit Sharing Contributions and Employee Stock Ownership Contributions. Annual additions do not include Catch-Up Contributions and Rollover Contributions.

Deduction Limits. KSOP contributions are subject to and limited by Internal Revenue Code deduction rules. Contributions will not be made to the extent they would be considered nondeductible.

Limitation on 401(k) and Matching Contributions for Highly Compensated Employees. Sections 401(k) and 401(m) of the Internal Revenue Code limit the amount of 401(k) Contributions and Matching Contributions that may be made to the KSOP in any plan year on behalf of highly compensated employees (defined below) in relation to the amount of 401(k) Contributions and Matching Contributions made by or on behalf of all other employees eligible to participate in the KSOP. Specifically, the percentage of 401(k) Contributions made on behalf of a participant who is a highly compensated employee shall be limited so that the average actual deferral percentage for the group of such highly compensated employees for the plan year does not exceed the greater of (i) the average actual deferral percentage for the group of eligible employees who are non-highly compensated employees for the plan year multiplied by 1.25; or

[Next Page](#)

(ii) the average actual deferral percentage for the group of eligible employees who are non-highly compensated employees for the plan year, multiplied by two (2); provided that the difference in the average actual deferral percentage for eligible non-highly compensated employees does not exceed 2%. Similar discrimination rules apply to Matching Contributions.

In general, a highly compensated employee includes any employee who was a 5% owner of the employer at any time during the year or preceding year; or had compensation for the preceding year in excess of \$85,000 and was in the top 20% of employees by compensation for such year. The dollar amount in the foregoing sentence is for 2001. This amount is adjusted annually to reflect increases in the cost of living.

In order to prevent the disqualification of the KSOP Plan, any 401(k) Contributions contributed by or allocated to highly compensated employees that exceed the average deferral limitation in any plan year ("excess contributions"), together with any income allocable thereto, must be distributed to such highly compensated employees before the close of the following plan year. However, the employer will be subject to a 10% excise tax on any excess contributions unless such excess contributions, together with any income allocable thereto, are distributed before the close of the first 2-1/2 months following the plan year to which such excess contributions relate. Matching contributions that relate to the returned deferral contributions will be distributed at the same time as the excess deferral contributions are returned to you. Similar rules apply to the return of Matching Contributions that do not satisfy the limitation tests described above.

Top-Heavy Plan Requirements. If for any plan year the KSOP is a top-heavy plan, then minimum contributions may be required to be made to the KSOP on behalf of non-key employees. Contributions otherwise being made under the Plan may apply to satisfy these requirements.

In general, the KSOP Plan will be regarded as a "top-heavy plan" for any plan year if, as of the last day of the preceding plan year, the aggregate balance of the accounts of participants who are key employees exceeds 60% of the aggregate balance of the accounts of all participants. Key employees generally include any employee who, at any time during the plan year, is (1) an officer of First PacTrust or its subsidiaries having annual compensation in excess of \$130,000 who is in an administrative or policy-making capacity, (2) a 5% owner of First PacTrust, i.e., owns directly or indirectly more than 5% of the stock of First PacTrust, or stock possessing more than 5% of the total combined voting power of all stock of First PacTrust, or (3) a 1% owner of First PacTrust having annual compensation in excess of \$ 130,000. The dollar amounts in the foregoing sentence are for 2002, and will be adjusted in the future for cost of living increases.

V. Investment of Contributions

All amounts credited to participants' accounts under the KSOP Plan are held in trust. A trustee appointed by the board of directors of First PacTrust administers the trust.

As of May 1, 2002, the KSOP Plan offers the following investment choices for your accounts under the plan:

ABN AMRO Income Plus - A Stable Value Fund. The objective of this fund is to manage a portfolio of stable value fixed income instruments (guaranteed investment contracts and similar investments) in a manner that emphasizes preservation of principal while providing a moderate, stable source of income growth. This fund may be suitable for risk-averse investors seeking preservation of principal, but who also desire a relatively consistent income stream that will help reduce the impact of inflation on principal. This fund seeks stability of principal and higher-than money market rates of return.

Metropolitan West (MetWest) Capital Management, LLC - A Value Stock Fund. The objective of this fund is to achieve long-term capital appreciation by investing in large capitalization companies trading at a discount to their intrinsic values. MetWest seeks to add value to the portfolio through stock selection, appropriate sector weightings, and broad diversification. MetWest's approach to stock selection is to identify the stocks of high quality, growing businesses that are selling at a discount to their "intrinsic" or

true value. This approach is "fundamental", which means that the focus is on the underlying valuation of a company relative to its prospects for growth, profitability, and the capability of management.

Dresdner RCM - A Growth Stock Fund. This fund seeks long-term capital appreciation by investing in equity securities of U.S. companies with large capitalizations. The firm evaluates the fundamental value and focuses on those that it expects will have higher than average growth rates and strong potential for capital appreciation. The fund seeks companies that have strong balance sheets, differentiated products or services, superior management, and a commitment to research and development.

Sector Capital Management, L.L.C. - A Core Equity Fund. This fund seeks to achieve its objective of long-term capital appreciation by investing in large capitalization stocks while maintaining a sector neutral portfolio. Sector Capital breaks the portfolio into ten sectors weighted closely to the S&P 500 economic sector weights. Each sector is managed by an outside sub-advisor whose individual mission is to outperform that one S&P 500 sector. Each sector manager must invest at least 70% of the portfolio in stocks for the S&P 500. Sector managers are given the discretion to invest up to 30% of the portfolio from smaller capitalization stocks in their sector. The purpose of this strategy is to achieve a style neutral and sector neutral core equity investment alternative.

Navellier & Associates, Inc. - A Growth Stock Fund. This fund strives to achieve the highest growth rates possible from selected stocks, primarily small, growing companies. The fund places emphasis on fast-growing, emerging companies and industries. The fund advisors conduct an exhaustive search starting with a universe of 9,000 stocks to identify those with the highest rise/reward ratio. Computer analysis next identifies stocks which have the greatest independence of the market for the least amount of risk.

Then, the manager conducts fundamental analysis and due diligence to narrow the list and identify stocks with excellent profit margins, good earnings growth, and issues that dominate their markets with special niches.

Brandes Investment Partners, L.P. - An International Stock Fund. This fund is designed for long-term investors who seek an investment portfolio committed exclusively to non-U.S. equities. Brandes adheres to the "value investing" philosophy, basing decisions on the fundamental value of the businesses compared to the price of their stock. Brandes builds its investment style around four strategies: 1) Idea generation-Brandes avoids investing fads promoted in the popular press; 2) Quantitative screening-Brandes screens international markets to find companies selling at a discount; 3) Detail meetings-Managers select candidates consistent with firm's philosophy; and 4) Sell point- This is established before share are purchased.

Amerindo Investment Advisors Inc. - A Bio-Tech/High-Tech Stock Fund. This fund seeks capital appreciation by investing in stocks of emerging companies engaged in the development, distribution, or servicing of technology-related processes. The fund is intended for investors who can withstand significant short-term losses. It may be appropriate for investor who are 25 years or more away from retirement, want aggressive management for growth, and expect greater risk and wider fluctuations. The fund's approach to the emerging growth market relies on stock selection and allows individual positions to achieve their full potential, "let the winners run," typically resulting in a concentrated portfolio of 12-20 stocks.

Miller/Howard Investments, Inc. - A Utilities Fund. This fund seeks to preserve principal while providing a moderate, stable source of income growth by investing in securities (equities and /or fixed income securities) from the utilities sector. The fund also seeks to achieve high current yields from dividends. The utilities sector includes telecommunication, wireless telecommunication, and power

generation companies among others. The fund may be appropriate for investors who need to offset other high risk, volatile investments. The portfolio managers believe the best way to exceed the average performance in the utility area is to protect against individual stocks that degrade the average such as companies with regulatory difficulties or competitive disadvantages.

LifeStyle6 - A Collective Investment Fund. The LifeStyle6 portfolio is an allocation fund that is invested to achieve a 6% annualized right of return over time. The fund allocates all assets in a combination of underlying Premier collective investment funds. This fund invests between 5% and 15% in large-cap domestic stock funds; 70% and 90% in stable value/fixed income funds; and between 5% and 15% in international stock funds. This fund may be suitable for any investor with 10 years or less until retirement depending on individual circumstances or an investor who is seeking stable returns.

[Next Page](#)

LifeStyle8 - A Collective Investment Fund. The LifeStyle8 portfolio is an asset allocation fund that is invested to achieve an 8% annualized rate of return over time. This fund allocates all assets in a combination of underlying Premier collective investment funds. This fund invests between 10% and 30% in large-cap domestic stock funds; 50% and 70% in stable value/fixed income funds; and between 10% and 30% in international stock funds. The fund may be appropriate for a long-term investor with an investment horizon of 5 to 20 years who is seeking conservative returns with minimal fluctuations in account value.

LifeStyles10 - A Collective Investment Fund. The LifeStyle10 portfolio is an asset allocation fund that seek to achieve a 10% annualized rate of return over time. This fund allocates all assets in a combination of underlying Premier collective investment funds. This fund invest between 10% and 30% in large-cap domestic stock funds; 40% and 60% in fixed income funds; 10% and 30% in international stock funds; and between 0% and 20% in small-cap domestic stocks. The fund may be appropriate for any long-term investor (10 to 30 years) who is seeking moderately high returns and can tolerate moderate to high fluctuations in account value.

LifeStyle12. A Collective Investment Fund. This LifeStyle12 portfolio is an allocation fund that seeks to achieve a 12% annualized rate of return over time. This fund allocates all assets in a combination of underlying Premier collective investment funds. This fund invests between 10% and 30% in the large-cap domestic stock funds; 15% and 35% in fixed income funds; 15% and 35% in international stock funds and between 20% and 40% in small-cap domestic stocks. The fund may be suitable for the investor who has 10 or more years until retirement and who is seeking high returns and can withstand high fluctuations in account value.

FMT/Legg Mason Value - A Collective Investment Fund. This collective investment fund which invests in the Legg Mason Value Fund seeks the long-term appreciation of capital. The portfolio manager follows a value discipline in selecting securities, and therefore seeks to purchase securities believed to be significantly undervalued. Intrinsic value, according to the adviser, is the value of the company measured, to different extents depending on the type of the company, on factors such as, but not limited to, the discounted value of its projected future free cash flows, the company's ability to earn returns on capital in excess of its cost of capital, and private market values of similar companies.

FMT/Vanguard Growth Index - A Collective Investment Fund. This collective investment fund investing in the Vanguard Growth Index Fund seeks to match the performance of a benchmark index that measures the investment return of large-capitalization growth stocks. The fund employs a passive management strategy designed to track the performance of the S&P 500/BARRA Growth Index, which includes those stocks of the S&P 500 Index with higher-than-average price/book ratios. The fund attempts to replicate the target index by investing all or substantially all of its assets in the stocks that make up the index.

[Next Page](#)

FMT/Vanguard 500 Index - A Collective Investment Fund. This collective investment fund investing in the Vanguard 500 Index Fund seeks to match the performance of the Standard and Poor's 500, an index of large capitalization stocks. The fund employs a passive management strategy designed to track the performance of the Standard & Poor's 500 Index, which is dominated by the stocks of large U.S. companies. The fund attempts to replicate the target index by investing all or substantially all of its assets in the stocks that make up the Index.

FMT/Vanguard Value Index - A Collective Investment Fund. This collective investment fund which invests in the Vanguard Value Index Fund seeks to replicate the aggregate price and yield performance of the S&P/BARRA Value Index. The fund normally invests at least 95% of assets in common stocks, futures contracts, and options. It intends to invest its assets in approximately the same proportions as those represented on the S&P/BARRA Value Index. This index maintains a lower price/book ratio and has historically had a higher yield than the S&P 500.

FMT/Janus Growth & Income - A Collective Investment Fund. This collective investment fund investing in the Janus Growth and Income Fund seeks long-term capital growth and current income. The Fund pursues its objective by primarily emphasizing investments in common stocks. The fund will normally invest up to 75% of its assets in equity securities selected primarily for their growth potential, and at least 25% of its assets in securities the portfolio manager believes to have income potential. Equity securities may make up part of this income component if they currently pay dividends or the portfolio manager believes they have potential for increasing or commencing dividend payments.

In addition to these investment choices, the KSOP Plan, as amended, will provide a Common Stock Fund as an additional investment alternative. The Common Stock Fund will invest in the common stock of First PacTrust. As with the other investments choices, you may direct the trustee of the 401(k) Plan to invest a portion of your 401(k) Plan account balance in the Common Stock Fund.

[Next Page](#)

A. *Investment Performance.*

For the 2001, 2000 and 1999 years, the investments returned the following annual percentages on investments:

Name of Fund	2001	2000	1999
--------------	------	------	------

ABN AMRO Income Plan (Money Market Fund)	5.36%	5.50%	5.50%
Metropolitan West Capital Management, LLC	(13.78)%	6.74%	16.86%
Dresdner RCM	(25.13)%	(17.22)%	50.84%
Sector Capital Management, L.L.C.	(13.36)%	(12.67)%	20.07%
Navallier & Associates, Inc.	(32.40)%	(11.90)%	101.39%
Brandes Investment Partners, L.P.	(14.32)%	0.67%	50.60%
Amerindo Investment Advisors Inc.	(61.55)%	(47.17)%	225.43%
Miller/Howard Investment, Inc.	(16.02)%	10.89%	50.90%
LifeStyle 6	n/a	n/a	n/a
Lifestyle 8	n/a	n/a	n/a
Lifestyle 10	n/a	n/a	n/a
Lifestyle 12	n/a	n/a	n/a
FMT/Legg Mason Value	(9.08)%	(8.45)%	21.66%
FMT/Vanguard Growth Index	(13.62)%	(21.44)%	30.77%
FMT/Vanguard Value Index	(9.98)%	5.08%	12.57%
FMT/Janus Growth & Income	(11.60)%	(11.41)%	51.18%
FMT/Vanguard 500 Index	(12.80)%	(9.85)%	15.87%

B. *The Common Stock Fund.*

The Common Stock Fund will consist of investments in the common stock of First PacTrust made on and after the effective date of the conversion. After the conversion, the trustee of the KSOP Plan will, to the extent practicable, use all amounts held by it in the Common Stock Fund, including cash dividends paid on the common

[Next Page](#)

stock held in the fund, to purchase shares of Common Stock of First PacTrust. First PacTrust anticipates that the trustee will make all purchases of Common Stock at prevailing market prices. Pending investment in the Common Stock Fund, the trustee will place cash held in the Common Stock Fund in the money market account.

As of the date of this prospectus supplement, none of the shares of Common Stock have been issued or are outstanding and there is no established market for the Common Stock. Accordingly, there is no record of the historical performance of the Common Stock Fund. Performance of the Common Stock Fund will depend on a number of factors, including without limitation the financial condition and profitability of First PacTrust and its subsidiaries and market conditions for the common stock generally.

For a discussion of material risks you should consider see "Risk Factors" beginning on page [___] in the prospectus.

VI. Benefits Under the Plan

Vesting. You will always have a fully vested, nonforfeitable interest in your 401(k) Contributions Account, Rollover Account, Matching Contributions Account and Profit Sharing Account under the KSOP. Your Employee Stock Ownership Account under the KSOP will become 100 percent vested after you complete 5 Years of Service. Generally, a Year of Service is a calendar year in which you are credited with 1,000 or more hours of service. Until you complete 5 Years of Service you will not have a vested interest in your Employee Stock Ownership Account.

VII. Withdrawals and Distributions from the KSOP Plan

Withdrawals Prior to Termination of Employment. You may receive in-service distributions from the KSOP Plan under limited circumstances in the form of hardship distributions and loans. You can apply for a loan from the KSOP Plan (other than from your Employee Stock Ownership Account) by contacting the Human Resources Department of Pacific Trust Bank. All loans from the KSOP Plan are repaid by payroll withholding. You cannot have more than two loans outstanding at a time. You can apply for a minimum loan of \$1,000 and a maximum loan of the lesser of \$50,000, or 50% of your total vested account balance, less the highest outstanding loan balance in the immediately preceding 12-month period. You may also be eligible for hardship withdrawals from your 401(k) Contributions Account. In order to qualify for a hardship withdrawal, you must have an immediate and substantial need to meet certain expenses and have no other reasonably available resources to meet the financial need.

Distribution Upon Retirement or Disability. Upon your retirement or disability, you may elect to receive a lump sum payment or installments from the KSOP Plan. Effective June 1, 2002, only lump sum distributions will be available from the Plan.

[Next Page](#)

Distribution Upon Death. If you die prior to your benefits being paid from the KSOP Plan, your benefits will be paid to your surviving spouse or beneficiary under one or more of the forms available under the KSOP Plan.

Distribution Upon Termination for any Other Reason. If you terminate employment for any reason other than retirement, disability or death and your vested account balances exceeds \$5,000, the trustee will make your distribution on your normal retirement date, unless you request otherwise. You may elect to receive your vested KSOP accounts in a lump sum payment or installments. If your vested account balances do not exceed \$5,000, the trustee will generally distribute your benefits to you as soon as administratively practicable in a lump sum following termination of employment. Effective June 1, 2002, only lump sum distributions will be available from the Plan.

Form of Distribution. Distributions from the KSOP will generally be in the form of cash. However, you have the right to request that your distribution be in the form of Common Stock.

Nonalienation of Benefits. Except with respect to federal income tax withholding and as provided with respect to a qualified domestic relations order, benefits payable under the KSOP Plan shall not be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, charge, garnishment, execution, or levy of any kind, either voluntary or involuntary, and any attempt to anticipate, alienate, sell, transfer, assign, pledge, encumber, charge or otherwise dispose of any rights to benefits payable under the KSOP Plan shall be void.

Administration of the KSOP Plan

The trustee with respect to the KSOP Plan is the named fiduciary of the KSOP Plan for purposes of ERISA.

Trustees. The [_____] Committee of First PacTrust appoints the trustee to serve at its pleasure. The [_____] Committee has appointed [_____] or its successor in interest as trustee of the Common Stock Fund.

The trustee receives, holds and invests the contributions to the KSOP Plan in trust and distributes them to participants and beneficiaries in accordance with the terms of the plan and the directions of the plan administrator. The trustee is responsible for investment of the assets of the trust.

Reports to Plan Participants

The plan administrator will furnish you a statement at least annually showing (i) the balance in your account as of the end of that period, (ii) the amount of contributions allocated to your account for that period, and (iii) the adjustments to your account to reflect earnings, losses, or forfeitures (if any). To the extent you may direct the investment of your KSOP accounts, you will receive access to the value of such KSOP accounts at least [].

[Next Page](#)

Plan Administrator

Currently, the plan administrator of the KSOP Plan is Pacific Trust Bank [_____]
_____] Committee, 610 Bay Boulevard, Chula Vista California 91910, (619) 691-1519. The plan administrator is responsible for the administration of the KSOP Plan, interpretation of the provisions of the plan, prescribing procedures for filing applications for benefits, preparation and distribution of information explaining the plan, maintenance of plan records, books of account and all other data necessary for the proper administration of the plan, and preparation and filing of all returns and reports relating to the KSOP Plan which are required to be filed with the U.S. Department of Labor and the Internal Revenue Service, and for all disclosures required to be made to participants, beneficiaries and others under ERISA.

Amendment and Termination

First PacTrust intends to continue the KSOP Plan indefinitely. Nevertheless, First PacTrust may terminate the KSOP Plan at any time. If First PacTrust terminates the KSOP Plan in whole or in part, then regardless of other provisions in the plan, all participants affected by such termination shall become fully vested in their accounts. First PacTrust reserves the right to make, from time to time, any amendment or amendments to the KSOP Plan which do not cause any part of the trust to be used for, or diverted to, any purpose other than the exclusive benefit of participants or their beneficiaries; provided, however, that First PacTrust may amend the plan as it determines necessary or desirable, with or without retroactive effect, to comply with ERISA or the Internal Revenue Code.

Merger, Consolidation or Transfer

In the event of the merger or consolidation of the KSOP Plan with another plan, or the transfer of the trust assets to another plan, the plan requires that you would (if either the plan or the other plan then terminated) receive a benefit immediately after the merger, consolidation or transfer which is equal to or greater than the benefit you would have been entitled to receive immediately before the merger, consolidation or transfer (if the plan had then terminated).

Federal Income Tax Consequences

As a "qualified retirement plan," the Internal Revenue Code affords the KSOP special tax treatment, including: (1) the sponsoring employer is allowed an immediate tax deduction for the amount contributed to the plan each year; (2) participants pay no current income tax on amounts contributed by the employer on their behalf; and (3) earnings of the plan are tax-deferred thereby permitting the tax-free accumulation of income and gains on investments. First PacTrust will administer the KSOP Plan to comply in operation with the requirements of the Internal Revenue Code as of the applicable effective date of any change in the law.

Taxation of Distributions. Generally, distributions from the KSOP will be taxable generally as ordinary income for federal income tax purposes.

[Next Page](#)

The Common Stock Included in a Lump Sum Distribution. If a lump sum distribution includes Common Stock, the distribution generally will be taxed in the manner described above, except that the total taxable amount will be reduced by the amount of any net unrealized appreciation with respect to the Common Stock that is the excess of the value of the Common Stock at the time of the distribution over its cost or other basis of the securities to the trust. The tax basis of the Common Stock for purposes of computing gain or loss on its subsequent sale equals the value of the Common Stock at the time of distribution less the amount of net unrealized appreciation. Any gain on a subsequent sale or other taxable disposition of the Common Stock, to the extent of the amount of net unrealized appreciation at the time of distribution, will constitute long-term capital gain regardless of the holding period of the common stock. Any gain on a subsequent sale or other taxable disposition of the Common Stock in excess of the amount of net unrealized appreciation at the time of distribution will be considered long-term capital gain regardless of the holding period of the Common Stock. Any gain on a subsequent sale or other taxable disposition of the Common Stock in excess of the amount of net unrealized appreciation at the time of distribution will be considered either short-term or long-term capital gain depending upon the length of the holding period of the Common Stock. The recipient of a distribution may elect to include the amount of any net unrealized appreciation in the total taxable amount of the distribution to the extent allowed by the regulations issued by the Internal Revenue Service.

Rollovers and Direct Transfers to Another Qualified Plan or to an Individual Retirement Plan; Mandatory Tax Withholding. You may roll over virtually all distributions from the KSOP to another tax-favored plan or to a standard individual retirement account without regard to whether the distribution is a lump sum distribution or a partial distribution. You have the right to elect to

have the trustee transfer all or any portion of an "eligible rollover distribution" directly to another qualified retirement plan (subject to the provisions of the recipient qualified plan) or to an Individual Retirement Account. If you do not elect to have an "eligible rollover distribution" transferred directly to another qualified plan or to an Individual Retirement Account, the distribution will be subject to a mandatory federal withholding tax equal to 20% of the taxable distribution. Your state may also impose tax withholding on your taxable distribution. An "eligible rollover distribution" means any amount distributed from the plan except: (1) a distribution that is (a) one of a series of substantially equal periodic payments (not less frequently than annually) made for your life (or life expectancy) or the joint lives of you and your designated beneficiary, or (b) for a specified period of ten years or more; (2) any amount required to be distributed under the minimum distribution rules; and (3) any other distributions excepted under applicable federal law. If you elect to rollover or directly transfer common stock, you may not take advantage of the favorable net unrealized appreciation that applies to Common Stock, discussed above.

Ten-Year Averaging Rules. Under a special grandfather rule, if you have completed at least five years of participation in the KSOP before the taxable year in which the distribution is made, and you turned age 50 by 1986, you may elect to have their lump sum distribution taxed using a "ten-year averaging" rule. The election of the special averaging rule applies only to one lump sum distribution you or your beneficiary receive, provided such amount is received on or after you attain age 59-1/2 and you elect to have any other lump sum distribution from a qualified plan received in the same taxable year taxed under the ten-year averaging rule or receive a lump sum distribution on account of your death.

[Next Page](#)

This is a brief description of federal income tax aspects of the KSOP Plan which are of general application under the Internal Revenue Code. It is not intended to be a complete or definitive description of the federal income tax consequences of participating in or receiving distributions from the KSOP. Accordingly, you are urged to consult a tax advisor concerning the federal, state and local tax consequences that may be particular to you of participating in and receiving distributions from the KSOP.

ERISA and Other Qualification

As noted above, the KSOP Plan is subject to certain provisions of ERISA, the primary federal law governing retirement plans, and is intended to be a qualified retirement plan under the Internal Revenue Code.

Restrictions on Resale

Any person receiving a distribution of shares of common stock under the KSOP who is an "affiliate" of First PacTrust under Rules 144 and 405 under the Securities Act of 1933, as amended (e.g., directors, officers and substantial shareholders of Everett Mutual Bank) may reoffer or resell such shares only pursuant to a registration statement filed under the Securities Act of 1933 assuming the availability of a registration statement, pursuant to an exemption of the registration requirements of the Securities Act of 1933. Any person who may be an "affiliate" of First PacTrust may wish to consult with counsel before transferring any common stock they own. In addition, participants are advised to consult with counsel as to the applicability of Section 16 of the Securities Act of 1934, as amended, which may restrict the sale of common stock acquired under the KSOP, or other sales of common stock.

Persons who are not deemed to be "affiliates" of First PacTrust at the time of resale will be free to resell any shares of common stock distributed to them under the KSOP, either publicly or privately, without regard to the registration and prospectus delivery requirements of the Securities Act of 1933 or compliance with the restrictions and conditions contained in the exemptive rules under federal law. An "affiliate" of First PacTrust is someone who directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control, with First PacTrust. Normally, a director, principal officer or major shareholder of a corporation may be deemed to be an "affiliate" of that corporation. A person who may be deemed an "affiliate" of First PacTrust at the time of a proposed resale will be permitted to make public resales of the common stock only pursuant to a "reoffer" prospectus or in accordance with the restrictions and conditions contained in Rule 144 under the Securities Act of 1933 or some other exemption from registration, and will not be permitted to use this prospectus in connection with any such resale. In

[Next Page](#)

to Rule 144 in any three-month period may not exceed the greater of 1% of the common stock then outstanding or the average weekly trading volume reported on the National Association of Securities Dealers Automated Quotation System during the four calendar weeks prior to the sale. Such sales may be made only through brokers without solicitation and only at a time when First PacTrust is current in filing the reports required of it under the Securities Act of 1934.

Securities and Exchange Commission Reporting and Short-Swing Profit Liability

Section 16 of the Securities Act of 1934 imposes reporting and liability requirements on officers, directors and persons beneficially owning more than 10% of public companies such as First PacTrust. Section 16(a) of the Securities Act of 1934 requires the filing of reports of beneficial ownership. Within ten days of becoming a person subject to the reporting requirements of Section 16(a), a Form 3 reporting initial beneficial ownership must be filed with the Securities and Exchange Commission. Certain changes in beneficial ownership, such as purchases, sales, gifts and participation in savings and retirement plans must be reported periodically, either on a Form 4 within ten days after the end of the month in which a change occurs, or annually on a Form 5 within 45 days after the close of First PacTrust's fiscal year. Participation in the Common Stock Fund of the KSOP by officers, directors and persons beneficially owning more than 10% of common stock of First PacTrust must be reported to the Securities and Exchange Commission annually on a Form 5 by such individuals.

In addition to the reporting requirements described above, Section 16(b) of the Securities Act of 1934 provides for the recovery by First PacTrust of profits realized by any officer, director or any person beneficially owning more than 10% of the common stock ("Section 16(b) persons") resulting from the purchase and sale or sale and purchase of the common stock within any six-month period.

The Securities and Exchange Commission has adopted rules that exempt many transactions involving the KSOP from the "short-swing" profit recovery provisions of Section 16(b). The exemptions generally involve restrictions upon the timing of elections to buy or sell employer securities for the accounts of Section 16(b) persons.

Except for distributions of the common stock due to death, disability, retirement, termination of employment or under a qualified domestic relations order, Section 16(b) persons may, under limited circumstances involving the purchase of common stock within six months of the distribution, be required to hold shares of the common stock distributed from the KSOP for six months following such distribution.

Financial Information Regarding Plan Assets

The financial statements and schedules of the KSOP Plan as of December 31, 2000 and 1999 and for the years then ended (as provided from the Form 5500 for the Plans) have been included herein.

[Next Page](#)

(AS REPORTED ON THE PLAN'S FORM 5500)

	Year Ended December 31,	
	2000	1999
ASSETS:		
Cash (Including Money Market)	\$122,486	--
Receivables	0	---
Investments:	---	---
U.S. Government securities	---	---
Corporate debt and equity instruments (Including Mutual Funds)	510,625	---
Real estate and mortgages (other than to participants)	---	---
Loans to participants:	57,910	---
Other (Separate accounts under insurance contract)	---	633,436
Total investments	\$ 568,535	\$ 633,436
Total assets	691,021	633,436
LIABILITIES:		
Payables	---	---
Acquisition indebtedness	---	---
Other liabilities	4,769	---
Total liabilities	4,769	---
Net assets	\$ 686,252	\$ 633,436
INCOME:		
Contributions received or receivable in cash from:		
Employer(s)	\$ 165,199	\$ 143,602
Employees	---	---
Other	---	---
Total	165,199	143,602
Noncash contributions	---	---
Net realized gain (loss) on sale or exchange of assets (including earnings on investments)	(49,870)	106,164
Other income	---	---
Total income	\$ 115,329	\$ 249,766
EXPENSES:		
Distribution of benefits and payments to provide benefits:		
Directly to participants or their beneficiaries	57,744	60,004
Other	---	---
Total distribution of benefits and payments to provide benefits	57,744	60,004
Administrative expense	---	---
Other expenses	4,769	---
Total expenses	62,513	727
Net income (loss)	\$ 52,816	\$ 60,731

INVESTMENT ELECTION FORM

PARTICIPANT ELECTION TO INVEST IN
FIRST PACTRUST BANCORP, INC. COMMON STOCK

("EMPLOYER STOCK FUND")

PACIFIC TRUST BANK

401(k) Employee Stock Ownership Plan and Trust

as adopted by

First PacTrust Bancorp, Inc.

If you would like to participate in the offering using amounts currently in your account in Pacific Trust Bank's KSOP plan as of [____], 2002, please complete this form and return it to [____] in the Human Resources Department by no later than 3:00 p.m., Pacific Time, on June [___], 2002.

Participant's Name (Please Print) _____

Address: _____

Street

City

State

Zip Code

Social Security Number: _____ Certificate Number: _____

1. **Background Information**

First PacTrust will be issuing shares of common stock, par value \$0.01 per share (the "Common Stock"), to certain depositors and the public (the "Offering") in connection with its conversion.

Participants in the Pacific Trust Bank 401(k) Plan (the "Plan") are being given an opportunity to direct the trustee of the Plan (the "Trustee") to purchase Common Stock in the Offering with amounts currently in their Plan account. (Employees who would like to directly purchase shares of Common Stock in the offering with funds other than amounts currently in their Plan account may do so by completing the order form that accompanies the prospectus.) In connection therewith, a new investment fund under the Plan -- the "**Common Stock Fund**" -- comprised of First PacTrust Common Stock is being established. Participants are also being given the opportunity, after the Offering, to direct future 401(k) Contributions under the Plan to the Common Stock Fund. Because it is actually the Plan that purchases the Common Stock, participants would acquire a "participation interest" (expressed as units of the Common Stock Fund) in the shares and would not own the shares directly.

Prior to making a decision to direct the Trustee to purchase Common Stock, we strongly urge you to carefully review the prospectus and the prospectus supplement that accompany this investment election form. Your decision to direct the transfer of amounts credited to your account balances to the Common Stock Fund in order to purchase shares of Common Stock in connection with the Offering is irrevocable. Notwithstanding this irrevocability, participants may transfer out some or all of their units in the Common Stock Fund, if any, and into one or more of the Plan's other investment funds at such times as are provided for under the Plan's rules for such transfers.

Investing in any stock entails some risks and we encourage you to discuss your investment decision with your investment advisor before completing this form. Neither the Trustee, the plan administrator, nor any employee of the employer sponsor is authorized to make any representations about this investment. You should not rely on any information other than information contained in the prospectus and the prospectus supplement in making your investment decision.

Any shares purchased by the Plan based on your election will be subject to the conditions and restrictions otherwise applicable to Common Stock purchased directly by you in the Offering. These restrictions are described in the prospectus and the prospectus supplement.

2. **Investment Elections**

If you would like to participate in the Offering with amounts currently in your Plan, please complete the box below, indicating what percentage of each of your current funds you would like to transfer into the Common Stock Fund. In calculating the number of shares of common stock that the Trustee will purchase in the Offering based on your election, the Trustee will use your Plan account balances as of [_____] 2002. Thus, for example, if your account balances as of

[Next Page](#)

[_____], 2002 totals \$5,000 and you elect in the box below to transfer 20% from your money market fund account balance to the Common Stock Fund, the Trustee of the Plan will use \$1,000 (20% of \$5,000) from your money market fund account to purchase 100 shares of Common Stock at a purchase price of \$10.00 per share.

In the event that the Trustee is unable to use the total amount that you elect in the box below to have transferred into the Common Stock Fund to purchase Common Stock due to an oversubscription in the Offering, the amount that is not invested in the Common Stock Fund will be reallocated on a pro-rata basis among your other Plan fund investments. If you elect in the box below to have 100% of your current Plan funds transferred into the Common Stock Fund and the Offering is oversubscribed, the amount that is not invested in the Common Stock Fund will be invested in the money market account.

Indicate the exact percentage to be transferred from one or more of the following funds into the Common Stock Fund:

Percentage	From Fund
_____ % which equals \$ _____ .00	
_____ % which equals \$ _____ .00	
_____ % which equals \$ _____ .00	
_____ % which equals \$ _____ .00	

Note: If you do not complete this box, you will not participate in the offering by using your Plan funds.

3. **Purchaser Information.** The ability of participants in the Plan to purchase common stock in the conversion and to direct their current account balances into the Common Stock Fund is based upon the participant's status as an eligible account holder, supplemental eligible account holder or other member. Please indicate your status.

- A. Eligible Account Holder - Check here if you were a depositor with \$50.00 or more on deposit with Pacific Trust Bank as of December 31, 1999.
- B. Supplemental Eligible Account Holder - Check here if you were a depositor with \$50.00 or more on deposit with Pacific Trust Bank as of March 31, 2002, but are not an eligible account holder.
- C. Other Member - Check here if you were a depositor with Pacific Trust Bank as of the voting record date, but are not an eligible account holder or supplemental eligible account holder.

4. **Participant Signature and Acknowledgment - Required**

By signing this investment election form, I authorize and direct the plan administrator and Trustee to carry out my instructions. I acknowledge that I have been provided with and have received a copy of the prospectus and prospectus supplement relating to the issuance of Common Stock that accompany this investment election form. I am aware of the risks involved in investing in Common Stock and understand that the Trustee, plan administrator nor any employee of the employer sponsor are not responsible for my choice of investment. I understand that my failure to sign this acknowledgment will make this investment election form null and void.

* * *

This form must be completed and returned to [_____] in the
Human Resources Department at Pacific Trust Bank by no later than
3:00 p.m., Pacific Time, on June [__], 2002.

End.

PROSPECTUS
Up to 4,099,750 Shares of Common Stock

FIRST PACTRUST BANCORP, INC.
(Proposed Holding Company for Pacific Trust Bank)

Pacific Trust Bank is converting from the mutual to the stock form of organization. As part of the conversion, Pacific Trust Bank will issue all of its common stock to First PacTrust Bancorp, Inc. First PacTrust Bancorp, Inc. has been formed to be the holding company for Pacific Trust Bank. The common stock of First PacTrust Bancorp, Inc. expects to be listed for trading on the Nasdaq National Market under the symbol "**^FPTB**."

TERMS OF THE OFFERING

	Minimum	Maximum	Maximum, as adjusted ⁽¹⁾
Per Share Price	\$10.00	\$10.00	\$10.00
Number of Shares	2,635,000	3,565,000	4,099,750
Underwriting Commission and Other Expenses	\$1,083,000	\$1,211,000	\$1,285,000
Net Proceeds to First PacTrust Bancorp, Inc.	\$25,267,000	\$34,439,000	\$39,713,000
Net Proceeds Per Share	\$9.59	\$9.66	\$9.69

(1) Represents an amount that is 15% more than the maximum of the offering range as a result of changes in financial or market conditions. The sale of stock at this amount does not require the resolicitation of subscribers.

Please refer to "Risk Factors" beginning on page ^10 of this document.

Keefe, Bruyette & Woods, Inc. will use its best efforts to assist First PacTrust Bancorp, Inc. in selling at least the minimum number of shares, but does not guarantee that this number will be sold. **Directors and executive officers of First PacTrust Bancorp, together with the 401(k) employee stock ownership plan, intend to purchase \$5,870,500 and 6,614,500 in the offering, or 22.28% and 18.55% of the offering based on the minimum and maximum, respectively. These purchases will count towards the minimum purchases needed to complete the offering.**

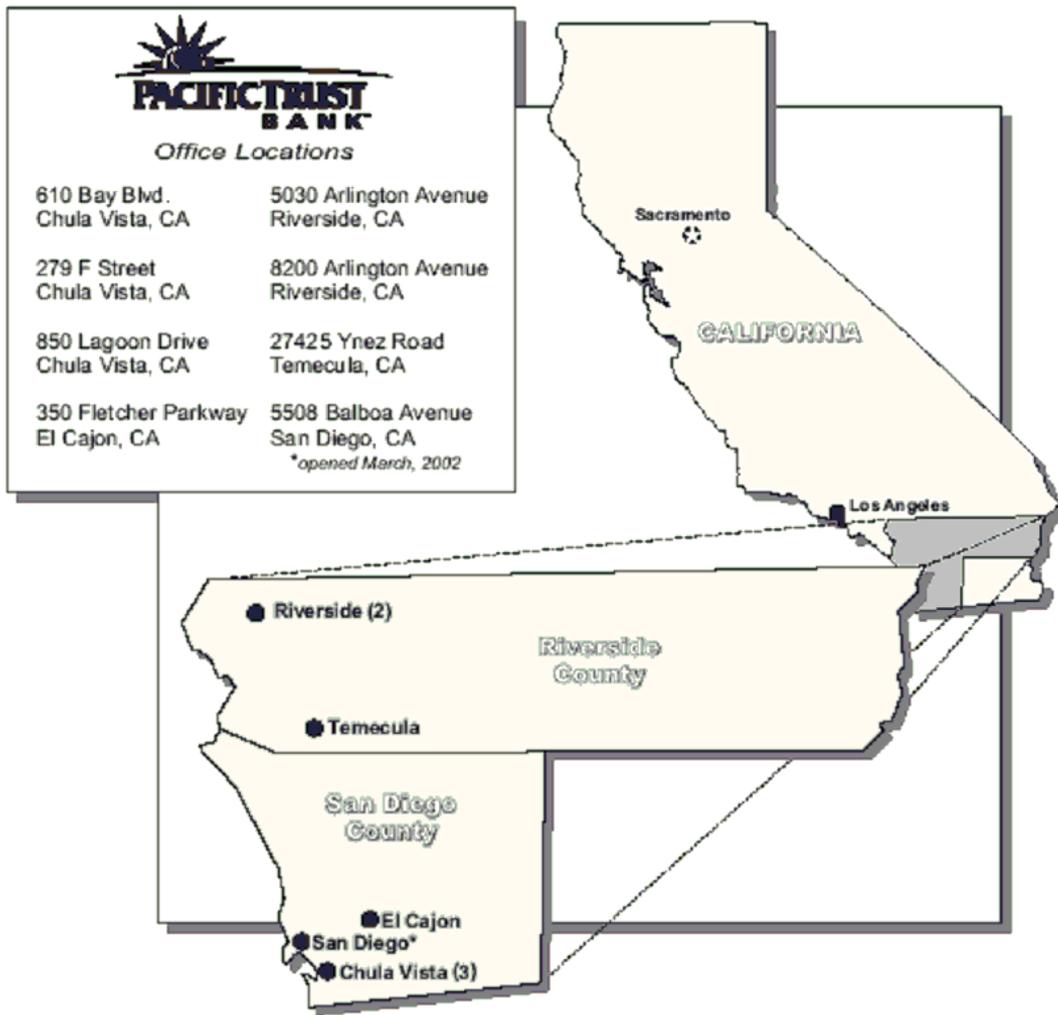
The offering to depositors of Pacific Trust Bank will end at 12:00 Noon, Chula Vista, California time, on _____, 2002. **We may extend this offering, but it must be completed or terminated by _____, 2004.** First PacTrust Bancorp, Inc. will hold all funds of subscribers in an interest-bearing savings account at Pacific Trust Bank until the conversion is completed or terminated. Funds will be returned promptly with interest if the conversion is terminated.

These securities are not deposits or accounts and are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other governmental agency.

Neither the Securities and Exchange Commission, the Office of Thrift Supervision, nor any other federal agency or state securities regulator has approved or disapproved these securities or determined if this prospectus is accurate or complete. Any representation to the contrary is a criminal offense.

For information on how to subscribe, call the stock information center at **^(619) 691-9267**.

[next page](#)



^

[next page](#)

SUMMARY

This summary highlights selected information from this document and may not contain all the information that is important to you. To understand the stock offering fully, you should read this entire document carefully, including the financial statements and the notes to the financial statements.

The Companies:

First PacTrust Bancorp, Inc.
610 Bay Boulevard
Chula Vista, California 91910
(619) 691-1519

First PacTrust Bancorp, Inc. will be the holding company for Pacific Trust Bank when our conversion to stock form is complete. First PacTrust Bancorp, Inc. was formed in March 2002 and has not engaged in any business.

Pacific Trust Bank
610 Bay Boulevard
Chula Vista, California 91910
(619) 691-1519

Pacific Trust Bank is a federal mutual savings bank that converted from a federal credit union known as Pacific Trust Federal Credit Union on January 1, 2000. At December 31, 2001, we had total assets of \$310.1 million, deposits of \$252.0 million and total equity of \$28.7 million. We are changing our structure by becoming a stock savings bank. Unless the context indicates otherwise, references to Pacific Trust Bank prior to January 1, 2000 shall include Pacific Trust Federal Credit Union.

We are a community-oriented savings bank serving primarily San Diego and Riverside Counties in California through seven full service banking offices. We emphasize residential mortgage lending, primarily originating one-to four-family mortgage loans. We also originate multi-family and commercial real estate loans and a wide variety of consumer loans.

The Stock Offering

We are converting to stock form and offering common stock to the public primarily to better allow us to grow through expanded operations, as well as through increased branching and acquisitions. The stock form will also give us more flexibility to increase our capital position and to offer stock-based employee compensation. See "Pacific Trust Bank's Conversion - Our Reasons for the Corporate Change."

We are offering between 2,635,000 and 3,565,000 shares of First PacTrust Bancorp, Inc. common stock at \$10.00 per share[^], which corresponds to the current appraisal offering range. In the event of subsequent developments in the financial condition of First PacTrust Bancorp or Pacific Trust Bank or general financial market conditions before we complete the conversion, the number of shares we offer may increase to up to 4,099,750 shares with the approval of the Office of Thrift Supervision and without any notice to you. If so, you will not have the chance to change or cancel your stock order.

3

[next page](#)

Keefe, Bruyette & Woods, Inc. will assist us in selling the stock. For further information about Keefe, Bruyette & Woods, Inc.'s role in the offering, see "Pacific Trust Bank's Conversion - Marketing Arrangements."

How We Determined the Offering Range and the \$10.00 Price Per Share

The independent appraisal by RP Financial, L.C., dated as of March 15, 2002, established the offering range. This appraisal was based on our financial condition and operations and the effect of the additional capital raised in the conversion. The \$10.00 price per share was determined by our board of directors and is the price most commonly used in stock offerings involving conversions of mutual savings institutions.[^]

The appraisal incorporated an analysis of a peer group of publicly traded thrift institutions and thrift holding companies that RP Financial considered to be comparable to Pacific Trust Bank. This analysis included an evaluation of the average and median price-to-earnings and price-to-book value ratios indicated by the market prices of the peer companies. RP Financial applied the peer group's pricing ratios, as adjusted for certain qualitative valuation factors to account for differences between Pacific Trust Bank and the peer group, to Pacific Trust Bank's pro forma earnings and book value to derive the estimated pro forma market value of Pacific Trust Bank.

RP Financial has estimated that as of March 15, 2002 the pro forma market value of First PacTrust Bancorp ranged from a minimum of \$26,350,000 to a maximum of \$35,650,000. Based on this valuation and the \$10.00 per share price, the number of shares of common stock being issued by First PacTrust Bancorp will range from 2,635,000 shares to 3,565,000 shares. The \$10.00 price per share was selected primarily because \$10.00 is the price per share most commonly used in stock offerings involving conversions of mutual savings institutions.

The following table presents a summary of selected pricing ratios for the peer group companies and the resulting pricing ratios for Pacific Trust Bank. Compared to the average pricing of the peer group, Pacific Trust Bank's pro forma pricing ratios at the maximum of the offering range indicated a premium of 22.8% on a price-to-earnings basis and a discount of 44.5% on a price-to-book basis. The estimated appraised value and the resulting premium/discount took into consideration the potential financial impact of the conversion.

4

[next page](#)

	Pro Forma price to earnings multiple	Pro Forma price to book value ratio
Pacific Trust Bank		
Maximum	15.38x	60.53%
Minimum	11.49x	51.84%
Valuation of peer group companies as of 3/15/02		
Averages	12.52x	109.00%
Medians	12.43x	106.93%

The independent appraisal does not indicate market value. Do not assume or expect that the valuation of First PacTrust Bancorp as indicated above means that the common stock will trade at or above the \$10.00 purchase price after the reorganization.

The independent appraisal will be updated before we complete the conversion. Any changes in the appraisal would be subject to Office of Thrift Supervision approval. The estimated pro forma market value of First PacTrust Bancorp may be increased by up to 15%, up to \$40,997,500. See "Pro Forma Data."

Terms of the Offering

We are offering the shares of common stock to those with subscription rights in the following order of priority:

- (1) Depositors who held at least \$50 with us on December 31, 1999.
- (2) The First PacTrust Bancorp, Inc. [^]401(k) Employee Stock Ownership Plan.
- (3) Depositors, other than directors and officers of Pacific Trust Bank, who held at least \$50 with us on March 31, 2002.
- (4) Depositors as of _____, 2002.

(5) Pacific Trust Bank's directors, officers and employees.

Shares of common stock not subscribed for in the subscription offering will be offered to the general public in a direct community offering with a preference to natural persons residing in San Diego and Riverside Counties, California and, if necessary, a public offering. See pages 47 to 48.

5

[next page](#)

Termination of the Offering

The subscription offering will end at 12:00 Noon, Chula Vista, California time on _____, 2002. If fewer than the minimum number of shares are subscribed for in the subscription offering and we do not get orders for at least the minimum number of shares by _____, 2002, we will either:

- (1) promptly return any payment you made to us, with interest, or cancel any withdrawal authorization you gave us; or
- (2) extend the offering, if allowed, and give you notice of the extension and of your rights to cancel or change your order. If we extend the offering and you do not respond to the notice, then we will cancel your order and return your payment, with interest, or cancel any withdrawal authorization you gave us. We must complete or terminate the offering by _____, ^ 2004.

How We Will Use the Proceeds Raised From the Sale of Common Stock

We intend to use the net proceeds received from the stock offering ^ as follows:

	Minimum	Maximum	Maximum, as adjusted
Retained by First PacTrust Bancorp, Inc. and initially placed in short-term investments for general corporate purposes	^\$10,525,000	\$14,367,000	\$16,576,000
401(k) Employee^ Stock Ownership Plan loan	^2,108,000	2,852,000	3,280,000
Used to buy the stock of Pacific Trust Bank	^12,634,000	17,220,000	19,857,000
Net proceeds from stock offering	^\$25,267,000	\$34,439,000	\$39,713,000

The net proceeds retained by First PacTrust Bancorp, Inc. may ultimately be used to support lending activities, repay borrowings and support future expansion operations through the establishment or acquisition of additional banking offices, although no acquisitions are currently contemplated. We intend to use the proceeds at Pacific Trust Bank for future lending and investment, in addition to general corporate purposes. See pages 23 and 24.

We Currently Intend to Pay a Cash Dividend in the Future

We currently plan to pay cash dividends in the future^, however, the amount and timing of any dividends has not yet been determined. ^Although future dividends are not guaranteed, based on our pro forma net income and stockholders' equity, we believe First PacTrust Bancorp, Inc. will be capable of paying a dividend after completion of this offering. We will not pay or take any steps to pay a tax-free dividend which qualifies as a return of capital for at least one year following the stock offering.

6

[next page](#)

The Common Stock is Expected to be Listed for Trading on the Nasdaq National Market

We expect our common stock to be listed for trading on the Nasdaq National Market under the symbol "FPTB." Our application to list our stock on the Nasdaq National Market is currently pending. However, due to the unpredictability of the stock market and other factors, persons purchasing shares may not be able to sell their shares when they want to, or at a price equal to or above \$10.00.

Benefits to Management from the Offering

We intend to establish the First PacTrust Bancorp, Inc. ^ 401(k) Employee Stock Ownership Plan which will purchase 8% of the shares sold in this offering. A loan from First PacTrust Bancorp, Inc. to the plan, funded by a portion of the proceeds from this offering, will be used to purchase these shares. The ^ loan will accrue interest at the prime rate. The 401(k) Employee Stock Ownership Plan will provide a retirement benefit to all employees eligible to participate in the plan.

We also intend to adopt a stock option plan and a restricted stock plan for the benefit of directors, officers and employees, subject to shareholder approval. If we adopt the restricted stock plan, some of these individuals will be awarded stock at no cost to them. As a result, both the ^ 401(k) Employee Stock Ownership Plan and the restricted stock plan will increase the voting control of management without a cash outlay.

The following table presents the total value of the shares of common stock, at the maximum of the offering range, which would be acquired by the ^ 401(k) Employee Stock Ownership Plan and the total value of all shares to be available for award and issuance under the restricted stock plan. The table assumes that the value of the shares is \$10.00 per share. The table does not include a value for the options because the price paid for the option shares will be equal to the fair market value of the common stock on the day that the options are granted. As a result, financial gains can be realized under an option only if the market price of common stock increases.

Estimated Value of Shares	Percentage of Shares Issued in the Offering
------------------------------	---

401(k) Employee Stock Ownership Plan	\$2,852,000	8.0%
Restricted Stock Awards	1,426,000	4.0
Stock Options	---	10.0
	<hr/>	<hr/>
Total	\$4,278,000	22.0%
	<hr/>	<hr/>

In addition, upon completion of the conversion, we intend to enter into termination agreements with Hans R. Ganz, President and Chief Executive Officer, James P. Sheehy, Senior Vice President, Secretary and Treasurer, and Melanie M. Stewart, Senior Vice President of Lending. The agreements are designed to assist us in maintaining a stable and competent management team after the conversion. The agreements will have a term of three years and provide for a severance payment in the event of a change in control of First PacTrust

7

[next page](#)

Bancorp, Inc. or Pacific Trust Bank. **In the unlikely event of a change in control of First PacTrust Bancorp, Inc. or Pacific Trust Bank immediately following conversion, Messrs. Ganz and Sheehy and Ms. Stewart would receive a payment of approximately \$821,549, \$233,918 and \$253,734, respectively under their termination agreements.**

For a further discussion of benefits to management, see "Management."

How to Purchase Common Stock

Note: Once we receive your order, you cannot cancel or change it without our consent. If First PacTrust Bancorp, Inc. intends to sell fewer than 2,635,000 shares or more than 4,099,750 shares, all subscribers will be notified and given the opportunity to change or cancel their orders. If you do not respond to this notice, we will return your funds promptly with interest.

If you want to subscribe for shares you must complete an original stock order form and send it, together with full payment or withdrawal authorization, to Pacific Trust Bank in the postage-paid envelope provided. You must sign the certification that is part of the stock order form. We must receive your stock order form before the end of the offering period.

You may pay for shares in any of the following ways:

- **By cash**, if delivered in person to a full-service banking office of Pacific Trust Bank.
- **By check or money order** made payable to First PacTrust Bancorp, Inc.
- **By authorizing a withdrawal from an account at Pacific Trust Bank.** To use funds in an Individual Retirement Account at Pacific Trust Bank, you must transfer your account with an unaffiliated institution or broker. Please contact the stock information center as soon as possible for assistance.

We will pay interest on your subscription funds at the rate Pacific Trust Bank pays on passbook accounts from the date it receives your funds until the conversion is completed or terminated. All funds authorized for withdrawal from deposit accounts with Pacific Trust Bank will earn interest at the applicable account rate until the conversion is completed. There will be no early withdrawal penalty for withdrawals from certificates of deposit used to pay for stock.

Tax Consequences of the Conversion

Pacific Trust Bank has received an opinion of its special counsel, Silver, Freedman & Taff, L.L.P. that:

- **The conversion will qualify as a tax free reorganization;**

8

[next page](#)

- **No gain or loss will be recognized for federal income tax purposes by First PacTrust Bancorp, Inc. or Pacific Trust Bank as a result of the conversion to stock form.**

For a further discussion of the tax consequences of the conversion, see "Pacific Trust Bank's Conversion - Tax Effects of the Conversion."

Stock Information Center

If you have any questions regarding the offering or our conversion to stock form, please call the stock information center at **^(619) 691-9267**.

Pacific Trust Bank has a website (<http://www.pacifictrustbank.com>). Upon completion of the subscription offering on _____, 2002, the website will provide a current update on the status of the offering.

Subscription Rights

Subscription rights are not allowed to be transferred and we will act to ensure that you do not do so. We will not accept any stock orders that we believe involve the transfer of subscription rights.

Important Risks in Owning First PacTrust Bancorp, Inc.'s Common Stock

Before you decide to purchase stock, you should read the "Risk Factors" section on pages 8 to 10 of this document.

9

[next page](#)

RISK FACTORS

You should consider these risk factors, in addition to the other information in this prospectus, before deciding whether to make an investment in this stock.

Downsizing at Goodrich Aerostructures may hurt our profits.

A large portion of Pacific Trust Bank's customer base, particularly on the deposit side, are current or former employees of Goodrich Aerostructures or its predecessors. In early 2002, Goodrich Aerostructures announced it was implementing a 20% downsizing of its workforce, which could include employees based in southern California. In the past, a more substantial downsizing led to significant deposit withdrawals as well as increased loan delinquencies and loan losses. While the recent charter change and diversification of the customer base is expected to temper the impact of any local job losses on Pacific Trust Bank, no assurance can be given that Pacific Trust Bank will not experience a decrease in deposits or an increase in delinquencies.

Rising interest rates may hurt our profits.

^ Interest rates are at historically low levels. If interest rates rise, our net interest income could and the value of our assets be reduced if interest paid on interest-bearing liabilities, such as deposits and borrowings, increases more quickly than interest received on interest-earning assets, such as loans, mortgage-related and investment securities. ^ For example, if we experienced an immediate 100 basis point rise in interest rates as of December 31, 2001, the market value of our portfolio equity could decrease by \$1.3 million. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Asset and Liability Management and Market Risk." In addition, rising interest rates may hurt our income because they may reduce the demand for loans and the value of our securities.

Our loan portfolio possesses increased risk due to our substantial number of multi-family, commercial real estate and consumer loans.

Our multi-family, commercial real estate and consumer loans accounted for approximately one-fourth of our total loan portfolio as of December 31, 2001. Generally, we consider these types of loans to involve a higher degree of risk compared to first mortgage loans on one- to four-family, owner-occupied residential properties. In addition, we plan to increase our emphasis on multi-family and commercial real estate lending^A. Because of our planned increased emphasis on and increased investment in multi-family and commercial real estate lending, it may become necessary to increase the level of our provision for loan losses, which could hurt our profits. For further information concerning the risks associated with multi-family, commercial real estate and consumer loans, see "Business of Pacific Trust Bank - Lending Activities" and "- Asset Quality."

10

[next page](#)

Our loan portfolio possesses increased risk due to its rapid expansion and unseasoned nature and amount of nonconforming loans.

Since January 1, 2000, when we converted from a credit union, our loan portfolio has grown by 76%. As a result of this rapid expansion, a significant portion of our portfolio is unseasoned, with the risk that these loans may not have had sufficient time to perform to properly indicate the potential magnitude of losses. During this time frame we have also experienced a declining rate environment. Our unseasoned adjustable rate loans have not, therefore, been subject to an interest rate environment which causes them to adjust to the maximum level and may involve risks resulting from potentially increasing payment obligations by the borrower as a result of repricing. Most of our adjustable rate mortgage loans are also non-conforming, due mainly to the generally large loan size and are, therefore, not readily saleable to Freddie Mac or Fannie Mae. They are, however, saleable to other private investors. Since some of these loans have terms which may result in negative amortization, where the loan payments do not fully cover interest expense and result in an increasing loan principal balance, the portfolio is also subject to increased risk of delinquency or default as the higher, fully indexed rate of interest subsequently comes into effect upon repricing.

Strong Competition Within Our Market Area May Limit Our Growth and Profitability.

Competition in the banking and financial services industry is intense. In our market area, we compete with commercial banks, savings institutions, mortgage brokerage firms, credit unions, finance companies, mutual funds, insurance companies, and brokerage and investment banking firms operating locally and elsewhere. Many of these competitors have substantially greater resources and lending limits than we do and may offer certain services that we do not or cannot provide. Our profitability depends upon our continued ability to successfully compete in our market.

After this offering, our return on equity will be low compared to other companies and our compensation expenses will increase. This could negatively impact the price of our stock.

The proceeds we will receive from the sale of our common stock will significantly increase our capital and it will take us time to fully use this capital in our business operations. Our compensation expenses will also increase because of the costs associated with the employee stock ownership and stock-based incentive plans. Therefore, we expect our return on equity to be below our historical level and less than our regional and national peers. For the year ended December 31, 2001, our return on equity was 7.5%. On a pro forma basis, at the maximum of the offering range, our return on equity would have been 3.64% compared to industry and peer group averages of 8.39% and 9.67%, respectively. This low return on equity could hurt our stock price. We cannot guarantee when or if we will achieve returns on equity that are comparable to industry peers. For further information regarding pro forma income and expenses, see "Pro Forma Data."

11

[next page](#)

We intend to grant stock options and restricted stock to the board and management following the conversion which could reduce your ownership interest.

If approved by a vote of the shareholders, we intend to establish a stock option plan with a number of shares equal to 10% of the shares issued in the conversion and a restricted stock plan with a number of shares equal to 4% of the shares issued in the conversion, worth \$1.4 million at the purchase price, assuming the maximum of the estimated offering range, for the benefit of directors, officers and employees of First PacTrust Bancorp, Inc. and Pacific Trust Bank. Stock options are paid for by the recipient in an amount equal to the fair market value of the stock on the date of the grant. This payment is not made until the option is actually exercised by the recipient. Restricted stock is a bonus paid in the form of stock rather than cash, and is not paid for by the recipient. Awards under these plans could reduce the ownership interest of all stockholders. The issuance of authorized but unissued shares of common stock pursuant to the exercise options under the stock option plan and the restricted stock plan would dilute the voting interests of existing stockholders, by up to 9.1% and 3.8%, respectively. For further discussion regarding these plans, see "Pro Forma Data" and "Management - Benefits - Other Stock Benefit Plans."

The amount of common stock we will control, our charter and bylaws, and state and federal statutory provisions could discourage hostile acquisitions of control.

Our board of directors, and executive officers intend to purchase approximately 10.55% of our common stock at the maximum of the offering range. These purchases, together with the purchase of 8% of the shares by the ^{401(k)} Employee Stock Ownership Plan, as well as the potential acquisition of common stock through the proposed stock option plan and restricted stock plan will result in ^{inside} ownership of First PacTrust Bancorp, Inc. **in excess of 18% of the total shares issued in the offering at the maximum of the valuation range.** This inside ownership and provisions in our charter and bylaws may have the effect of discouraging attempts to acquire First PacTrust Bancorp, Inc., **pursue** a proxy contest for control of First PacTrust Bancorp, Inc., ^{assume} of control of First PacTrust Bancorp, Inc. by a holder of a large block of common stock and ^{remove} First PacTrust Bancorp, Inc.'s management, all of which certain ^{stockholders} might think are in their best interests. These provisions include, among other things:

- the staggered terms of the members of the board of directors;
- an 80% shareholder vote requirement for the approval of any merger or consolidation of First PacTrust Bancorp, Inc. into any entity that directly or indirectly owns 5% or more of First PacTrust Bancorp, Inc. voting stock if the transaction is not approved in advance by at least a majority of the disinterested members of First PacTrust Bancorp, Inc.'s board of directors;
- supermajority shareholder vote requirements for the approval of certain amendments to First PacTrust Bancorp, Inc.'s charter and bylaws;
- a prohibition on any holder of common stock voting more than 10% of the outstanding common stock;

12

[next page](#)

- elimination of cumulative voting by shareholders in the election of directors;
- restrictions on the acquisition of our equity securities; and
- the authorization of 5,000,000 shares of preferred stock that could be issued without shareholder approval on terms or in circumstances that could deter a future takeover attempt.

In addition, the Maryland business corporation law, the state where First PacTrust Bancorp, Inc. is incorporated, provides for certain restrictions on acquisition of First PacTrust Bancorp, Inc., and federal law contains restrictions on acquisitions of control of savings and loan holding companies such as First PacTrust Bancorp, Inc.

Holders of First PacTrust Bancorp, Inc. common stock may not be able to sell their shares when desired if a liquid trading market does not develop or for \$10.00 or more per share even if a liquid trading market develops.

We have never issued common stock to the public. Consequently, there is no established market for the common stock. We expect our common stock to be listed for trading on the Nasdaq National Market under the symbol "FPTB." We cannot predict whether a liquid trading market in shares of First PacTrust Bancorp, Inc.'s common stock will develop or how liquid that market might become. Persons purchasing shares may not be able to sell their shares when they desire if a liquid trading market does not develop and may not be able to sell them at a price equal to or above \$10.00 per share even if a liquid trading market develops.

If economic conditions deteriorate, our results of operations and financial condition could be adversely impacted as borrowers' ability to repay loans declines and the value of the collateral securing our loans decreases.

Our financial results may be adversely affected by changes in prevailing economic conditions, including decreases in real estate values, changes in interest rates which may cause a decrease in interest rate spreads, adverse employment conditions, the monetary and fiscal policies of the federal government and other significant external events. Because we have a significant amount of real estate loans, decreases in real estate values could adversely affect the value of property used as collateral. Adverse changes in the economy may also have a negative effect on the ability of our borrowers to make timely repayments of their loans, which would have an adverse impact on our earnings. In ^{this regard}, approximately 95% of our loans are to individuals and businesses in ^{southern} California. **The rate of unemployment increased in San Diego County from 2.7% at November 2000 to 3.5% at November 2001 and from 5.1% to 5.5% in Riverside County over the corresponding time frame. See also "- Downsizing at Goodrich Aerostructures may hurt our profits."**

13

[next page](#)

SELECTED FINANCIAL AND OTHER DATA

The summary information presented below under "Selected Financial Condition Data" and "Selected Operations Data" for, and as of the end of, each of the years ended December 31 is derived from our audited financial statements. The following information is only a summary and you should read it in conjunction with our financial statements and notes beginning on page F-2.

	December 31,				
	2001	2000	1999	1998	1997
Selected Condition:					
Total assets	\$310,076	\$300,347	\$225,161	\$228,860	\$219,877
Cash and cash equivalents	18,003	7,699	13,163	27,396	26,177
Loans receivable, net	257,216	234,301	146,080	139,934	146,976
Securities available-for-sale	13,661	40,948	55,996	45,868	17,252
Other investments (interest-bearing term deposit)	---	825	825	5,880	16,116
FHLB stock	2,509	2,705	1,221	---	---
Servicing agent receivable	11,687	7,923	1,271	2,180	1,468
Deposits	251,954	218,695	200,940	206,007	201,622

Total borrowings	28,000	53,800	---	---	---
Total equity	^ 28,721	^ 26,457	^ 24,033	^ 21,944	^ 17,152
Selected Operations Data:					
Total interest income	\$ 21,822	\$ 18,696	\$ 15,955	\$ 16,162	\$ 16,155
Total interest expense	11,573	10,315	7,644	8,122	7,977
Net interest income	10,249	8,381	8,311	8,122	8,178
Provision for loan losses	68	444	92	(226)	1,235
Net interest income after provision for loan losses	10,181	7,937	8,219	8,266	6,943
Customer service charges	962	982	948	1,118	1,348
Loan servicing fees	4	88	69	49	15
Gain on sale of credit card portfolio	---	---	---	1,154	---
Gain on disposition of fixed assets	---	---	---	493	132
Loss on sales of securities available-for-sale	(55)	(125)	---	---	(74)
Other non-interest income	120	142	133	561	663
Total non-interest income	1,031	1,087	1,150	3,375	2,084
Total non-interest expense	7,604	6,981	6,558	6,715	6,577
Income before taxes	3,608	2,043	2,811	4,926	2,450
Income tax provision ⁽¹⁾	1,512	300	---	---	---
Net income	\$ 2,096	\$ 1,743	\$ 2,811	\$ 4,926	\$ 2,450

14

[next page](#)

Selected Financial Ratios and Other Data:

	December 31,				
	2001	2000	1999	1998	1997
<i>Performance Ratios:</i>					
Return on assets (ratio of net income to average total assets)	0.68%	0.66%	1.22%	2.19%	1.15%
Return on equity (ratio of net income to average equity)	7.50%	6.69%	11.87%	24.46%	15.46%
Return on assets, net of tax ⁽¹⁾	0.68%	0.49%	0.72%	1.29%	0.68%
Return on equity, net of tax ⁽¹⁾	7.50%	4.94%	6.98%	14.39%	9.10%
<i>Interest Rate Spread Information:</i>					
Average during period	3.37%	3.13%	3.57%	3.63%	3.91%
End of period	4.08%	2.84%	3.43%	3.64%	4.14%
Net interest margin ⁽²⁾	3.58%	3.40%	3.81%	3.83%	4.11%
Ratio of operating expense to average total assets	2.46%	2.66%	2.84%	2.99%	3.08%
Efficiency ratio ⁽³⁾	67.41%	73.73%	69.32%	58.83%	64.09%
Ratio of average interest-earning assets to average interest-bearing liabilities	105.03%	106.43%	106.85%	105.08%	105.13%
<i>Quality Ratios:</i>					
Non-performing assets to total assets	---%	0.03%	0.13%	0.65%	0.36%
Allowance for loan losses to non-performing loans ⁽⁴⁾	17420.00%	2235.53%	661.22%	133.15%	380.78%
Allowance for loans losses to gross loans ⁽⁴⁾	0.67%	0.72%	0.87%	0.87%	1.38%
<i>Capital Ratios:</i>					
Equity to total assets at end of period	9.26%	8.81%	10.67%	9.59%	7.80%
Average equity to average assets	9.05%	9.93%	10.25%	8.97%	7.42%
<i>Other Data:</i>					
Number of full-service offices	7	7	8	9	9

(1) Had Pacific Trust Bank been subject to federal and state income taxes for the fiscal years ended December 31, 1999, 1998 and 1997, income tax expense would have been approximately \$1.2 million, \$2.0 million and \$1.0 million, respectively, and net income would have been approximately \$1.7 million, \$2.9

million and \$1.4 million, respectively. In addition, income tax expense and net income for the fiscal year ended December 31, 2000 would have been \$756,000 and \$1.3 million, respectively.

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

(3) Efficiency ratio represents noninterest expense as a percentage of net interest income plus noninterest income.

(4) The allowance for loan losses at December 31, 2001, 2000, 1999, 1998 and 1997 was \$1.7 million, \$1.7 million, \$1.3 million, \$1.2 million and \$2.1 million.

[next page](#)

RECENT DEVELOPMENTS

The selected financial condition and operating data presented below as of March 31, 2002 and for the three months ended March 31, 2002 and 2001, is unaudited. In the opinion of management, the unaudited selected data contains all adjustments (none of which are other than normal recurring entries) necessary for a fair presentation of the results of such periods. This information should be read in conjunction with the financial statements and notes beginning on page F-1. The selected data as of and for the year ended December 31, 2001, is derived from the audited consolidated financial statements of Pacific Trust Bank.

	At March 31, 2002	At December 31, 2001
(Dollars in Thousands)		
<u>Selected Financial Condition Data:</u>		
Total assets	\$349,349	\$310,076
Cash and cash equivalents	21,833	18,003
Securities available-for-sale	16,124	13,661
Loans receivable, net	290,276	257,216
Deposits	276,509	251,954
Borrowings	41,000	28,000
Equity	29,083	28,721
(Dollars in Thousands)		
	Three Months Ended March 31, 2002	Three Months Ended March 31, 2001
<u>Selected Operations Data:</u>		
Interest income	\$4,924	\$5,640
Interest expense	1,990	3,133
Net interest income before provision for loan losses	2,934	2,507
Provision for loan losses	165	20
Net interest income after provision for loan losses	2,769	2,487
Gain on sale of securities available for sale	---	22
Other non-interest income	232	291
Non-interest expense	2,240	1,896
Income before income taxes	761	904
Income taxes	297	379
Net income	\$ 464	\$ 525

[next page](#)

Selected Financial Ratios and Other Data:

At or for the Three Months Ended March 31, 2002	At or for the Three Months Ended March 31, 2001
--	--

Performance Ratios:		
Return on average assets (ratio of net income to average total assets) ⁽¹⁾	0.55%	0.69%
Return on average equity (ratio of net income to average equity) ⁽¹⁾	6.37%	7.78%
Interest rate spread information:		
Average during period	3.69%	3.24%
Net interest margin ⁽²⁾	3.78%	3.51%
Ratio of operating expense to average total assets	2.75%	2.49%
Ratio of average interest-earning assets to average interest-bearing liabilities	103.68%	106.39%
Efficiency ratio	70.75%	67.77%
Asset Quality Ratios:		
Non-performing assets to total assets at end of period	0.04%	0.21%
Non-performing loans to total loans	0.04%	0.25%
Allowance for loan losses to non-performing loans	1544.39%	267.22%
Allowance for loan losses to loans receivable, net	0.66%	0.68%
Capital Ratios:		
Equity to total assets at end of period	8.34%	8.75%
Average equity to average assets	8.68%	8.85%
Other Data:		
Number of full service offices	8	8

(1) Ratios for three month periods have been annualized.

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

[next page](#)

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RECENT DEVELOPMENTS

Comparison of Financial Condition at March 31, 2002 and December 31, 2001

Our total assets increased by \$39.3 million, or 12.7%, to \$349.4 million at March 31, 2002 from \$310.1 million at December 31, 2001. The increase reflected growth in loans receivable, securities available for sale and cash and cash equivalents, funded by an increase in deposits and additional advances from the Federal Home Loan Bank. Net loans increased by \$33.1 million, or 12.9%, to \$290.3 million at March 31, 2002 from \$257.2 million at December 31, 2001. Our increase in loans resulted from a purchase of a \$20.0 million pool of one- to four-family residential loans and increased volume of one- to four-family mortgage loan originations. Securities classified as available-for-sale increased by \$2.4 million, or 17.5%, to \$16.1 million at March 31, 2002 from \$13.7 million at December 31, 2001. Securities classified as available-for-sale increased during this period due to purchases of \$5.0 million of securities, partially offset by principal repayments of \$2.4 million. Cash and cash equivalents increased \$3.8 million, or 21.1%, to \$21.8 million at March 31, 2002 from \$18.0 million at December 31, 2001 due to an increase in customer deposits that were not yet redeployed into loans or securities, but were invested in short-term federal funds sold. Premises and equipment also increased by \$1.1 million as the Bank purchased an additional branch location during the quarter.

Total deposits increased by \$24.5 million, or 9.7%, to \$276.5 million at March 31, 2002 from \$252.0 million at December 31, 2001. The increase reflected growth in savings, NOW and money market accounts and certificates of deposit. Certificates of deposits increased \$7.1 million, or 5.8%, to \$130.1 million. Money market accounts, NOW accounts and savings accounts increased by \$2.9 million, \$6.9 million and \$7.6 million, respectively. The additional funding was used to support loan growth.

Federal Home Loan Bank advances increased \$13.0 million, or 46.4%, to \$41.0 million at March 31, 2002 from \$28.0 million at December 31, 2001. The additional advances were used to fund loan growth during the period.

Equity increased \$362,000, or 1.3%, to \$29.1 million at March 31, 2002 from \$28.7 million at December 31, 2001 as a result of \$464,000 net earnings for the quarter ended March 31, 2002, partially offset by an increase in unrealized loss on securities available-for-sale, net of tax, from a gain of \$52,000 at December 31, 2001 to a loss of \$51,000 at March 31, 2002.

Comparison of Operating Results for the Three Months Ended March 31, 2002 and 2001

General. Net income for the three months ended March 31, 2002 was \$464,000, a decrease of \$61,000, or 1.6%, from \$525,000 for the three months ended March 31, 2001. The decrease in net income resulted from a decrease in noninterest income, an increase in the provision for loan losses, and an increase in noninterest expense, partially offset by an increase in net interest income.

Interest Income. Interest income decreased by \$716,000 or 12.7%, to \$4.9 million for the three months ended March 31, 2002 from \$5.6 million for the three months ended March 31, 2001. The primary factor for the decrease in interest income was a 145 basis point decrease in

[next page](#)

the average yield on loans receivable, from 8.01% for the quarter ended March 31, 2001 to 6.56% for the same period in 2002. The decrease reflects the

downward repricing of adjustable rate mortgage loans due to a decline in market interest rates. The average balance of loans receivable increased \$34.3 million or 13.7%, from \$250.2 million for the quarter ended March 31, 2001 to \$284.5 million for the quarter ended March 31, 2002. The increase was the result of the purchase of a \$20.0 million pool of residential mortgage loans and originations exceeding repayment due to strong demand, reflecting generally lower interest rates in 2002.

Interest income on securities decreased \$378,000, or 68.2%, to \$176,000 for the quarter ended March 31, 2002. The decrease resulted from a \$17.3 million, or 50.7%, decrease in the average balance of securities, attributable to the increased rate of repayment on collateralized mortgage obligations in a declining interest rate environment. The average yield on the securities portfolio was 4.18% for the quarter ended March 31, 2002 compared to 6.50% for the same period in 2001, due to generally lower levels of market interest rates in 2002.

Interest income from other interest earning assets increased \$7,000, or 8.5%, to \$84,000 for the quarter ended March 31, 2002 from \$77,000 for the quarter ended March 31, 2001. The increase resulted from an increase in the average balance to \$9.0 million from \$1.2 million, which was due to funds received from principal repayments on loans and collateralized mortgage obligations.

Interest Expense. Interest expense decreased \$1.1 million, or 35.5%, to \$2.0 million for the three months ended March 31, 2002 from \$3.1 million for the three months ended March 31, 2001. The decrease in interest expense resulted primarily from a decrease in the average cost of our interest-bearing liabilities to 2.64% from 4.60%, reflecting the decrease in market rates of interest during the period. Interest expense on deposits decreased \$711,000, or 29.8%, to \$1.7 million for the quarter ended March 31, 2002 from \$2.4 million for the same period in 2001. The decrease resulted from a 180 basis point decrease in the cost of deposits to 2.60% from 4.40%, partially offset by a \$38.7 million increase in the average balance of deposits from \$217.6 million for the three months ended March 31, 2001 to \$256.3 million for the same period in 2002. Interest expense on Federal Home Loan Bank advances decreased \$432,000, or 58.0%, to \$313,000 for the quarter ended March 31, 2002 from \$745,000 for the quarter ended March 31, 2001. The decrease resulted from a 251 basis point decrease in the cost of Federal Home Loan Bank advances, from 5.42% for the quarter ended March 31, 2001 to 2.91% for the quarter ended March 31, 2002. The decrease was a result of a \$19.0 million variable rate advance with a rate of 1.83% that was drawn in February 2002. In addition, the average balance of Federal Home Loan Bank advances decreased \$12.0 million from the prior period due to repayments of overnight borrowings and fixed term advances.

Net Interest Income. Net interest income before provision for loan losses increased \$427,000, or 17.0%, to \$2.9 million for the three months ended March 31, 2002 from \$2.5 million for the three months ended March 31, 2001. The net interest rate spread and the net interest margin increased during the period, reflecting lower levels of interest rates resulting in increased loan demand that exceeded the effects of the decrease in market rates. The net interest spread increased 40 basis points to 3.72% from 3.32%, while the net interest margin increased 27 basis points to 3.78% from 3.51%.

[next page](#)

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

Based on our evaluation of these factors, we made provisions of \$165,000 and \$20,000 for the three months ended March 31, 2002 and 2001, respectively. The provision increased by \$145,000 reflecting a \$38.4 million, or 15.1%, increase in gross loans, primarily consisting of residential real estate loans. This growth continues to be achieved primarily through the use of independent loan originators and through whole loan purchases. Since we did not have a seasoned portfolio in this type of lending and did not have our own related loss history to apply to these types of loans, we continued to utilize peer group data adjusted for local economic conditions to establish our loan loss allowance, resulting in the \$165,000 provision.

This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available or as future events change. We used the same methodology and generally similar assumptions in assessing the adequacy of the allowance for both periods. The allowance for loan losses was \$1.9 million at March 31, 2002 and \$1.7 million at March 31, 2001. The allowance for loan losses as a percentage of loans outstanding decreased to .65% at March 31, 2002 from .67% at March 31, 2001. This decline was primarily the result of a continued shift in the Bank's loan portfolio from consumer loans, which have experienced a higher rate of loss for both the Bank and its peers, to real estate loans, which have experienced a lower rate of loss. Residential real estate loans composed 75% of gross loans at March 31, 2002 compared to 65% at March 31, 2001. The level of the allowance is based on estimates and the ultimate losses may vary from the estimates.

Management assesses the allowance for loan losses on a quarterly basis and makes provisions for loan losses as necessary in order to maintain the adequacy of the allowance. While management uses available information to recognize losses on loans, future loan loss provisions may be necessary based on changes in economic conditions. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the allowance for loan losses and may require us to recognize additional provisions based on their judgment of information available to them at the time of their examination. The allowance for loan losses as of March 31, 2002 is maintained at a level that represents management's best estimate of inherent losses in the loan portfolio, and such losses were both probable and reasonably estimable.

[next page](#)

Noninterest Income. Noninterest income decreased \$81,000, or 25.9%, to \$232,000 for the three months ended March 31, 2002 from \$313,000 for the three months ended March 31, 2001, primarily as a result of decreases in net gains on the sale of securities available for sale of \$22,000, loan servicing fees of \$14,000 and customer service fees on deposit accounts of \$17,000. Other noninterest income decreased as a result of various declines in miscellaneous smaller balance accounts.

Noninterest Expense. Noninterest expense increased \$342,000, or 18.0%, to \$2.2 million for the three months ended March 31, 2002 from \$1.9 million for the three months ended March 31, 2001. This increase was primarily the result of a \$147,000 increase in occupancy and equipment, a \$141,000 increase in data

processing, a \$76,000 increase in salaries and employee benefits, and a \$29,000 increase in advertising, partially offset by a \$24,000 reduction in professional fees and a \$50,000 reduction in various other general and administrative expenses.

Salaries and employee benefits represented 42.0% and 45.6% of total noninterest expense for the quarters ended March 31, 2002 and 2001, respectively. Total salaries and employee benefits increased \$76,000, or 8.8%, to \$941,000 for the quarter ended March 31, 2002 from \$865,000 for the same period in 2001. The increase is primarily due to normal salary increases and additional staffing at the new branch facility. The increase in occupancy and equipment was also the result of opening the new branch facility.

Data processing expense increased as a result of increased volume in both loans and deposits and the write off of approximately \$163,000 of software related to the cancellation of an expected system conversion. We had anticipated that the software related to the canceled system conversion could be utilized with another data processor under a modified conversion plan. We determined, however, that the value of the software was impaired and should be written off. The \$29,000 increase in advertising was related to the promotion of the new branch that opened in March 2002. The \$24,000 decrease in professional fees was the result of a reduction in expenses related to internal audit and internal loan review for the quarter as compared to the prior year quarter.

Other noninterest expense decreased \$50,000 as a result of decreases in several smaller individual items, none of which were significant.

Income Tax Expense. Income tax expense decreased to \$297,000 for the three months ended March 31, 2002 from \$379,000 for the three months ended March 31, 2001. The decrease was primarily a result of a decrease in income before income taxes. The effective tax rate was 39.0% and 41.9% for the three months ended March 31, 2002 and 2001, respectively.

[next page](#)

FIRST PACTRUST BANCORP, INC.

First PacTrust Bancorp, Inc. was incorporated under Maryland law to hold all of the stock of Pacific Trust Bank. Maryland was chosen as the state of incorporation because it provides protections similar to Delaware with respect to takeover, indemnification and limitations on liability, with reduced franchise taxes. First PacTrust Bancorp, Inc. has received Office of Thrift Supervision approval to become a savings and loan holding company and is subject to regulation by that agency. After we complete the conversion, First PacTrust Bancorp, Inc. will be a unitary thrift holding company, which means that it will own one thrift institution. As a thrift holding company, First PacTrust Bancorp, Inc., activities will be limited to banking, securities, insurance and financial services-related activities. See "How We Are Regulated - First PacTrust Bancorp, Inc." Initially, First PacTrust Bancorp, Inc. will not be an operating company and will have no significant assets other than all of the outstanding shares of common stock of Pacific Trust Bank, the net proceeds it keeps and its loan to the First PacTrust Bancorp, Inc. ^{401(k)} Employee Stock Ownership Plan. First PacTrust Bancorp, Inc. will have no significant liabilities. See "How We Intend to Use the Proceeds." Initially, the management of First PacTrust Bancorp, Inc. and Pacific Trust Bank will be substantially the same. First PacTrust Bancorp, Inc. intends to utilize the support staff and offices of Pacific Trust Bank and will pay Pacific Trust Bank for these services. If First PacTrust Bancorp, Inc. expands or changes its business in the future, we may hire our own employees.

We believe the proposed holding company structure will give us more flexibility to change our business activities by forming new companies which we own, or by buying other companies, including other financial institutions and financial services companies. We do not have any current plans to do these things. First PacTrust Bancorp, Inc. intends to pay for its business activities with the proceeds it keeps from the conversion and the money we earn from investing the proceeds, as well as from dividends from Pacific Trust Bank. See "Our Policy Regarding Dividends."

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

PACIFIC TRUST BANK

Pacific Trust Bank is a federally chartered and insured mutual savings bank with seven full service offices. Pacific Trust Bank converted from a federal credit union to a federally chartered savings bank on January 1, 2000. At December 31, 2001, Pacific Trust Bank had total assets of \$310.1 million, total deposits of \$252.0 million and equity of \$28.7 million. For more information regarding the business and operations of Pacific Trust Bank, see "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business of Pacific Trust Bank."

Pacific Trust Bank is examined and regulated by the Office of Thrift Supervision, its primary federal regulator. Pacific Trust Bank is also regulated by the FDIC. Pacific Trust Bank is required to have certain reserves set by the Federal Reserve Board and is a member of the Federal Home Loan Bank of San Francisco, which is one of the 12 regional banks in the Federal Home Loan Bank System.

[next page](#)

The executive offices of Pacific Trust Bank are located at 610 Bay Boulevard, Chula Vista, California, and its telephone number is (619) 691-1519.

HOW WE INTEND TO USE THE PROCEEDS

Although the actual net proceeds from the sale of the shares of common stock cannot be determined until the conversion is completed, we presently anticipate that the net proceeds from the sale of the shares of common stock will be between \$25.3 million and \$34.4 million and up to \$39.7 million assuming an increase in the estimated value of the common stock sold in the conversion by 15%. See "Pro Forma Data" and "Pacific Trust Bank's Conversion - How We Determined Our Price and the Number of Shares to be Issued in the Stock Offering" as to the assumptions used to arrive at such amounts.

We intend to use the net proceeds received from the stock offering, assuming completion of the offering at the maximum of the estimated offering range, as follows:

Minimum

Maximum

Maximum,

Retained by First PacTrust Bancorp, Inc. and initially placed in short-term investments for general corporate purposes	^\$10,525,000	\$14,367,000	\$16,576,000
401(k) Employee [^] Stock Ownership Plan loan	^2,108,000	2,852,000	3,280,000
Used to buy the stock of Pacific Trust Bank	^12,634,000	17,220,000	19,857,000
Net proceeds from stock offering	^\$25,267,000	\$34,439,000	\$39,713,000

First PacTrust Bancorp, Inc. will retain 50% of the net conversion proceeds from which the loan to be made to the [^]401(k) Employee Stock Ownership Plan will be made, and will purchase all of the capital stock of Pacific Trust Bank to be issued in the conversion in exchange for the remaining conversion proceeds. First PacTrust Bancorp, Inc. intends to use a portion of the net proceeds to make a loan directly to the [^]401(k) Employee Stock Ownership Plan to enable the [^]401(k) Employee Stock Ownership Plan to purchase up to 8.0% of the shares of common stock issued in the conversion. Based upon the issuance of 2,635,000 shares of common stock and 3,565,000 shares of common stock at the minimum and maximum of the estimated offering range, respectively, the loan to the [^]401(k) Employee Stock Ownership Plan would be \$2.1 million and \$2.9 million, respectively. See "Management - Benefits - Employee Stock Ownership Plan." The remaining net proceeds retained by First PacTrust Bancorp, Inc. initially may be used to invest in U.S. Government and federal agency securities of various maturities, mortgage-backed or other securities, deposits in either Pacific Trust Bank or other financial institutions, or a combination thereof. The net proceeds may ultimately be used to:

- support Pacific Trust Bank's lending activities;

23

[next page](#)

- repay borrowings in the ordinary course of business; or
- support the future expansion of operations through the establishment of additional banking offices or other customer facilities or through acquisitions of other financial institutions or branch offices, although no such acquisition transactions are specifically being considered at this time.

The net proceeds from the conversion may also be used for other business and investment purposes, including the payment of regular or special cash dividends, possible repurchases of the common stock or returns of capital. First PacTrust Bancorp, Inc. and Pacific Trust Bank have committed however, not to take any action to further the payment of any return of capital on the common stock during the one-year period subsequent to completion of the conversion. Management of First PacTrust Bancorp, Inc. may consider expanding or diversifying its activities, as such opportunities become available.

Following the completion of the conversion, to the extent permitted by the Office of Thrift Supervision and based upon then existing facts and circumstances, First PacTrust Bancorp, Inc.'s board of directors may determine to repurchase shares of common stock, subject to any applicable statutory and regulatory requirements. Such facts and circumstances may include but not be limited to:

- market and economic factors such as the price at which the stock is trading in the market, the volume of trading, the attractiveness of other investment alternatives in terms of the rate of return and risk involved in the investment, the ability to increase the book value and/or earnings per share of the remaining outstanding shares, and an improvement in First PacTrust Bancorp, Inc.'s return on equity;
- the avoidance of dilution to stockholders by not having to issue additional shares to cover the exercise of stock options or to fund employee stock benefit plans; and
- any other circumstances in which repurchases would be in the best interests of First PacTrust Bancorp, Inc. and its stockholders.

Any stock repurchases will be subject to the determination of First PacTrust Bancorp, Inc.'s board of directors that Pacific Trust Bank will be capitalized in excess of all applicable regulatory requirements after any such repurchases.

The portion of the net proceeds used by First PacTrust Bancorp, Inc. to purchase the capital stock of Pacific Trust Bank will be added to Pacific Trust Bank's general funds to be used for general corporate purposes, including increased lending activities. While the amount of net proceeds received by Pacific Trust Bank will further strengthen Pacific Trust Bank's capital position, which already substantially exceeds all regulatory requirements, Pacific Trust Bank is not converting to stock form primarily to raise capital. After the conversion, based upon the maximum of the estimated offering range, Pacific Trust Bank's tangible capital ratio will be approximately 14.0%. As a result, Pacific Trust Bank will continue to be a well-capitalized institution.

24

[next page](#)

The net proceeds may vary because total expenses of the conversion may be more or less than those estimated. The net proceeds will also vary if the number of shares to be issued in the conversion is adjusted to reflect a change in the estimated pro forma market value of Pacific Trust Bank. Payments for shares made through withdrawals from existing deposit accounts at Pacific Trust Bank will not result in the receipt of new funds for investment by Pacific Trust Bank but will result in a reduction of Pacific Trust Bank's interest expense and liabilities as funds are transferred from interest-bearing certificates or other deposit accounts.

MARKET FOR THE COMMON STOCK

First PacTrust Bancorp, Inc. and Pacific Trust Bank have never issued capital stock, and, consequently, there is no established market for the common stock at this time. First PacTrust Bancorp, Inc. has applied to have its common stock quoted on the Nasdaq National Market under the symbol "FPTB." The development of a liquid public market depends on the existence of willing buyers and sellers, the presence of which is not within the control of First PacTrust Bancorp, Inc., Pacific Trust Bank or any market maker. Accordingly, the number of active buyers and sellers of the common stock at any particular time may be limited. First PacTrust Bancorp, Inc. intends to meet the requirements for listing on the Nasdaq National Market. There can be no assurance, however, that purchasers will be able to sell their shares at or above the purchase price.

OUR POLICY REGARDING DIVIDENDS

The board of directors of First PacTrust Bancorp, Inc. currently intends to pay cash dividends on the common stock in the future. However, the amount and timing of any dividends has not yet been determined. The payment of dividends will depend upon a number of factors, including capital requirements, First PacTrust Bancorp, Inc.'s and Pacific Trust Bank's financial condition and results of operations, tax considerations, statutory and regulatory limitations and general economic conditions. No assurances can be given that any dividends will be paid or that, if paid, will not be reduced or eliminated in future periods. Special cash dividends, stock dividends or returns of capital may, to the extent permitted by Office of Thrift Supervision policy and regulations, be paid in addition to, or in lieu of, regular cash dividends. First PacTrust Bancorp, Inc. intends to file consolidated tax returns with Pacific Trust Bank. Accordingly, it is anticipated that any cash distributions made by First PacTrust Bancorp, Inc. to its stockholders would be treated as cash dividends and not as a non-taxable return of capital for federal and state tax purposes.

Dividends from First PacTrust Bancorp, Inc. will depend, in large part, upon receipt of dividends from Pacific Trust Bank, because First PacTrust Bancorp, Inc. initially will have no source of income other than dividends from Pacific Trust Bank, earnings from the investment of proceeds from the sale of shares of common stock retained by First PacTrust Bancorp, Inc., and interest payments with respect to First PacTrust Bancorp, Inc.'s loan to the [401\(k\) Employee Stock Ownership Plan](#). A regulation of the Office of Thrift Supervision imposes limitations on "capital distributions" by savings institutions. See "How We Are Regulated - Limitations on Dividends and Other Capital Distributions."

25

[next page](#)

PRO FORMA DATA

The actual net proceeds from the sale of the common stock cannot be determined until the conversion is completed. However, net proceeds are currently estimated to be between \$25.3 million and \$34.4 million, or \$39.7 million in the event the estimated offering range is increased by 15%, based upon the following assumptions:

- all shares of common stock will be sold through non-transferable rights to subscribe for the common stock, in order of priority, to Eligible Account Holders, the [401\(k\) employee stock ownership plan](#), Supplemental Eligible Account Holders, Other Members and Directors, Officers and Employees;
- Keefe, Bruyette & Woods, Inc. will receive a marketing fee equal to 1.50% of the gross proceeds from the conversion, excluding shares of common stock sold to directors, officers, employees and the [401\(k\) Employee Stock Ownership Plan](#);
- total expenses, excluding the marketing fees paid to Keefe, Bruyette & Woods, Inc., are estimated to be approximately \$775,000. Actual expenses may vary from those estimated.

Pro forma consolidated net income and stockholders' equity of First PacTrust Bancorp, Inc. have been calculated for the year ended December 31, 2001, as if the common stock to be issued in the conversion had been sold at the beginning of the period and the net proceeds had been invested at 2.17%, which represents the yield on one-year U.S. Government securities at December 31, 2001. In light of changes in interest rates in recent periods, this yield is deemed by First PacTrust Bancorp, Inc. and Pacific Trust Bank to more accurately reflect available reinvestment rates than the arithmetic average method. The effect of withdrawals from deposit accounts for the purchase of common stock has not been reflected. A tax rate of 41.15% has been assumed for periods resulting in an after-tax yield of 1.28% for the year ended December 31, 2001. Historical and pro forma per share amounts have been calculated by dividing historical and pro forma amounts by the indicated number of shares of common stock, as adjusted to give effect to the shares purchased by the [401\(k\) Employee Stock Ownership Plan](#). See Note 3 to the tables below. No effect has been given in the pro forma stockholders' equity calculations for the assumed earnings on the net proceeds. As discussed under "How We Intend to Use the Proceeds," First PacTrust Bancorp, Inc. intends to make a loan to fund the purchase of 8.0% of the common stock by the [401\(k\) Employee Stock Ownership Plan](#) and intends to retain up to 50% of the net proceeds from the conversion.

26

[next page](#)

No effect has been given in the tables to the issuance of additional shares of common stock pursuant to the proposed stock option plan. See "Management - Benefits -- Other Stock Benefit Plans." The table below gives effect to the restricted stock plan, which is expected to be adopted by First PacTrust Bancorp, Inc. following the conversion and presented along with the stock option plan to stockholders for approval at an annual or special meeting of stockholders to be held at least six months following the completion of the conversion. If the restricted stock plan is approved by stockholders, the restricted stock plan intends to acquire an amount of common stock equal to 4.0% of the shares of common stock issued in the conversion, either through open market purchases or from authorized but unissued shares of common stock, if permissible. The table below assumes that stockholder approval has been obtained, as to which there can be no assurance, and that the shares acquired by the restricted stock plan are purchased in the open market at \$10.00 per share. No effect has been given to First PacTrust Bancorp, Inc.'s results of operations after the conversion, the market price of the common stock after the conversion or a less than 4.0% purchase by the restricted stock plan.

The pro forma stockholders' equity is not intended to represent the fair market value of the common stock and may be different than amounts that would be available for distribution to stockholders in the event of liquidation.

The following pro forma information may not be representative of the financial effects of the foregoing transactions at the dates on which such transactions actually occur and should not be taken as indicative of future results of operations. Pro forma stockholders' equity represents the difference between the stated amount of assets and liabilities of First PacTrust Bancorp, Inc. computed in accordance with accounting principles generally accepted in the United States of America ("GAAP").

[next page](#)

	At or For the Year Ended December 31, 2001			
	2,635,000 Shares Sold at \$10.00 Per Share (Minimum of Range)	3,100,000 Shares Sold at \$10.00 Per Share (Midpoint of Range)	3,565,000 Shares Sold at \$10.00 Per Share (Maximum of Range)	4,099,750 Shares Sold at \$10.00 Per Share (Maximum of Range, as Adjusted) ⁽¹⁾
	(Dollars in Thousands)			
Gross proceeds	\$26,350	\$31,000	\$35,650	\$40,998
Less offering expenses and commissions	1,083	1,147	1,211	1,285
Estimated net proceeds	25,267	29,853	34,439	39,713
Less: Shares purchased by the employee stock ownership plan ⁽³⁾	(2,108)	(2,480)	(2,852)	(3,280)
Shares purchased by the restricted stock plan ⁽⁴⁾	(1,054)	(1,240)	(1,426)	(1,640)
Estimated proceeds available for investment ⁽²⁾	\$22,105	\$26,133	\$30,161	\$34,793
Net income [^] :				
Historical	\$ 2,096	\$ 2,096	\$ 2,096	\$ 2,096
Pro forma income on net proceeds	283	335	386	445
Pro forma employee stock ownership plan adjustment ⁽³⁾	(124)	(146)	(168)	(193)
Pro forma restricted stock plan adjustment ⁽⁴⁾	(124)	(146)	(168)	(193)
Pro forma net income	\$ 2,131	\$ 2,139	\$ 2,146	\$ 2,155
Net income per share [^] :				
Historical	\$ 0.86	\$ 0.73	\$ 0.63	\$ 0.55
Pro forma income on net proceeds, as adjusted	0.11	0.11	0.12	0.12
Pro forma employee stock ownership plan adjustment ⁽⁴⁾	(0.05)	(0.05)	(0.05)	(0.05)
Pro forma restricted stock plan adjustment ⁽⁵⁾	(0.05)	(0.05)	(0.05)	(0.05)
Pro forma net income per share ^{^(4)(5)(6)}	\$ 0.87	\$ 0.74	\$ 0.65	\$ 0.57
Number of shares outstanding for pro forma net income per share calculations ⁽⁵⁾	2,445,280	2,876,800	3,308,320	3,804,568
Offering price to pro forma net income per share [^]	11.49x	13.51x	15.38x	17.54x

(Footnotes on next page)[next page](#)

	At or For the Year Ended December 31, 2001			
	2,635,000 Shares Sold at \$10.00 Per Share (Minimum of Range)	3,100,000 Shares Sold at \$10.00 Per Share (Midpoint of Range)	3,565,000 Shares Sold at \$10.00 Per Share (Maximum of Range)	4,099,750 Shares Sold at \$10.00 Per Share (Maximum of Range, as Adjusted) ⁽¹⁾

(Dollars in Thousands)

Stockholders' equity:				
Historical	28,721	28,721	28,721	28,721
Estimated net proceeds	25,267	29,853	34,439	39,713
Less: Common stock acquired by the employee stock ownership plan ⁽³⁾	(2,108)	(2,480)	(2,852)	(3,280)
Common stock to be acquired by the restricted stock plan ⁽⁴⁾	(1,054)	(1,240)	(1,426)	(1,640)
Pro forma stockholders' equity ⁽³⁾⁽⁴⁾⁽⁷⁾	\$50,826	\$54,854	\$58,882	\$63,514
Stockholders' equity per share [^] :				
Historical	\$ 10.90	\$ 9.26	\$ 8.06	\$ 7.01
Estimated net proceeds	9.59	9.63	9.66	9.68
Less: Common stock acquired by the employee stock ownership plan ⁽³⁾	(0.80)	(0.80)	(0.80)	(0.80)
Common stock to be acquired by the restricted stock plan ⁽⁴⁾	(0.40)	(0.40)	(0.40)	(0.40)
Pro forma stockholders' equity per share ⁽⁴⁾⁽⁵⁾⁽⁶⁾⁽⁷⁾	\$ 19.29	\$ 17.69	\$ 16.52	\$ 15.49
Offering price as a percentage of pro forma stockholders' equity ⁽⁵⁾	51.84%	56.53%	60.53%	64.56%
Number of shares outstanding for pro forma stockholders' equity per share calculations ⁽⁵⁾	2,635,000	3,100,000	3,565,000	4,099,750

⁽¹⁾As adjusted to give effect to an increase in the number of shares which could occur due to an increase in the estimated offering range of up to 15% to reflect changes in market and financial conditions following the commencement of the conversion.

⁽²⁾Estimated proceeds available for investment consists of the estimated net proceeds from the conversion minus (i) the proceeds attributable to the purchase by the employee stock ownership plan and (ii) the value of the shares to be purchased by the restricted stock plan, subject to stockholder approval, after the conversion at an assumed purchase price of \$10.00 per share

⁽³⁾It is assumed that 8.0% of the shares of common stock issued in the conversion will be purchased by the employee stock ownership plan with funds loaned by First PacTrust Bancorp, Inc. First PacTrust Bancorp, Inc. and Pacific Trust Bank intend to make annual contributions to the employee stock ownership plan in an amount at least equal to the principal and interest requirement of the debt. The pro forma net earnings assumes (i) that the loan to the employee stock ownership plan is payable over 10 years, with the employee stock ownership plan shares having an average fair value of \$10.00 per share in accordance with SOP 93-6 of the AICPA, entitled "Employers' Accounting for Employee Stock Ownership Plans," and (ii) the effective tax rate was 42% for the period. See "Management - Benefits -- Employee Stock Ownership Plan."

29

[next page](#)

⁽⁴⁾It is assumed that the restricted stock plan will purchase, following stockholder approval of such plan, a number of shares of common stock equal to 4.0% of the shares of common stock issued in the conversion for issuance to directors, officers and employees. Funds used by the restricted stock plan to purchase the shares initially will be contributed to the restricted stock plan by First PacTrust Bancorp, Inc. It is further assumed that the shares were acquired by the restricted stock plan at the beginning of the period presented in open market purchases at the \$10.00 purchase price and that 20% of the amount contributed, net of taxes, was an amortized expense during the year ended December 31, 2001. The issuance of authorized but unissued shares of common stock pursuant to the restricted stock plan in the amount of 4.0% of the common stock sold in the offering would dilute the voting interests of existing stockholders by approximately 3.8% and under such circumstances pro forma net earnings per share for the year ended December 31, 2001 would be \$.84, \$.72, \$.63 and \$.55, at the minimum, midpoint, maximum and 15% above the maximum of the estimated offering range, respectively, and pro forma stockholders' equity per share at December 31, 2001 would be \$18.93, \$17.40, \$16.27 and \$15.28 at the minimum, midpoint, maximum and 15% above the maximum of such range, respectively. There can be no assurance that the actual purchase price of shares purchased by or issued to the restricted stock plan will be \$10.00 per share. See "Management - Benefits -- Other Stock Benefit Plans."

⁽⁵⁾The per share calculations are determined by adding the number of shares sold in the conversion and for purposes of calculating net income per share, in accordance with SOP 93-6, subtracting 189,720 shares, 223,200 shares, 256,680 shares, and 295,182 shares, at the minimum, midpoint, maximum and 15% above the maximum of the offering range, respectively, representing the employee stock ownership plan shares which have not been committed for release during the year ended December 31, 2001. See note 3 above. For purposes of calculating pro forma stockholders' equity per share, it is assumed that shares outstanding total 2,635,000 shares at the minimum of the estimated pro forma market value of Pacific Trust Bank on a fully converted basis, or the estimated valuation range, 3,100,000 shares at the midpoint of the range, 3,565,000 shares at the maximum of the range and 4,099,750 shares at 15% above the maximum of the range, respectively.

⁽⁶⁾No effect has been given to the issuance of additional shares of common stock pursuant to the stock option plan, which will be adopted by First PacTrust Bancorp, Inc. following the conversion and presented for approval by stockholders at an annual or special meeting of stockholders of First PacTrust Bancorp, Inc. held at least six months following the completion of the conversion. If the stock option plan is approved by stockholders, an amount equal to 10% of the common stock issued in the conversion, or 263,500 shares at the minimum of the estimated offering range, 310,000 shares at the midpoint of the range, 356,500 shares at the maximum of the range and 409,975 shares at 15% above the maximum of the range, respectively, will be reserved for future issuance upon the exercise of options to be granted under the stock option plan. The issuance of common stock pursuant to the exercise of options under the stock option plan will result in the

dilution of existing stockholders' voting interests by approximately 9.1%. Assuming stockholder approval of the stock option plan, that all these options were exercised at the beginning of the period at an exercise price of \$10.00 per share and that the shares to fund the restricted stock plan are acquired through open market purchases at the purchase price, pro forma net earnings per share for the year ended December 31, 2001 would be \$0.80, \$.68, \$.60, and \$.52 at the minimum, midpoint, maximum and 15% above the maximum of the estimated offering range, respectively, and pro forma stockholders' equity per share at December 31, 2001 would be \$18.44, \$17.00, \$15.92 and \$14.99 at the minimum, midpoint, maximum and 15% above the maximum of the range, respectively. See "Management - Benefits -- Other Stock Benefit Plan."

(7)The equity capital of Pacific Trust Bank will be substantially restricted because of the liquidation account set up in connection with this offering and certain distributions from Pacific Trust Bank's equity capital may be treated as being from its accumulated bad debt reserve for tax purposes, which would cause Pacific Trust Bank to have additional taxable income. See "Taxation - Federal Taxation." Pro forma stockholders' equity and pro forma stockholders' equity per share do not give effect to the bad debt reserves established by Pacific Trust Bank for federal income tax purposes in the event of a liquidation of Pacific Trust Bank.

[next page](#)

CAPITALIZATION

The following table presents the historical capitalization of Pacific Trust Bank at December 31, 2001, and the pro forma consolidated capitalization of First PacTrust Bancorp, Inc. after giving effect to the conversion, based upon the sale of the number of shares shown below and the other assumptions set forth under "Pro Forma Data."

	First PacTrust Bancorp, Inc. - Pro Forma Based Upon Sale at \$10.00 Per Share				4,099,750 Shares ⁽¹⁾ (Maximum of Range, as Adjusted)
	Pacific Trust Bank Historical Capitalization	2,635,000 Shares (Minimum of Range)	3,100,000 Shares (Midpoint of Range)	3,565,000 Shares (Maximum of Range)	
	(In Thousands)				
Deposits ⁽²⁾	\$251,954	\$251,954	\$251,954	\$251,954	\$251,954
Borrowings	28,000	28,000	28,000	28,000	28,000
Total deposits and borrowings	\$279,954	\$279,954	\$279,954	\$279,954	\$279,954
Stockholders' equity					
Preferred stock, \$0.01 par value, 5,000,000 shares authorized, none issued	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---
Common stock, \$0.01 par value, 20,000,000 shares authorized; shares to be issued as reflected ⁽³⁾	---	26	31	36	41
Additional paid-in capital	---	25,241	29,822	34,403	39,672
Retained earnings	28,669	28,669	28,669	28,669	28,669
Net unrealized gain	52	52	52	52	52
Less:					
Common stock to be acquired by the employee stock ownership plan ⁽⁴⁾	---	(2,108)	(2,480)	(2,852)	(3,280)
Common stock to be acquired by the restricted stock plan ⁽⁵⁾	---	(1,054)	(1,240)	(1,426)	(1,640)
Total stockholders' equity	\$ 28,721	\$ 50,826	\$ 54,854	\$ 58,882	\$ 63,514

(1)As adjusted to give effect to an increase in the number of shares which could occur due to an increase in the estimated offering range of up to 15% to reflect changes in market and financial conditions following the commencement of the conversion.

(2)Does not reflect withdrawals from deposit accounts for the purchase of common stock in the conversion. Any withdrawals would reduce pro forma deposits by the amount of the withdrawals.

(3)Reflects the issuance of the shares of common stock to be sold in the conversion. No effect has been given to the issuance of additional shares of common stock pursuant to the proposed stock option plan. See "Pro Forma Data" and "Management - Benefits - Other Stock Benefit Plans."

(4)Assumes that 8.0% of the common stock issued in the conversion will be purchased by the employee stock ownership plan, which is reflected as a reduction from stockholders' equity. The employee stock ownership plan shares will be purchased with funds loaned to the employee stock ownership plan by First PacTrust Bancorp, Inc. See "Pro Forma Data" and "Management - Benefits -- Employee Stock Ownership Plan."

[next page](#)

(5) First PacTrust Bancorp, Inc. intends to adopt the restricted stock plan and to submit such plan to stockholders at an annual or special meeting of stockholders held at least six months following the completion of the conversion. If the plan is approved by stockholders, First PacTrust Bancorp, Inc. intends to contribute sufficient funds to the restricted stock plan to enable the plan to purchase a number of shares of common stock equal to 4.0% of the common stock issued in the conversion. Assumes that stockholder approval has been obtained and that the shares have been purchased in the open market at the purchase price. However, in the event First PacTrust Bancorp, Inc. issues authorized but unissued shares of common stock to the restricted stock plan in the amount of 4.0% of the common stock issued in the conversion, the voting interests of existing stockholders would be diluted approximately 3.8%. The shares are reflected as a reduction of stockholders' equity. See "Pro Forma Data" and "Management - Benefits -- Other Stock Benefit Plans."

**PACIFIC TRUST BANK
EXCEEDS ALL REGULATORY CAPITAL REQUIREMENTS**

At December 31, 2001, Pacific Trust Bank exceeded all of the regulatory capital requirements applicable to it. The table on the following page sets forth the historical regulatory capital of Pacific Trust Bank at December 31, 2001 and the pro forma regulatory capital of Pacific Trust Bank after giving effect to the conversion, based upon the sale of the number of shares shown in the table. The pro forma regulatory capital amounts reflect the receipt by Pacific Trust Bank of 50% of the net stock proceeds, after expenses. The pro forma risk-based capital amounts assume the investment of the net proceeds received by Pacific Trust Bank in assets which have a risk-weight of 20% under applicable regulations, as if such net proceeds had been received and so applied at December 31, 2001.

[next page](#)

	Pro Forma at December 31, 2001									
	Historical at December 31, 2001		2,635,000 Shares Sold at \$10.00 per Share		3,100,000 Shares Sold at \$10.00 per Share		3,565,000 Shares Sold at \$10.00 per Share		4,099,750 Shares Sold at \$10.00 per Share	
	Amount	Percent of Assets ⁽¹⁾	Amount	Percent of Assets						
(Dollars in Thousands)										
Equity capital under GAAP	\$28,721	9.26%	\$39,247	12.16%	\$41,168	12.67%	\$43,088	13.17%	\$45,298	13.73%
Tangible capital:										
Actual	\$28,669	9.24%	\$39,195	12.15%	\$41,116	12.65%	\$43,036	13.15%	\$45,246	13.71%
Requirement	4,652	1.50	4,841	1.50	4,875	1.50	4,909	1.50	4,949	1.50
Excess	\$24,017	7.74%	\$34,354	10.65%	\$36,241	11.15%	\$38,127	10.65%	\$40,297	12.21%
Core capital:										
Actual	\$28,669	9.24%	\$39,195	12.15%	\$41,116	12.65%	\$43,036	13.15%	\$45,246	13.71%
Requirement	12,413	4.00	12,098	4.00	13,000	4.00	13,092	4.00	13,197	4.00
Excess	\$16,256	5.24%	\$26,287	8.15%	\$28,116	8.65%	\$29,944	9.15%	\$32,049	9.71%
Risk-based capital										
Actual	\$30,389	15.40%	\$40,915	20.47%	\$42,836	21.38%	\$44,756	22.29%	\$46,966	23.33%
Requirement	15,789	8.00	15,991	8.00	16,028	8.00	16,064	8.00	16,106	8.00
Excess	\$14,600	7.40%	\$24,924	12.47%	\$26,808	13.38%	\$28,692	14.92%	\$30,860	15.33%

Tier I to risk weighted capital										
Actual	\$28,669	14.53%	\$39,195	19.61%	\$41,116	20.52%	\$43,036	21.43%	\$45,246	22.47%
Requirement	7,894	4.00	7,996	4.00	8,014	4.00	8,032	4.00	8,053	4.00
Excess	\$20,775	10.53%	\$31,199	15.61%	\$33,102	16.52%	\$35,004	17.43%	\$37,193	18.47%

(1) Adjusted total or adjusted risk-weighted assets, as appropriate.

[next page](#)

PACIFIC TRUST BANK'S CONVERSION

The board of directors of Pacific Trust Bank and the Office of Thrift Supervision have approved the plan of conversion. Office of Thrift Supervision approval is subject to approval of the plan of conversion by our members and to the satisfaction of certain other conditions imposed by the Office of Thrift Supervision. Office of Thrift Supervision approval does not constitute a recommendation or endorsement of the plan of conversion.

General

On March 1, 2002, we adopted a plan of conversion, pursuant to which we will convert from a federally chartered mutual savings institution to a federally chartered stock savings institution and at the same time become a wholly owned subsidiary of First PacTrust Bancorp, Inc. The conversion will include adoption of the proposed federal stock charter and bylaws, which will authorize us to issue capital stock. Under the plan, Pacific Trust Bank common stock is being sold to First PacTrust Bancorp, Inc. and First PacTrust Bancorp, Inc. common stock is being offered to our eligible depositors, the employee stock ownership plan, directors, officers and employees, other members, and then to the public. The conversion will be accounted for at historical cost in accordance with Statement of Financial Accounting Standards No. 141, *Business Combinations*. The Office of Thrift Supervision has approved First PacTrust Bancorp, Inc.'s application to become a savings and loan holding company and to acquire all of Pacific Trust Bank's common stock to be issued in the conversion.

The shares of First PacTrust Bancorp, Inc. common stock are first being offered in a subscription offering to holders of subscription rights. To the extent shares of common stock remain available after the subscription offering, shares may be offered in a direct community offering on a best efforts basis through Keefe, Bruyette & Woods, Inc. in such a manner as to promote a wide distribution of the shares. The direct community offering, if any, may commence with, at any time during, or as soon as practicable after the commencement of the subscription offering. Shares not subscribed for in the subscription offering and direct community offering may be offered for sale on a best efforts basis in a public offering conducted by Keefe, Bruyette & Woods, Inc. We have the right, in our sole discretion, to accept or reject, in whole or in part, any orders to purchase shares of common stock received in the direct community offering and the public offering. See "- Direct Community Offering" and "- Public Offering."

Subscriptions for shares will be subject to the maximum and minimum purchase limitations set forth in the plan of conversion. See "- Limitations on Stock Purchases."

The completion of the offering is subject to market conditions and other factors beyond our control. No assurance can be given as to the length of time following approval of the plan at the meeting of our members that will be required to complete the sale of shares being offered in the conversion. If delays are experienced, significant changes may occur in the estimated offering range with corresponding changes in the offering price and the net proceeds to be realized by us from the sale of the shares. In the event the conversion is terminated, we will charge all conversion expenses against current income and any funds collected by us in the offering will be promptly returned, with interest, to each subscriber.

[next page](#)

Our Reasons for the Corporate Change

As a mutual institution, Pacific Trust Bank has no authority to issue shares of capital stock and consequently has no access to market sources of equity capital. Only by generating and retaining earnings from year to year is Pacific Trust Bank able to increase its capital position. This conversion is another step in our strategic plan to increase our capital and expand our operations. ^

As a stock corporation upon completion of the conversion, Pacific Trust Bank will be organized in the form used by commercial banks, most major corporations and a majority of savings institutions. The ability to raise new equity capital through the issuance and sale of Pacific Trust Bank's or Pacific Trust's capital stock will allow Pacific Trust Bank the flexibility to increase its capital position more rapidly than by accumulating earnings and at times deemed advantageous by the board of directors of Pacific Trust Bank. It will also support future growth and expanded operations, including increased lending and investment activities, as business and regulatory needs require. The ability to attract new capital also will help Pacific Trust Bank better address the needs of the communities it serves and enhance its ability to make acquisitions or expand into new businesses. The acquisition alternatives available to Pacific Trust Bank are

quite limited as a mutual institution, because of a requirement in Office of Thrift Supervision regulations that the surviving institution in a merger involving a mutual institution generally must be in mutual form. After the conversion, Pacific Trust Bank will have increased ability to merge with other institutions and First PacTrust Bancorp, Inc. may acquire control of other stock savings associations and retain the acquired institution as a separate subsidiary of First PacTrust Bancorp, Inc. Finally, the ability to issue capital stock will enable [^]First PacTrust Bancorp, Inc. to establish stock compensation plans for directors, officers and employees, giving them equity interests in First PacTrust Bancorp, Inc. and greater incentive to improve its performance. For a description of the stock compensation plans which will be adopted by us in connection with the conversion, see "Management."

After considering the advantages and disadvantages of the conversion, as well as applicable fiduciary duties and alternative transactions, the board of directors of Pacific Trust Bank approved the conversion as being in the best interests of Pacific Trust Bank and equitable to its account holders.

Effects of the Conversion

General. The conversion will have no effect on Pacific Trust Bank's present business of accepting deposits and investing its funds in loans and other investments permitted by law. The conversion will not result in any change in the existing services provided to depositors and borrowers, or in existing offices, management and staff. Pacific Trust Bank will continue to be subject to regulation, supervision and examination by the Office of Thrift Supervision and the FDIC.

[next page](#)

Deposits and Loans. Each holder of a deposit account in Pacific Trust Bank at the time of the conversion will continue as an account holder in Pacific Trust Bank after the conversion, and the conversion will not affect the deposit balance, interest rate or other terms of such accounts. Each account will be insured by the FDIC to the same extent as before the conversion. Depositors in Pacific Trust Bank will continue to hold their existing certificates, passbooks and other evidence of their accounts. The conversion will not affect the loan terms of any borrower from Pacific Trust Bank. The amount, interest rate, maturity, security for and obligations under each loan will remain as they existed prior to the conversion. See "-- Voting Rights" and "-- Depositors' Rights if We Liquidate" below for a discussion of the effects of the conversion on the voting and liquidation rights of the depositors of Pacific Trust Bank.

Continuity. During the conversion process, the normal business of Pacific Trust Bank of accepting deposits and making loans will continue without interruption. Following completion of the conversion, Pacific Trust Bank will continue to be subject to regulation by the Office of Thrift Supervision, and FDIC insurance of accounts will continue without interruption. After the conversion, Pacific Trust Bank will continue to provide services for depositors and borrowers under current policies and by its present management and staff.

The board of directors presently serving Pacific Trust Bank will serve as the board of directors of Pacific Trust Bank after the conversion. The initial members of the board of directors of First PacTrust Bancorp, Inc. will consist of the individuals currently serving on the board of directors of Pacific Trust Bank. After the conversion, the voting stockholders of First PacTrust Bancorp, Inc. will elect approximately one-third of First PacTrust Bancorp, Inc.'s directors annually. All current officers of Pacific Trust Bank will retain their positions with Pacific Trust Bank after the conversion.

Voting Rights. After completion of the conversion, depositor members will have no voting rights in Pacific Trust Bank or First PacTrust Bancorp, Inc. and, therefore, will not be able to elect directors of Pacific Trust Bank or First PacTrust Bancorp, Inc. or to control their affairs. Currently these rights are held by depositors of Pacific Trust Bank. After the conversion, voting rights in First PacTrust Bancorp, Inc. will be vested exclusively in the stockholders of First PacTrust Bancorp, Inc., which will own all of the stock of Pacific Trust Bank. Each holder of common stock will be entitled to vote on any matter to be considered by the stockholders of First PacTrust Bancorp, Inc., subject to the provisions of First PacTrust Bancorp, Inc.'s charter.

Depositor's Rights if We Liquidate. We have no plans to liquidate, either before or after the completion of the conversion. However, if there should ever be a complete liquidation of Pacific Trust Bank, either before or after conversion, deposit account holders would receive the protection of insurance by the FDIC up to applicable limits. In addition, liquidation rights before and after the conversion would be as follows:

Liquidation Rights in Present Mutual Institution. In addition to the protection of FDIC insurance up to applicable limits, in the event of the complete liquidation of Pacific Trust Bank, each holder of a deposit account would receive his or her pro rata share of any assets of Pacific Trust Bank remaining after payment of claims of all creditors (including the claims of all depositors in the amount of the withdrawal value of their accounts). Each holder's pro rata share of the remaining assets, if any, would be in the same proportion of the assets as the balance in his or her deposit account was to the aggregate balance in all our deposit accounts at the time of liquidation.

[next page](#)

Liquidation Rights in Proposed Converted Institution. After conversion, each deposit account holder, in the event of the complete liquidation of Pacific Trust Bank, would have a claim of the same general priority as the claims of all our other general creditors in addition to the protection of FDIC insurance up to applicable limits. Therefore, except as described below, the deposit account holder's claim would be solely in the amount of the balance in his or her deposit account plus accrued interest. A deposit account holder would have no interest in the assets of Pacific Trust Bank above that amount, if any.

The plan of conversion provides for the establishment, upon the completion of the conversion, of a special "liquidation account" for the benefit of eligible account holders (*i.e.*, eligible depositors at December 31, 1999) and supplemental account holders (*i.e.*, eligible depositors at March 31, 2002). Each eligible account holder and supplemental eligible account holder, if he or she continues to maintain his or her deposit account with Pacific Trust Bank, would be entitled upon the complete liquidation of Pacific Trust Bank after conversion, to an interest in the liquidation account prior to any payment to stockholders. Each eligible account

holder would have an initial interest in the liquidation account for each deposit account held with Pacific Trust Bank on the qualifying date, December 31, 1999. Each supplemental eligible account holder would have a similar interest as of that qualifying date, March 31, 2002. The interest as to each deposit account would be in the same proportion of the total liquidation account as the balance of the deposit account on the qualifying dates was to the aggregate balance in all the deposit accounts of eligible account holders and supplemental eligible account holders on the qualifying dates. However, if the amount in the deposit account on any annual closing date (December 31) is less than the amount in the account on the respective qualifying dates, then the interest in this special liquidation account would be reduced at that time by an amount proportionate to any reduction, and the interest would cease to exist if the deposit account was closed. The interest in the special liquidation account will never be increased despite any increase in the related deposit account after the respective qualifying dates.

Any assets remaining after the above liquidation rights of eligible account holders and supplemental eligible account holders were satisfied would be distributed to First PacTrust Bancorp, Inc. as the sole stockholder of Pacific Trust Bank.

Tax Effects of the Conversion. Pacific Trust Bank has received an opinion from its special counsel, Silver, Freedman & Taff, L.L.P., Washington, D.C., [^]that the conversion will constitute a tax [^]free reorganization under the Internal Revenue Code and that no gain or loss will be recognized for federal income purposes by Pacific Trust Bank or First PacTrust Bancorp as a result of the completion of the conversion.

37

[next page](#)

If the liquidation rights in Pacific Trust Bank or subscription rights to purchase First PacTrust Bancorp common stock have a market value when received, or in the case of subscription rights, when exercised, then depositors receiving or exercising these rights may have a taxable gain. Any gain will be limited to the fair market value of these rights.

Liquidation rights are the proportionate interest of certain depositors of Pacific Trust Bank in the special liquidation account to be established by Pacific Trust Bank under the plan of conversion. See "-Depositors Rights if We Liquidate." Special counsel has concluded that the liquidation rights will have nominal, if any, fair market value.

The subscription rights are the preferential rights of eligible subscribers to purchase shares of First PacTrust Bancorp, Inc. common stock in the conversion. See "-Subscription Offering and Subscription Rights." Since the subscription rights are acquired without cost, are not transferable, last for only a short time period and give the recipients a right to purchase stock in the conversion only at fair market value, special counsel believes these rights do not have any taxable value when they are granted or exercised.

Special counsel's opinion states that it is not aware of the IRS claiming in any similar conversion transaction that liquidation rights or subscription rights have any market value. Because there are no judicial opinions or official IRS positions on this issue, however, special counsel's opinion relating to liquidation rights and subscription rights comes to a reasoned conclusion instead of an absolute conclusion on these issues. Special counsel's conclusion is supported by the appraisal letter received by Pacific Trust Bank from RP Financial which states that the subscription rights do not have any value when they are distributed or exercised.

If the IRS disagrees and says the subscription rights [^]have value, income may be recognized by [^]recipients of these rights[^], in certain cases[^] whether or not the rights are exercised[^]. This income may be capital gain [^]or ordinary income, and First PacTrust Bancorp, Inc. and Pacific Trust Bank could recognize gain on the distribution of these rights. Eligible subscribers are encouraged to consult with their own tax advisor regarding any tax consequences if subscription rights are deemed to have value.

Special counsel has also concluded that there are no other material federal income tax consequences in connection with the conversion.

The opinion of special counsel makes certain assumptions consisting solely of 26 factual matters that would be contained in a representation letter [^]of Pacific Trust Bank [^]to the IRS if it were seeking a private letter ruling relating to the federal income tax consequences of the conversion. Special counsel's opinion is based on the Internal Revenue Code, regulations now in effect or proposed, current administrative rulings and practice and judicial authority, all of which are subject to change [^]. Any change may be made with retroactive effect. Unlike private letter rulings received from the IRS, [^]special counsel's opinion is not binding [^]on the IRS and there can be no assurance that the IRS will not take a position contrary to the positions reflected in [^]special counsel's opinion, or that [^]special counsel's opinion will be upheld by the courts if challenged by the IRS.

38

[next page](#)

Pacific Trust Bank has also obtained an opinion from Crowe Chizek [^]and Company LLP that the income tax effects of the conversion under California tax laws will be substantially the same as [^]the federal income tax [^]consequences described above.

First PacTrust Bancorp, Inc. and Pacific Trust Bank have received a letter from RP Financial, stating its belief that the subscription rights do not have any value, based on the fact that these rights are acquired by the recipients without cost, are nontransferable and of short duration, and give the recipients the right only to purchase the common stock at a price equal to its estimated fair market value, which will be the same price as the purchase price for the unsubscribed shares of common stock. If the subscription rights granted to eligible subscribers are deemed to have an ascertainable value, receipt of these rights would be taxable probably only to those eligible subscribers who exercise the subscription rights, either as a capital gain or ordinary income, in an amount equal to such value, and First PacTrust Bancorp, Inc. and Pacific Trust Bank could recognize gain on any distribution. Eligible subscribers are encouraged to consult with their own tax advisor as to the tax consequences in the event that subscription rights are deemed to have an ascertainable value. Unlike private rulings, the letter of RP Financial is not binding on the IRS, and the IRS could disagree with conclusions reached in the letter. In the event of any disagreement, there can be no assurance that the IRS would not prevail in a judicial or administrative proceeding.

How We Determined Our Price and the Number of Shares to be Issued in the Stock Offering

The plan of conversion requires that the purchase price of the common stock must be based on the appraised pro forma market value of First PacTrust Bancorp, Inc. and Pacific Trust Bank, as determined on the basis of an independent valuation. Pacific Trust Bank has retained RP Financial a financial services

industry consultant firm with over 20 years of experience in valuing financial institutions for mutual to stock conversions, to make this valuation. Pacific Trust Bank has no prior relationship with RP Financial. For its services in making this appraisal, RP Financial's fees and out-of-pocket expenses are estimated to be \$37,500. Pacific Trust Bank has agreed to indemnify RP Financial and any employees of RP Financial who act for or on behalf of RP Financial in connection with the appraisal against any and all loss, cost, damage, claim, liability or expense of any kind, including claims under federal and state securities laws, arising out of any misstatement or untrue statement of a material fact or an omission to state a material fact in the information supplied by Pacific Trust Bank to RP Financial, unless RP Financial is determined to be negligent or otherwise at fault.

An appraisal has been made by RP Financial in reliance upon the information contained in this prospectus, including the financial statements. RP Financial also considered the following factors, among others:

- the present and projected operating results and financial condition of First PacTrust Bancorp, Inc. and Pacific Trust Bank, which were prepared by Pacific Trust Bank then adjusted by RP Financial to reflect the net proceeds of this offering and the economic and demographic conditions in Pacific Trust Bank's existing marketing areas as prepared by RP Financial;
- certain historical, financial and other information relating to Pacific Trust Bank, which were prepared by Pacific Trust Bank;
- ^ the impact of the conversion on Pacific Trust Bank's net worth and earnings potential as calculated by RP Financial; and
- the proposed dividend policy of First PacTrust Bancorp, Inc. and Pacific Trust Bank^.

[next page](#)

^The appraisal also incorporated an analysis of a peer group of publicly traded thrift institutions and thrift holding companies that RP Financial considered to be comparable to Pacific Trust Bank. The peer group analysis conducted by RP Financial included a total of five publicly-traded California thrift institutions and thrift holding companies with total assets of less than \$2 billion as well as six Washington and Oregon based thrift institutions and thrift holding companies with total assets of less than \$1 billion. RP Financial excluded a total of four institutions which otherwise met the foregoing criteria due to lack of comparability in other areas. The analysis of comparable publicly traded institutions included an evaluation of the average and median price-to-earnings and price-to-book value ratios indicated by the market prices of the of the peer companies. RP Financial applied the peer group's pricing ratios as adjusted for certain qualitative valuation factors to account for differences between Pacific Trust Bank and the peer group, to Pacific Trust Bank's pro forma earnings and book value to derive the estimated pro forma market value of Pacific Trust Bank.

In its review of the appraisal provided by RP Financial, the board of directors reviewed the methodologies and the appropriateness of the assumptions used by RP Financial in addition to the factors listed above, and the board of directors believes that these assumptions were reasonable.

On the basis of the foregoing, RP Financial has advised First PacTrust Bancorp, Inc. and Pacific Trust Bank that in its opinion, dated March 15, 2002, the estimated pro forma market value of the common stock, ranged from a minimum of \$26.4 million to a maximum of \$35.7 million with a midpoint of \$31.0 million. The board of directors of Pacific Trust Bank determined that the common stock should be sold at \$10.00 per share. Based on the estimated offering range and the purchase price, the number of shares of common stock that First PacTrust Bancorp, Inc. will issue will range from between 2,635,000 shares and 3,565,000 shares, with a midpoint of 3,100,000 shares. The estimated offering range may be amended with the approval of the Office of Thrift Supervision ^ or if necessitated by subsequent developments in the financial condition of First PacTrust Bancorp, Inc. and Pacific Trust Bank or market conditions generally. In the event the estimated offering range is updated to amend the value of the common stock below \$26.4 million or above \$41.0 million, which is the maximum of the estimated offering range, as adjusted by 15%, a new appraisal will be filed with the SEC.

Based upon current market and financial conditions and recent practices and policies of the Office of Thrift Supervision, in the event First PacTrust Bancorp, Inc. receives orders for common stock in excess of \$35.7 million (the maximum of the estimated offering range) and up to \$41.0 million (the maximum of the estimated offering range, as adjusted by 15%), First PacTrust Bancorp, Inc. may be required by the Office of Thrift Supervision to accept all such orders. No assurances, however, can be made that First PacTrust Bancorp, Inc. will receive orders for common stock in excess of the maximum of the estimated offering range or that, if such orders are received, that all such orders will be accepted because First PacTrust Bancorp, Inc.'s final valuation and number of shares to be issued are subject to the receipt of an updated appraisal from RP Financial which reflects such an increase in the valuation and the approval of such increase by the Office of Thrift Supervision. In addition, an increase in the number of shares above 3,565,000 shares, will first be used, if necessary, to fill the order of the employee stock ownership plan. There is no obligation or understanding on the part of management to take and/or pay for any shares in order to complete the conversion.

[next page](#)

The following table presents a summary of selected pricing ratios for the peer group companies and the resulting pricing ratios for First PacTrust Bancorp, Inc. reflecting the pro forma impact of the conversion offering. Compared to the median pricing ratios of the peer group, First PacTrust Bancorp's pro forma pricing ratios at the midpoint of the offering range indicated a premium of 16.7% on a price-to-earnings basis, a discount of 47.2% on a price-to-book basis and a discount of 47.9% on a price-to-tangible book value basis. The estimated appraised value and the resulting discounts took into consideration the potential financial impact of the reorganization.

	Pro Forma Price to Earnings Multiple	Pro Forma Price to Book Value Ratio	Pro Forma Price to Tangible Book Value
<i>First PacTrust Bancorp, Inc.</i>			
15% above maximum	19.03x	64.51%	64.51%
Maximum	16.61	60.51	60.51

Midpoint	14.50	56.48	56.48
Minimum	12.37	51.81	51.81

*All Fully-Converted Thrifts Publicly
Traded on the NYSE, NASDAQ & AMEX
as of March 15, 2002:*

Averages	15.07x	124.99%	131.90%
Medians	13.71	111.72	118.47

*Valuation of Peer Group Institutions
as of March 15, 2002:*

Averages	12.52x	109.00%	110.61%
Medians	12.00	106.93	108.47

RP Financial's valuation is not intended, and must not be construed, as a recommendation of any kind as to the advisability of purchasing these shares. RP Financial did not independently verify the consolidated financial statements and other information provided by Pacific Trust Bank, nor did RP Financial value independently the assets or liabilities of Pacific Trust Bank. The valuation considers Pacific Trust Bank as a going concern and should not be considered as an indication of the liquidation value of Pacific Trust Bank. Moreover, because this valuation is necessarily based upon estimates and projections of a number of matters, all of which are subject to change from time to time, no assurance can be given that persons purchasing common stock in the offerings will thereafter be able to sell such shares at prices at or above the purchase price or in the range of the valuation described above.

Prior to completion of the conversion, the maximum of the estimated offering range may be increased up to 15% and the number of shares of common stock may be increased to 4,099,750 shares to reflect changes in market and financial conditions or to fill the order of the employee stock ownership plan, without the resolicitation of subscribers. See "- Limitations on Stock Purchases" as to the method of distribution and allocation of additional shares that may be issued in the event of an increase in the estimated offering range to fill unfilled orders in the subscription offering.

41

[next page](#)

No sale of shares of common stock in the conversion may be completed unless prior to such completion RP Financial confirms that nothing of a material nature has occurred which, taking into account all relevant factors, would cause it to conclude that the aggregate value of the common stock to be issued is materially incompatible with the estimate of the aggregate consolidated pro forma market value of First PacTrust Bancorp, Inc. and Pacific Trust Bank. If this confirmation is not received, First PacTrust Bancorp, Inc. may cancel the conversion, extend the offering period and establish a new estimated offering range and/or estimated price range, extend, reopen or hold a new offering or take any other action the Office of Thrift Supervision may permit.

Depending upon market or financial conditions following the start of the subscription offering, the total number of shares of common stock may be increased or decreased without a resolicitation of subscribers, provided that the product of the total number of shares times the purchase price is not below the minimum or more than 15% above the maximum of the estimated offering range. In the event market or financial conditions change so as to cause the aggregate purchase price of the shares to be below the minimum of the estimated offering range or more than 15% above the maximum of such range, purchasers will be resolicited and be permitted to continue their orders, in which case they will need to reconfirm their subscriptions prior to the expiration of the resolicitation offering or their subscription funds will be promptly refunded with interest at Pacific Trust Bank's passbook rate of interest, or be permitted to modify or rescind their subscriptions. Any change in the estimated offering range must be approved by the Office of Thrift Supervision.

An increase in the number of shares of common stock as a result of an increase in the estimated pro forma market value would decrease both a subscriber's ownership interest and First PacTrust Bancorp, Inc.'s pro forma net income and stockholders' equity on a per share basis while increasing pro forma net income and stockholders' equity on an aggregate basis. A decrease in the number of shares of common stock would increase both a subscriber's ownership interest and First PacTrust Bancorp, Inc.'s pro forma net income and stockholders' equity on a per share basis while decreasing pro forma net income and stockholders' equity on an aggregate basis. See "Risk Factors - We intend to grant stock options and restricted stock to the board and management following the conversion which could reduce your ownership interest" and "Pro Forma Data."

Copies of the appraisal report of RP Financial, including any amendments, and the detailed report of the appraiser setting forth the method and assumptions for the appraisal are available for inspection at the main office of Pacific Trust Bank and the other locations specified under "Additional Information."

Subscription Offering and Subscription Rights

Under the plan of conversion, rights to subscribe for the purchase of common stock have been granted to the following persons in the following order of descending priority:

- depositors of Pacific Trust Bank with account balances of at least \$50.00 as of the close of business on December 31, 1999 ("Eligible Account Holders"),
- tax-qualified employee plans, ("Tax-Qualified Employee Plans"),

42

[next page](#)

- depositors of Pacific Trust Bank, other than directors and officers of Pacific Trust Bank, with account balances of at least \$50.00 as of the close of business on March 31, 2002 ("Supplemental Eligible Account Holders"),

- Depositors of Pacific Trust Bank as of the close of business on _____, other than Eligible Account Holders or Supplemental Eligible Account Holders ("Other Members") and
- Directors, Officers and Employees of Pacific Trust Bank.

All subscriptions received will be subject to the availability of common stock after satisfaction of all subscriptions of all persons having prior rights in the subscription offering and to the maximum and minimum purchase limitations set forth in the plan of conversion and as described below under "- Limitations on Stock Purchases."

Preference Category No.1: Eligible Account Holders. Each Eligible Account Holder shall receive, without payment, first priority, nontransferable subscription rights to subscribe for shares of common stock in an amount equal to the greater of:

- (1) \$500,000 or 50,000 shares of common stock;
- (2) one-tenth of one percent of the total offering of shares of common stock; or
- (3) 15 times the product (rounded down to the next whole number) obtained by multiplying the total number of shares of common stock to be issued by a fraction, of which the numerator is the amount of the qualifying deposit of the Eligible Account Holder and the denominator is the total amount of qualifying deposits of all Eligible Account Holders in Pacific Trust Bank in each case as of the close of business on December 31, 1999 (the "Eligibility Record Date"), subject to the overall purchase limitations.

See "- Limitations on Stock Purchases."

If there are not sufficient shares available to satisfy all subscriptions, shares first will be allocated among subscribing Eligible Account Holders so as to permit each such Eligible Account Holder, to the extent possible, to purchase a number of shares sufficient to make his total allocation equal to the lesser of the number of shares subscribed for or 100 shares. Thereafter, any shares remaining will be allocated among the subscribing Eligible Account Holders whose subscriptions remain unfilled pro rata in the proportion that the amounts of their respective qualifying deposits bear to the total amount of qualifying deposits of all subscribing Eligible Account Holders whose subscriptions remain unfilled. For example, if an Eligible Account Holder with an unfilled subscription has qualifying deposits totaling \$100, and the total amount of qualifying deposits for Eligible Account Holders with unfilled subscriptions was \$1,000, then the number of shares that may be allocated to fill this Eligible Account Holder's subscription would be 10% of the shares remaining available, up to the amount subscribed for. Subscription Rights of Eligible Account Holders will be subordinated to the priority rights of Tax-Qualified Employee Plans to purchase shares in excess of the maximum of the estimated offering range.

43

[next page](#)

To ensure proper allocation of stock, each Eligible Account Holder must list on his subscription order form all accounts in which he has an ownership interest. Failure to list an account could result in fewer shares being allocated than if all accounts had been disclosed. The subscription rights of Eligible Account Holders who are also directors or officers of Pacific Trust Bank or their associates will be subordinated to the subscription rights of other Eligible Account Holders to the extent attributable to increased deposits in the year preceding December 31, 1999.

Preference Category No. 2: Tax-Qualified Employee Plans. Each Tax-Qualified Employee Plan, including the employee stock ownership plan shall be entitled to receive, without payment therefor, second priority, nontransferable subscription rights to purchase up to 10% of the common stock, provided that individually or in the aggregate such plans (other than that portion of such plans which is self-directed) shall not purchase more than 10% of the shares of common stock, including any increase in the number of shares of common stock after the date hereof as a result of an increase of up to 15% in the maximum of the estimated offering range. The employee stock ownership plan intends to purchase 8.0% of the shares of common stock issued in the conversion, or 210,800 shares and 285,200 shares based on the minimum and maximum of the estimated offering range, respectively. Subscriptions by any of the Tax-Qualified Employee Plans will not be aggregated with shares of common stock purchased directly by or which are otherwise attributable to any other participants in the subscription and direct community offerings, including subscriptions of any of Pacific Trust Bank's directors, officers, employees or associates thereof. Subscription rights received pursuant to this category shall be subordinated to all rights received by Eligible Account Holders to purchase shares pursuant to category No.1; provided, however, that notwithstanding any other provision of the plan of conversion to the contrary, the Tax-Qualified Employee Plans shall have a first priority subscription right to the extent that the total number of shares of common stock sold in the conversion exceeds the maximum of the estimated offering. In the event that the total number of shares offered in the conversion is increased to an amount greater than the number of shares representing the maximum of the estimated offering range, each Tax-Qualified Employee Plan will have a priority right to purchase any such shares exceeding the maximum of the estimated offering range up to an aggregate of 10% of the common stock sold in the conversion. See "Management - Benefits -- Employee Stock Ownership Plan."

Preference Category No. 3: Supplemental Eligible Account Holders. To the extent that there are sufficient shares remaining after satisfaction of subscriptions by Eligible Account Holders and the Tax-Qualified Employee Plans, each Supplemental Eligible Account Holder shall be entitled to receive, without payment therefor, third priority, nontransferable subscription rights to subscribe for shares of common stock in an amount equal to the greater of:

- (1) 500,000 or 50,000 shares of common stock;
- (2) one-tenth of one percent of the total offering of shares of common stock; or

44

[next page](#)

- (3) 15 times the product (rounded down to the next whole number) obtained by multiplying the total number of shares of common stock to be issued by a fraction, of which the numerator is the amount of the qualifying deposit of the Supplemental Eligible Account Holder and the denominator of which is

the total amount of qualifying deposits of all Supplemental Eligible Account Holders in Pacific Trust Bank in each case on the close of business on March 31, 2001 (the "Supplemental Eligibility Record Date"), subject to the overall purchase limitations.

See "- Limitations on Stock Purchases."

If there are not sufficient shares available to satisfy all subscriptions of all Supplemental Eligible Account Holders, available shares first will be allocated among subscribing Supplemental Eligible Account Holders so as to permit each such Supplemental Eligible Account Holder, to the extent possible, to purchase a number of shares sufficient to make his total allocation (including the number of shares, if any, allocated in accordance with Category No.1) equal to the lesser of the number of shares subscribed for or 100 shares. Thereafter, any shares remaining available will be allocated among the Supplemental Eligible Account Holders whose subscriptions remain unfilled pro rata in the proportion that the amounts of their respective qualifying deposits bear to the total amount of qualifying deposits of all subscribing Supplemental Eligible Account Holders whose subscriptions remain unfilled.

Preference Category No. 4: Other Members. To the extent that there are sufficient shares remaining after satisfaction of subscriptions by Eligible Account Holders, the Tax-Qualified Employee Plans and Supplemental Eligible Account Holders, each Other Member shall receive, without payment therefor, fourth priority, nontransferable subscription rights to subscribe for shares of First PacTrust Bancorp, Inc. common stock, up to the greater of \$500,000 or 50,000 shares of common stock or one-tenth of one percent of the total offering of shares of common stock in the offerings, subject to the overall purchase limitations. See "- Limitations on Stock Purchases."

In the event the Other Members subscribe for a number of shares which, when added to the shares subscribed for by Eligible Account Holders, the Tax-Qualified Employee Plans and Supplemental Eligible Account Holders, is in excess of the total number of shares of common stock offered in the conversion, available shares will be allocated among the subscribing Other Members pro rata in the same proportion that his number of votes on the close of business on _____, 2002, the date for determining voting members entitled to vote at the special meeting, which we call the Voting Record Date, bears to the total number of votes on the Voting Record Date of all subscribing Other Members on such date. Such number of votes shall be determined based on Pacific Trust Bank's mutual charter and bylaws in effect on the date of approval by members of the plan of conversion.

45

[next page](#)

Preference Category No. 5: Directors, officers and employees. To the extent that there are sufficient shares remaining after satisfaction of all subscriptions by Eligible Account Holders, the Tax-Qualified Employee Plans, Supplemental Eligible Account Holders and Other Members, then directors, officers and employees of Pacific Trust Bank as of the date of the commencement of the subscription offering shall be entitled to receive, without payment, fifth priority, nontransferable subscription rights to purchase in this category an aggregate of up to 19% of the common stock being offered. The maximum amount of shares which may be purchased under this category by any person is \$500,000 of common stock. The ability of directors, officers and employees to purchase common stock under this category is in addition to rights which are otherwise available to them under the plan of conversion as they may fall within higher priority categories, and the plan of conversion generally allows such persons to purchase in the aggregate up to 29% of common stock sold in the offerings. See "- Limitations on Stock Purchases."

In the event of an oversubscription in this category, the shares available shall be allocated pro rata among all of the subscribing directors, officers and employees in this category.

Expiration Date for the Subscription Offering. The subscription offering will expire at 12:00 Noon, Chula Vista, California time, on _____, 2002 (the "Subscription Expiration Date"), unless extended for up to 45 days or for such additional periods by First PacTrust Bancorp, Inc. and Pacific Trust Bank as may be approved by the Office of Thrift Supervision. The subscription offering may not be extended beyond _____, 2004. Subscription rights which have not been exercised prior to the Subscription Expiration Date (unless extended) will become void.

First PacTrust Bancorp, Inc. and Pacific Trust Bank will not execute orders until at least the minimum number of shares of common stock, 2,635,000 shares, have been subscribed for or otherwise sold. If all shares have not been subscribed for or sold within 45 days after the Subscription Expiration Date, unless this period is extended with the consent of the Office of Thrift Supervision, all funds delivered to Pacific Trust Bank pursuant to the subscription offering will be returned promptly to the subscribers with interest and all withdrawal authorizations will be canceled. If an extension beyond the 45-day period following the Subscription Expiration Date is granted, First PacTrust Bancorp, Inc. and Pacific Trust Bank will notify subscribers of the extension of time and of any rights of subscribers to modify or rescind their subscriptions.

Direct Community Offering

To the extent that shares remain available for purchase after satisfaction of all subscriptions of Eligible Account Holders, the Tax-Qualified Employee Plans, Supplemental Eligible Account Holders, Other Members and directors, officers and employees of Pacific Trust Bank, we anticipate we will offer shares pursuant to the plan of conversion to members of the general public who receive a prospectus, with a preference given to natural persons residing in San Diego and Riverside Counties, California. These natural persons are referred to as preferred subscribers. Persons, together with an associate or group of persons acting in concert with such persons, may not subscribe for or purchase more than \$500,000 of common stock in the direct community offering, if any. First PacTrust Bancorp, Inc. and Pacific Trust Bank may limit total subscriptions in the direct community offering so as to assure that the number of shares available for the public offering may be up to a specified percentage of the number of shares of common stock. Finally, First PacTrust Bancorp, Inc. and Pacific Trust Bank may reserve shares offered in the direct community offering for sales to institutional investors. The opportunity to subscribe for shares of common stock in any direct community offering will be subject to the right of First PacTrust Bancorp, Inc. and Pacific Trust Bank, in their sole discretion, to accept or reject any such orders in whole or in part from any person either at the time of receipt of an order or as soon as practicable following the Subscription Expiration Date. The direct community offering, if any, shall commence concurrently with, during or promptly after the subscription offering and shall not be for more than 45 days after the end of the subscription offering.

46

[next page](#)

In the event of an oversubscription for shares in the direct community offering, shares may be allocated, to the extent shares remain available, first to each preferred subscriber whose order is accepted by First PacTrust Bancorp, Inc. Thereafter, shares may be allocated to cover the orders of any other person subscribing for shares in the direct community offering so that each such person subscribing for shares may receive 1,000 shares, if available, and thereafter on a pro rata basis to such person based on the amount of their respective subscriptions.

Public Offering

As a final step in the conversion, the plan of conversion provides that, if feasible, all shares of common stock not purchased in the subscription offering and direct community offerings may be offered for sale to selected members of the general public in a public offering through the underwriter. We call this the public offering. It is expected that the public offering will commence as soon as practicable after termination of the subscription offering and the direct community offering, if any. First PacTrust Bancorp, Inc. and Pacific Trust Bank, in their sole discretion, have the right to reject orders in whole or in part received in the public offering. Neither Keefe, Bruyette & Woods, Inc. nor any registered broker-dealer shall have any obligation to take or purchase any shares of common stock in the public offering; however, Keefe, Bruyette & Woods, Inc. has agreed to use its best efforts in the sale of shares in the public offering.

The price at which common stock is sold in the public offering will be the same price at which shares are offered and sold in the subscription offering and direct community offering. No person, by himself or herself, or with an Associate or group of persons acting in concert, may purchase more than \$500,000 of common stock in the public offering, subject to the maximum purchase limitations. See "- Limitations on Stock Purchases."

Keefe, Bruyette & Woods, Inc. may enter into agreements with broker-dealers to assist in the sale of the shares in the public offering, although no such agreements exist as of the date of this prospectus. No orders may be placed or filled by or for a selected dealer during the subscription offering. After the close of the subscription offering, Keefe, Bruyette & Woods, Inc. will instruct selected dealers as to the number of shares to be allocated to each selected dealer. Only after the close of the subscription offering and upon allocation of shares to selected dealers may selected dealers take orders from their customers. During the subscription offering and direct community offering, selected dealers may only solicit indications of interest from their customers to place orders with First PacTrust Bancorp, Inc. as of a certain order date for the purchase of shares of First PacTrust Bancorp, Inc. common stock. When, and if, Keefe, Bruyette & Woods, Inc. and Pacific Trust Bank believe that enough indications of interest and orders have not been received in the subscription offering and direct community offering to consummate the conversion, Keefe, Bruyette & Woods, Inc. will request, as of the order date, selected dealers to submit orders to purchase shares for which they have previously received indications of interest from their customers. Selected dealers will send confirmations of the orders to such customers on the next business day after the order date. Selected dealers will debit the accounts of their customers on the settlement date, which date will be three business days from the order date. Customers who authorize selected dealers to debit their brokerage accounts are required to have the funds for payment in their account on but not before the settlement date. On the settlement date, selected dealers will deposit funds to the account established by Pacific Trust Bank for each selected dealer. Each customer's funds forwarded to Pacific Trust Bank, along with all other accounts held in the same title, will be insured by the FDIC up to \$100,000 in accordance with applicable FDIC regulations. After payment has been received by Pacific Trust Bank from selected dealers, funds will earn interest at Pacific Trust Bank's passbook rate until the completion or termination of the conversion. Funds will be promptly returned, with interest, in the event the conversion is not consummated as described above.

47

[next page](#)

The public offering will be completed within 90 days after the termination of the subscription offering, unless extended by Pacific Trust Bank with the approval of the Office of Thrift Supervision. See "- How We Determined Our Price and the Number of Shares to be Issued in the Stock Offering" above for a discussion of rights of subscribers, if any, in the event an extension is granted.

Persons Who are Not Permitted to Participate in the Stock Offering

Pacific Trust Bank will make reasonable efforts to comply with the securities laws of all states in the United States in which persons entitled to subscribe for stock pursuant to the plan of conversion reside. However, Pacific Trust Bank is not required to offer stock in the subscription offering to any person who resides in a foreign country or resides in a state of the United States with respect to which:

- the number of persons otherwise eligible to subscribe for shares under the plan of conversion who reside in such jurisdiction is small;
- the granting of subscription rights or the offer or sale of shares of common stock to such persons would require any of First PacTrust Bancorp, Inc. and Pacific Trust Bank or their officers, directors or employees, under the laws of such jurisdiction, to register as a broker, dealer, salesman or selling agent or to register or otherwise qualify its securities for sale in such jurisdiction or to qualify as a foreign corporation or file a consent to service of process in such jurisdiction; or
- such registration, qualification or filing in the judgment of Pacific Trust Bank would be impracticable or unduly burdensome for reasons of cost or otherwise.

Where the number of persons eligible to subscribe for shares in one state is small, Pacific Trust Bank will base its decision as to whether or not to offer the common stock in that state on a number of factors, including but not limited to the size of accounts held by account holders in the state, the cost of registering or qualifying the shares or the need to register Pacific Trust Bank, its officers, directors or employees as brokers, dealers or salesmen.

48

[next page](#)

Limitations on Stock Purchases

The plan of conversion includes the following limitations on the number of shares of First PacTrust Bancorp, Inc. common stock which may be purchased in the conversion:

- (1) No fewer than 25 shares of common stock may be purchased, to the extent shares are available;

- (2) Each Eligible Account Holder may subscribe for and purchase in the subscription offering up to the greater of:
- (a) \$500,000 or 50,000 shares of common stock;
 - (b) one-tenth of one percent of the total offering of shares of common stock; or
 - (c) 15 times the product (rounded down to the next whole number) obtained by multiplying the total number of shares of common stock to be issued by a fraction, of which the numerator is the amount of the qualifying deposit of the Eligible Account Holder and the denominator is the total amount of qualifying deposits of all Eligible Account Holders in Pacific Trust Bank in each case as of the close of business on the Eligibility Record Date, subject to the overall limitation in clause (7) below;
- (3) The Tax-Qualified Employee Plans, including an employee stock ownership plan, may purchase in the aggregate up to 10% of the shares of common stock issued in the conversion, and including any additional shares issued in the event of an increase in the estimated offering range; although at this time the employee stock ownership plan intends to purchase only 8.0% of such shares;
- (4) Each Supplemental Eligible Account Holder may subscribe for and purchase in the subscription offering up to the greater of:
- (a) \$500,000 or 50,000 shares of common stock;
 - (b) one-tenth of one percent of the total offering of shares of common stock; or
 - (c) 15 times the product (rounded down to the next whole number) obtained by multiplying the total number of shares of common stock to be issued by a fraction, of which the numerator is the amount of the qualifying deposit of the Supplemental Eligible Account Holder and the denominator is the total amount of qualifying deposits of all Supplemental Eligible Account Holders in Pacific Trust Bank in each case as of the close of business on the Supplemental Eligibility Record Date, subject to the overall limitation in clause (7) below;

49

[next page](#)

- (5) Each Other Member may subscribe for and purchase in the subscription offering up to the greater of \$500,000 or 50,000 shares of common stock or one-tenth of one percent of the total offering of shares of common stock, subject to the overall limitation in clause (7) below;
- (6) Persons purchasing shares of common stock in the direct community offering or public offering may purchase in the direct community offering or public offering up to \$200,000 or 20,000 shares of common stock, subject to the overall limitation in clause (7) below;
- (7) Except for the Tax-Qualified Employee Plans, and the Eligible Account Holders and Supplemental Eligible Account Holders whose subscription rights are based upon the amount of their deposits, as a result of (2)(c) and (4)(c) above the maximum number of shares of First PacTrust Bancorp, Inc. common stock subscribed for or purchased in all categories of the offerings by any person, together with associates of and groups of persons acting in concert with such persons, shall not exceed \$500,000 or 50,000 shares of common stock; and
- (8) No more than 19% of the total number of shares offered for sale in the subscription offering may be purchased by directors, officers and employees of Pacific Trust Bank in the fifth priority category in the subscription offering. No more than 29% of the total number of shares offered for sale in the conversion may be purchased by directors and officers of Pacific Trust Bank and their associates in the aggregate, excluding purchases by the Tax-Qualified Employee Plans.

Subject to any required regulatory approval and the requirements of applicable laws and regulations, but without further approval of the members of Pacific Trust Bank, the boards of directors of First PacTrust Bancorp, Inc. and Pacific Trust Bank may, in their sole discretion, increase the individual amount permitted to be subscribed for to a maximum of 9.99% of the number of shares sold in the conversion, provided that orders for shares exceeding 5% of the shares being offered in the conversion shall not exceed, in the aggregate, 10% of the shares being offered in the conversion. Requests to purchase additional shares of common stock will be allocated by the boards of directors on a pro rata basis giving priority in accordance with the preference categories set forth in this prospectus.

The term "associate" when used to indicate a relationship with any person means:

- any corporation or organization (other than Pacific Trust Bank, First PacTrust Bancorp, Inc., or a majority-owned subsidiary of any of them) of which such person is a director, officer or partner or is directly or indirectly the beneficial owner of 10% or more of any class of equity securities;
- any trust or other estate in which such person has a substantial beneficial interest or as to which such person serves as trustee or in a similar fiduciary capacity;

50

[next page](#)

- any relative or spouse of such person, or any relative of such spouse, who has the same home as such person or who is a director or officer of Pacific Trust Bank, First PacTrust Bancorp, Inc. or any subsidiary of Pacific Trust Bank or First PacTrust Bancorp, Inc. or any affiliate thereof; and
- any person acting in concert with any of the persons or entities specified above;

provided, however, that Tax-Qualified or Non-Tax Qualified Employee Plans shall not be deemed to be an associate of any director or officer of Pacific Trust Bank or First PacTrust Bancorp, Inc., to the extent provided in the plan of conversion. When used to refer to a person other than an officer or director of Pacific Trust Bank, the board of directors of Pacific Trust Bank or officers delegated by the board of directors in their sole discretion may determine the persons that are associates of other persons.

The term "acting in concert" is defined to mean knowing participation in a joint activity or interdependent conscious parallel action towards a common goal whether or not pursuant to an express agreement, or a combination or pooling of voting or other interests in the securities of an issuer for a common purpose pursuant to any contract, understanding, relationship, agreement or other arrangement, whether written or otherwise. A person or company which acts in concert with another person or company shall also be deemed to be acting in concert with any person or company who is also acting in concert with that other party, except that the Tax-Qualified Employee Plans will not be deemed to be acting in concert with their trustees or a person who serves in a similar capacity solely for the purpose of determining whether stock held by the trustee and stock held by each plan will be aggregated. The determination of whether a group is acting in concert shall be made solely by the board of directors of Pacific Trust Bank or officers delegated by such board of directors and may be based on any evidence upon which such board or delegatee chooses to rely.

Marketing Arrangements

First PacTrust Bancorp, Inc. and Pacific Trust Bank have retained Keefe, Bruyette & Woods, Inc. to consult with and to advise Pacific Trust Bank, and to assist First PacTrust Bancorp, Inc., on a best efforts basis, in the distribution of the shares of common stock in the subscription offering and direct community offering. The services that Keefe, Bruyette & Woods, Inc. will provide include, but are not limited to:

- training the employees of Pacific Trust Bank who will perform certain ministerial functions in the subscription offering and direct community offering regarding the mechanics and regulatory requirements of the stock offering process;
- managing the stock information center by assisting interested stock subscribers and by keeping records of all stock orders;
- preparing marketing materials; and

[next page](#)

- assisting in the solicitation of proxies from Pacific Trust Bank's members for use at the special meeting.

For its services, Keefe, Bruyette & Woods, Inc. will receive a management fee of \$25,000 and a success fee of 1.5% of the aggregate purchase price, less any shares of common stock sold to directors, officers, and employees and the Tax-Qualified Employee Plans. The success fee paid to Keefe, Bruyette & Woods, Inc. will be reduced by the amount of the management fee. In the event that selected dealers are used to assist in the sale of shares of First PacTrust Bancorp, Inc. common stock in the direct community offering, these dealers will be paid a fee of up to 5.5% of the total purchase price of the shares sold by such dealers. Pacific Trust Bank has agreed to indemnify Keefe, Bruyette & Woods, Inc. against certain claims or liabilities, including certain liabilities under the Securities Act of 1933, as amended, and will contribute to payments Keefe, Bruyette & Woods, Inc. may be required to make in connection with any such claims or liabilities.

Sales of shares of First PacTrust Bancorp, Inc. common stock will be made by registered representatives affiliated with Keefe, Bruyette & Woods, Inc. or by the broker-dealers managed by Keefe, Bruyette & Woods, Inc. Keefe, Bruyette & Woods, Inc. has undertaken that the shares of First PacTrust Bancorp, Inc. common stock will be sold in a manner which will ensure that the distribution standards of the Nasdaq Stock Market will be met. A stock information center will be established at Pacific Trust Bank's branch office located at 279 F Street in Chula Vista, California. First PacTrust Bancorp, Inc. will rely on Rule 3a4-1 of the Securities Exchange Act of 1934 and sales of First PacTrust Bancorp, Inc. common stock will be conducted within the requirements of this rule, so as to permit officers, directors and employees to participate in the sale of First PacTrust Bancorp, Inc. common stock in those states where the law permits. No officer, director or employee of First PacTrust Bancorp, Inc. or Pacific Trust Bank will be compensated directly or indirectly by the payment of commissions or other remuneration in connection with his or her participation in the sale of common stock.

Procedure for Purchasing Shares in the Subscription Offering

To ensure that each purchaser receives a prospectus at least 48 hours before the Subscription Expiration Date, unless extended, in accordance with Rule 15c2-8 of the Securities Exchange Act of 1934, no prospectus will be mailed any later than five days prior to such date or hand delivered any later than two days prior to such date. Execution of the order form will confirm receipt or delivery in accordance with Rule 15c2-8. Order forms will only be distributed with a prospectus.

[next page](#)

To purchase shares in the subscription offering, an executed order form with the required payment for each share subscribed for, or with appropriate authorization for withdrawal from a deposit account at Pacific Trust Bank, which may be given by completing the appropriate blanks in the order form, must be received by Pacific Trust Bank by 12:00 Noon, Chula Vista, California time, on the Subscription Expiration Date, unless extended. In addition, First PacTrust Bancorp, Inc. and Pacific Trust Bank will require a prospective purchaser to execute a certification in the form required by applicable Office of Thrift Supervision regulations in connection with any sale of common stock. Order forms which are not received by this time or are executed defectively or are received without full payment, or appropriate withdrawal instructions, are not required to be accepted. In addition, Pacific Trust Bank will not accept orders submitted on photocopied or facsimiled order forms nor order forms on which the certification form is not executed. Pacific Trust Bank has the right to waive or permit the correction of incomplete or improperly executed forms, but does not represent that it will do so. Once received, an executed order form may not be modified, amended or rescinded without the consent of Pacific Trust Bank, unless the conversion has not been completed within 45 days after the end of the subscription offering, or this period has been extended.

In order to ensure that Eligible Account Holders, Tax-Qualified Employee Plans, Supplemental Eligible Account Holders, Other Members and directors, officers and employees are properly identified as to their stock purchase priority, depositors as of the close of business on the Eligibility Record Date, December 31, 1999, or the Supplemental Eligibility Record Date, March 31, 2002, and depositors as of the close of business on the Voting Record Date, _____, 2002 must list all accounts on the stock order form giving all names in each account and the account numbers.

Payment for subscriptions may be made:

- by check or money order;
- by authorization of withdrawal from deposit accounts maintained with Pacific Trust Bank (including a certificate of deposit); or
- in cash, if delivered in person at any full-service banking office of Pacific Trust Bank, although we request that you exchange cash for a check with any of our tellers.

No wire transfers will be accepted. Interest will be paid on payments made by cash, check or money order at our then-current passbook rate from the date payment is received until completion of the conversion. If payment is made by authorization of withdrawal from deposit accounts, the funds authorized to be withdrawn from a deposit account will continue to accrue interest at the contractual rate, but may not be used by the subscriber until all of First PacTrust Bancorp, Inc. common stock has been sold or the plan of conversion is terminated, whichever is earlier.

If a subscriber authorizes Pacific Trust Bank to withdraw the amount of the purchase price from his deposit account, Pacific Trust Bank will do so as of the effective date of the conversion. Pacific Trust Bank will waive any applicable penalties for early withdrawal from certificate accounts.

53

[next page](#)

In the event of an unfilled amount of any subscription order, Pacific Trust Bank will make an appropriate refund or cancel an appropriate portion of the related withdrawal authorization, after completion of the conversion. If for any reason the conversion is not consummated, purchasers will have refunded to them all payments made, with interest, and all withdrawal authorizations will be canceled in the case of subscription payments authorized from accounts at Pacific Trust Bank.

If any Tax-Qualified Employee Plans or Non-Tax-Qualified Employee Plans subscribe for shares during the subscription offering, these plans will not be required to pay for the shares subscribed for at the time they subscribe, but rather, may pay for shares of common stock subscribed for at the purchase price upon completion of the subscription offering and direct community offering, if all shares are sold, or upon completion of the public offering if shares remain to be sold in such offering. In the event that, after the completion of the subscription offering, the amount of shares to be issued is increased above the maximum of the estimated valuation range included in this prospectus, the Tax-Qualified and Non-Tax-Qualified Employee Plans will be entitled to increase their subscriptions by a percentage equal to the percentage increase in the amount of shares to be issued above the maximum of the estimated valuation range, provided that such subscription will continue to be subject to applicable purchase limits and stock allocation procedures.

Owners of self-directed IRAs may use the assets of such IRAs to purchase shares of First PacTrust Bancorp, Inc. common stock in the subscription offering and direct community offering. ERISA provisions and IRS regulations require that officers, directors and 10% stockholders who use self-directed IRA funds to purchase shares of common stock in the offerings make such purchases for the exclusive benefit of the IRAs. IRAs maintained at Pacific Trust Bank are not self-directed IRAs and any interested parties wishing to use these IRA funds for stock purchases may do so, but are advised to contact the stock information center as soon as possible at (____) ____-____ for additional information.

The records of Pacific Trust Bank will be deemed to control with respect to all matters related to the existence of subscription rights and/or one's ability to purchase shares of common stock in the subscription offering.

Restrictions on Transfer of Subscription Rights and Shares

Pursuant to the rules and regulations of the Office of Thrift Supervision, no person with subscription rights may transfer or enter into any agreement or understanding to transfer the legal or beneficial ownership of the subscription rights issued under the plan of conversion or the shares of common stock to be issued upon their exercise. Such rights may be exercised only by the person to whom they are granted and only for such person's account. Each person exercising such subscription rights will be required to certify that the person is purchasing shares solely for the person's own account and that such person has no agreement or understanding regarding the sale or transfer of such shares. Federal regulations also prohibit any person from offering or making an announcement of an offer or intent to make an offer to purchase such subscription rights or shares of common stock prior to the completion of the conversion.

Pacific Trust Bank will refer to the Office of Thrift Supervision any situations that it believes may involve a transfer of subscription rights and will not honor orders believed by it to involve the transfer of such rights.

54

[next page](#)

Delivery of Certificates

Certificates representing common stock issued in the conversion will be mailed by First PacTrust Bancorp, Inc.'s transfer agent to the persons entitled thereto at the addresses of such persons appearing on the stock order form as soon as practicable following completion of the conversion. Any certificates returned as undeliverable will be held by First PacTrust Bancorp, Inc. until claimed by persons legally entitled to them or otherwise disposed of in accordance with applicable law. Until certificates for common stock are available and delivered to subscribers, they may not be able to sell the shares of common stock for which they have subscribed, even though trading of the common stock may have commenced.

Required Approvals

Various approvals of the Office of Thrift Supervision are required in order to consummate the conversion. The Office of Thrift Supervision has approved the plan of conversion, subject to approval by Pacific Trust Bank's members and other standard conditions. First PacTrust Bancorp, Inc.'s holding company application has been approved.

First PacTrust Bancorp, Inc. is required to make certain filings with state securities regulatory authorities in connection with the issuance of First PacTrust Bancorp, Inc. common stock in the offerings.

Judicial Review

Any person hurt by a final action of the Office of Thrift Supervision which approves, with or without conditions, or disapproves a plan of conversion may obtain review of this action by filing in the court of appeals of the United States for the circuit in which the principal office or residence of the person is located, or in the United States Court of Appeals for the District of Columbia, a written petition asking that the final action of the Office of Thrift Supervision be modified, terminated or set aside. This petition must be filed within 30 days after the publication of notice of final action in the Federal Register, or 30 days after the mailing by the applicant of the notice to members as provided for in 12 C.F.R. § 563b.6(c), whichever is later. The further procedure for review is as follows: A copy of the petition is promptly transmitted to the Office of Thrift Supervision by the clerk of the court and then the Office of Thrift Supervision files in the court the record in the proceeding, as provided in Section 2112 of Title 28 of the United States Code. Upon the filing of the petition, the court has jurisdiction, which upon the filing of the record is exclusive, to affirm, modify, terminate, or set aside in whole or in part, the final action of the Office of Thrift Supervision. Review of these proceedings is as provided in Chapter 7 of Title 5 of the United States Code. The judgment and decree of the court is final, except that they are subject to review by the Supreme Court upon certiorari as provided in Section 1254 of Title 28 of the United States Code.

55

[next page](#)

Restrictions on Purchase or Transfer of Shares After the Conversion

All shares of common stock purchased in connection with the conversion by a director or an executive officer of First PacTrust Bancorp, Inc. and Pacific Trust Bank will be subject to a restriction that the shares not be sold for a period of one year following the conversion except in the event of the death of the director or officer or pursuant to a merger or similar transaction approved by the Office of Thrift Supervision. Each certificate for restricted shares will bear a legend giving notice of this restriction on transfer, and instructions will be issued to the effect that any transfer within such time period of any certificate or record ownership of the shares other than as provided above is a violation of the restriction. Any shares of common stock issued at a later date within this one year period as a stock dividend, stock split or otherwise with respect to the restricted stock will be subject to the same restrictions.

Purchases of common stock of First PacTrust Bancorp, Inc. by directors, executive officers and their associates during the three-year period following completion of the conversion may be made only through a broker or dealer registered with the SEC, except with the prior written approval of the Office of Thrift Supervision. This restriction does not apply, however, to negotiated transactions involving more than 1% of First PacTrust Bancorp, Inc.'s outstanding common stock or to certain purchases of stock pursuant to an employee stock benefit plan.

Pursuant to Office of Thrift Supervision regulations, First PacTrust Bancorp, Inc. **^ may not, for a period of one year following completion of this offering, repurchase shares of the common stock except on a pro rata basis, pursuant to an offer approved by the Office of Thrift Supervision and made to all stockholders, or through open market purchases of up to five percent of the outstanding stock where extraordinary circumstances exist.**

56

[next page](#)

PROPOSED PURCHASES BY MANAGEMENT

The following table sets forth, for each of Pacific Trust Bank's directors and executive officers and for all of the directors and executive officers as a group, the proposed purchases of common stock, assuming sufficient shares are available to satisfy their subscriptions. The amounts include shares that may be purchased through individual retirement accounts and by associates.

Name	Amount	At the Minimum of the Estimated Offering Range		At the Maximum of Estimated Offering Range	
		Number of Shares	As a Percent of Shares Offered	Number of Shares	As a Percent of Shares Offered
Directors:					
Alvin L. Majors	\$500,000	50,000	1.90%	50,000	1.40%
Hans R. Ganz	500,000	50,000	1.90	50,000	1.40
Francis P. Burke	500,000	50,000	1.90	50,000	1.40
Kenneth W. Scholz	500,000	50,000	1.90	50,000	1.40
Donald M. Purdy	500,000	50,000	1.90	50,000	1.40
Donald A. Whitacre	500,000	50,000	1.90	50,000	1.40
Executive Officers:					
James P. Sheehy	175,000	17,500	0.66	17,500	0.50
Melanie M. Stewart	300,000	30,000	1.13	30,000	0.84

Gayle N. Bland	43,500	4,350	0.17	4,350	0.12
Rachel M. Carrillo	100,000	10,000	0.38	10,000	0.28
Regan J. Gallagher	75,000	7,500	0.28	7,500	0.21
Lisa R. [^] Goodwin	69,000	6,900	0.26	6,900	0.20
All directors and executive officers as a group (12 persons)	\$3,762,500	376,250	14.28%	376,250	10.55%

57

[next page](#)

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward Looking Statements

This prospectus contains certain "forward-looking statements" which may be identified by the use of words such as "believe," "expect," "anticipate," "should," "planned," "estimated," and "potential." Examples of forward-looking statements include, but are not limited to, estimates with respect to our financial condition, results of operations and business that are subject to various factors which could cause actual results to differ materially from these estimates and most other statements that are not historical in nature. These factors include, but are not limited to, general and local economic conditions, changes in interest rates, deposit flows, demand for mortgage, commercial and other loans, real estate values, competition, changes in accounting principles, policies, or guidelines, changes in legislation or regulation, and other economic, competitive, governmental, regulatory, and technological factors affecting our operations, pricing products and services.

General

Our results of operations depend primarily on our net interest income. Net interest income is the difference between the interest income we earn on our interest-earning assets, consisting primarily of loans, investment securities and interest-bearing deposits with other financial institutions, and the interest we pay on our interest-bearing liabilities, consisting primarily of savings accounts, time deposits and borrowings. Our results of operations are also affected by our provisions for loan losses, other income and other expense. Other income consists primarily of service charges on deposit accounts and insurance commissions. Other expense consists primarily of noninterest expense, including salaries and employee benefits, occupancy, equipment, data processing, ATM costs, and, when applicable, deposit insurance premiums. Our results of operations may also be affected significantly by general and local economic and competitive conditions, changes in market interest rates, governmental policies and actions of regulatory authorities.

Evolution of Business Strategy

Historically, we were a federal credit union, accepting deposits and making loans to members, the largest group of which were employees of the former Rohr, Inc., which was acquired by BF Goodrich in 1997. In January 2000, we converted to a federal mutual savings bank in order to better serve customers and the local community through the broader lending ability of a federal savings bank, and to expand our customer base beyond the limited field of membership permitted for credit unions. As a federal savings bank, we have expanded authority in structuring residential mortgage and consumer loans, and the ability to make commercial loans.

We have utilized this expanded lending authority to significantly increase our one- to four-family residential lending. Most of these loans are originated through mortgage brokers and bankers, underwritten and closed by us, and serviced by a third-party contractor. We believe utilizing the expertise and contacts of our brokerage relationships is currently the most effective method of originating loans in our market areas. We also believe this process is the most efficient use of our personnel. As we obtain more experience and grow our loan portfolio, we intend to consider servicing the loans ourselves, if we believe that can be done profitably.

58

[next page](#)

In order to differentiate ourselves from our competitors, we stress customer service and offer flexible financing plans. As a result, we tend to make loans which, primarily due to the large loan amounts, are not readily saleable to Freddie Mac and Fannie Mae. These loans are, however, generally saleable to private investors, although we tend to be a portfolio lender. Over the last several years, we have also become a niche lender for quality borrowers of multi-family residences in low to middle class areas in our market.

Our current business strategy is to operate as a well-capitalized, profitable, community-oriented savings bank dedicated to providing quality customer service. We intend to continue to be primarily a one- to four-family lender. Management has, however, determined to broaden the scope of our loan products and services to enhance profitability, consistent with safety and soundness. In this regard, we have determined to expand our multi-family and commercial real estate lending and business banking services. Subject to capital requirements and our ability to continue to grow in a reasonable and prudent manner, we may open additional branches as opportunities arise. There can be no assurances that we will successfully implement our strategy.

Asset and Liability Management and Market Risk

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

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

streams and interest rates, the timing of their maturities, and their sensitivity to actual or potential changes in market interest rates.

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

59

[next page](#)

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

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

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

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

The Office of Thrift Supervision provides Pacific Trust Bank with the information presented in the following tables. They present the change in Pacific Trust Bank's net portfolio value at December 31, 2001 and 2000, that would occur upon an immediate change in interest rates based on Office of Thrift Supervision assumptions, but without effect to any steps that management might take to counteract that change.

60

[next page](#)

December 31, 2001

Change in Interest Rates in Basis Points ("bp") (Rate Shock in Rates) ⁽¹⁾	Net Portfolio Value			Net Portfolio Value as % of PV of Assets	
	\$ Amount	\$ Change	% Change	NPV Ratio	Change
+300 bp	37,416	(5,933)	(14)%	11.80%	-151 bp
+200 bp	40,072	(3,277)	(8)%	12.50%	-81 bp
+100 bp	42,001	(1,348)	(3)%	12.99%	-32 bp
0 bp	43,349	---	---	13.31%	0 bp
-100 bp	43,792	443	1%	13.38%	+7 bp
-200 bp	n/m ⁽²⁾	n/m ⁽²⁾	n/m ⁽²⁾	n/m ⁽²⁾	n/m ⁽²⁾
-300 bp	n/m ⁽²⁾	n/m ⁽²⁾	n/m ⁽²⁾	n/m ⁽²⁾	n/m ⁽²⁾

December 31, 2000

Change in Interest Rates in Basis Points ("bp")	Net Portfolio Value			Net Portfolio Value as % of PV of Assets	
	\$ Amount	\$ Change	% Change	NPV Ratio	Change

(Rate Shock in Rates) ⁽¹⁾	\$ Amount	\$ Change	% Change	NPV Ratio	Change
+300 bp	24,761	(5,989)	(19)%	8.35%	-172 bp
+200 bp	27,074	(3,676)	(12)%	9.03%	-104 bp
+100 bp	28,892	(1,858)	(6)%	9.55%	-52 bp
0 bp	30,750	---	---	10.07%	0 bp
-100 bp	31,176	426	1%	10.16%	+9 bp
-200 bp	32,384	1,634	5%	10.48%	+41 bp
-300 bp	34,790	4,040	13%	11.14%	+107 bp

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

⁽²⁾ Not meaningful because some market rates would compute to a rate less than zero.

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

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

61

[next page](#)

Comparison of Financial Condition at December 31, 2001 and December 31, 2000

Assets. Our total assets increased by \$9.8 million, or 3.3%, to \$310.1 million at December 31, 2001 from \$300.3 million at December 31, 2000. The increase reflected growth in loans receivable and cash and cash equivalents, funded by an increase in deposits and decreases in securities available-for-sale. Loans increased by \$22.9 million, or 9.8%, to \$257.2 million at December 31, 2001 from \$234.3 million at December 31, 2000. Our increase in loans resulted from a higher volume of one- to four-family mortgage loan originations reflecting increased demand as borrowers sought to take advantage of lower market interest rates. Cash and cash equivalents increased \$10.3 million, or 133.8%, to \$18.0 million at December 31, 2001 from \$7.7 million at December 31, 2000 due to repayments of loans and collateralized mortgage obligations as well as other securities maturing during the period. These funds were invested in short-term assets in order to provide partial funding to satisfy Pacific Trust Bank's commitment to purchase \$20.0 million of residential real estate loans in January 2002. Securities available-for-sale decreased by \$27.2 million, or 66.5%, to \$13.7 million at December 31, 2001 from \$40.9 million at December 31, 2000. Securities available-for-sale decreased during this period due to principal repayments on collateralized mortgage obligations as well as securities maturing during the period. Servicing agent receivable increased by \$3.8 million, or 47.5% to \$11.7 million. We receive monthly remittances for loans serviced by others. The increased volume of these loans and increased repayments due to the low interest rate environment resulted in a larger receivable at year end.

Deposits. Total deposits increased by \$33.3 million, or 15.2%, to \$252.0 million at December 31, 2001 from \$218.7 million at December 31, 2000. The increase reflected growth in savings, money market accounts and certificates of deposit. Certificates of deposit increased \$20.4 million, or 19.9%, to \$123.0 million. Money market accounts and savings accounts increased by \$7.8 million and \$3.7 million, or 15.4% and 9.5%, respectively. The additional funding was used to pay down Federal Home Loan Bank advances and support loan growth. The increase in deposit accounts is primarily attributable to increased marketing efforts and the Bank's recognition program in conjunction with its conversion to a community bank. **Management believes that the diversification of our customer base and our marketing efforts will offset any effects resulting from the recently announced downsizing by Goodrich Aerostructures. Management further believes that the mix and cost of our deposits will not be impacted by such downsizing.**

Borrowings. Federal Home Loan Bank advances decreased \$25.8 million, or 48.0%, to \$28.0 million at December 31, 2001 from \$53.8 million at December 31, 2000. An increase in deposits and repayments on collateralized mortgage obligations reduced the need for Federal Home Loan Bank borrowings. Higher cost advances were repaid resulting in prepayment penalties, which is more fully discussed with interest expense below.

Equity. Equity at December 31, 2001 was \$28.7 million compared to \$26.5 million at December 31, 2000, an increase of \$2.2 million, or 8.3% as a result of \$2.1 million net earnings for the year ended 2001 combined with an increase in unrealized gain on securities available-for-sale from a loss of \$116,000 at December 31, 2000 to a gain of \$52,000 at December 31, 2001.

62

[next page](#)

Comparison of Financial Condition at December 31, 2000 and December 31, 1999

Assets. Our total assets increased by \$75.1 million, or 33.3%, to \$300.3 million at December 31, 2000 from \$225.2 million at December 31, 1999. The increase reflected growth in loans receivable and servicing agent receivable, funded by an increase in deposits and Federal Home Loan Bank advances and decreases in securities available-for-sale and cash and cash equivalents. Loans increased by \$88.2 million, or 60.4%, to \$234.3 million at December 31, 2000 from \$146.1 million at December 31, 1999. On January 1, 2000, we converted from a federal credit union to a federal mutual savings bank, and began utilizing third party brokers to originate loans, which allowed us to expand our lending efforts to the community at large. The servicing agent receivable increased by \$6.6

million to \$7.9 million as a result of increased volume of loans serviced by third parties and a sharp increase in prepayments at year end 2000. Cash and cash equivalents decreased \$5.5 million, or 41.5%, to \$7.7 million at December 31, 2000 from \$13.2 million at December 31, 1999. Securities available-for-sale decreased by \$15.0 million, or 26.9%, to \$40.9 million at December 31, 2000 from \$56.0 million at December 31, 1999. Securities decreased during this period primarily due to \$11.0 million in sales of securities available-for-sale and \$3.5 million in repayments on collateralized mortgage obligations. The decrease in securities and cash and cash equivalents was utilized to fund the significant volume of loan growth.

Deposits and Borrowings. Total deposits increased by \$17.8 million, or 8.9%, to \$218.2 million at December 31, 2000 from \$200.4 million at December 31, 1999. A majority of this growth was in money market accounts and certificates of deposit, which increased \$13.6 million and \$3.4 million, or 37.0% and 3.4%, during the year ended December 31, 2000, respectively. Pacific Trust Bank borrowed \$53.8 million in Federal Home Loan Bank advances during 2000 compared to none during 1999, to provide additional funding for new loan originations during the year.

Equity. Equity at December 31, 2000 was \$26.4 million compared to \$24.0 million at December 31, 1999, an increase of \$2.4 million, or 10.0% as a result of \$1.7 million in net earnings for the year ended 2000 combined with a \$681,000 improvement in unrealized after-tax losses on securities available-for-sale.

[next page](#)

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

The following table presents for the periods indicated the total dollar amount of interest income from average interest-earning assets and the resultant yields, as well as the interest expense on average interest-bearing liabilities, expressed both in dollars and rates. Also presented is the weighted average yield on interest-earning assets, rates paid on interest-bearing liabilities and the resultant spread at December 31, 2001. No tax equivalent adjustments were made. All average balances are monthly average balances. Non-accruing loans have been included in the table as loans carrying a zero yield.

	At December 31, 2001		2001		2000		1999		Average Yield/ Cost	
	Average Yield/ Cost	Average Balance	Interest	Average Yield/ Cost	Average Balance	Interest	Average Yield/ Cost	Average Balance		
(Dollars in Thousands)										
INTEREST-EARNING ASSETS										
Loans receivable ⁽¹⁾	7.27%	\$256,104	\$19,987	7.80%	\$192,766	\$15,316	7.95%	\$141,987	\$11,513	8.11%
Securities ⁽²⁾	5.81	21,306	1,378	6.47	47,814	2,992	6.26	48,405	3,219	6.65
Other interest-earning assets ⁽³⁾	4.91	8,871	457	5.15	6,052	388	6.41	27,639	1,223	4.42
Total interest-earning assets	7.14	286,281	21,822	7.62	246,632	18,696	7.58	218,031	15,955	7.32
Non-interest earning assets	---	22,466			15,496			13,106		
Total assets	7.14	\$308,747			\$262,128			\$231,137		
INTEREST-BEARING LIABILITIES										
NOW	0.75	\$ 24,526	255	1.04	\$ 23,679	345	1.46	\$ 23,547	301	1.28
Money market	1.80	54,072	1,781	3.29	45,650	2,110	4.62	37,205	1,329	3.57
Savings deposits	1.75	41,124	896	2.18	40,611	1,083	2.67	43,183	1,061	2.46
Certificates of deposit	4.23	115,858	6,001	5.18	99,998	5,589	5.59	100,120	4,953	4.95
FHLB advances	4.67	36,992	2,640	7.14	21,792	1,188	5.45	--	--	--
Total interest-bearing liabilities	3.06	272,572	11,573	4.25	231,730	10,315	4.45	204,055	7,644	3.75
Non-interest-bearing liabilities	---	8,226			4,357			3,397		
Total liabilities	3.06	280,798			236,087			207,452		
Equity		27,949			26,041			23,685		
Total liabilities and equity		\$308,747			\$262,128			\$231,137		
Net interest/spread	4.08		\$10,249	3.37%		\$ 8,381	3.13%		\$ 8,311	3.57%
Margin				3.58%			3.40%			3.81%
Ratio of interest-earning assets to interest-bearing liabilities		105.03%			106.43%			106.85%		

(1) Calculated net of deferred fees and loss reserves.

(2) Calculated based on amortized cost.

(3) Includes FHLB stock at cost and term deposits with other financial institutions.

(4) Net interest income dividend by interest-earning assets.

[next page](#)

Rate/Volume Analysis

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

	2001 Compared to 2000			2000 Compared to 1999		
	Total Change	Change Due To Volume	Change Due To Rate	Total Change	Change Due To Volume	Change Due To Rate
(In Thousands)						
INTEREST-EARNING ASSETS						
Loans receivable	\$4,671	\$4,948	\$ (277)	\$3,803	\$ 4,039	\$ (236)
Securities	(1,614)	(1,711)	97	(227)	(39)	(188)
Other interest-earning assets	69	156	(87)	(835)	(1,227)	392
Total interest-earning assets	\$3,126	\$3,393	\$ (267)	\$2,741	\$ 2,773	\$ (32)
INTEREST-BEARING LIABILITIES						
NOW	\$ (90)	\$ 12	\$ (102)	\$ 44	\$ 2	\$ 42
Money market	(329)	346	(675)	781	340	441
Savings deposits	(187)	14	(201)	22	(65)	87
Certificates of deposit	412	842	(430)	636	(6)	642
FHLB advances	1,452	1,006	446	1,188	1,188	--
Total interest-bearing liabilities	\$1,258	\$2,220	\$ (962)	\$2,671	\$ 1,459	\$ 1,212
Net interest/spread	\$1,868	\$1,173	\$ 695	\$ 70	\$ 1,314	\$(1,244)

[next page](#)

Comparison of Operating Results for the Years Ended December 31, 2001 and

December 31, 2000

General. Net income increased \$353,000, or 20.3%, to \$2.1 million for the year ended December 31, 2001 from \$1.7 million for the year ended December 31, 2000. The increase in net income resulted from an increase in net interest income and a decrease in the provision for loan losses, partially offset by an increase in noninterest expense and an increase in income tax expense.

Interest Income. Total interest income increased by \$3.1 million, or 16.6%, to \$21.8 million for the year ended December 31, 2001 from \$18.7 million for the year ended December 31, 2000. The primary factor for the increase in interest income was the \$63.3 million increase in the average balance of loans receivable from \$192.8 million for the year ended December 31, 2000 to \$256.1 million for the year ended December 31, 2001. The increase was the result of loan originations exceeding repayments due to strong demand, reflecting generally lower interest rates in 2001. The average yield on loans receivable decreased to 7.80% from 7.95%, reflecting decreased market rates of interest.

Interest income on securities decreased \$1.6 million, or 53.9%, to \$1.4 million for the year ended December 31, 2001. The decrease resulted from a \$26.5 million, or 55.4%, decrease in the average balance of securities, attributable primarily to the increased rate of repayment on collateralized mortgage obligations and the sale and maturity of securities. The average yield on the securities portfolio was 6.47% for the year ended December 31, 2001 compared to 6.26% for 2000.

Interest income from interest-bearing deposits increased \$69,000, or 17.8%, to \$457,000 for the year ended December 31, 2001 from \$388,000 for the year ended December 31, 2000. The increase resulted from an increase in the average balance to \$8.9 million from \$6.1 million, which was due to the short-term investment of funds received from principal repayments on loans and collateralized mortgage obligations and the liquidation of securities. The average yield on interest-bearing deposits decreased to 5.15% from 6.41%, reflecting lower market rates of interest in 2001.

Interest Expense. Total interest expense increased \$1.3 million, or 12.6%, to \$11.6 million for the year ended December 31, 2001 from \$10.3 million for the year ended December 31, 2000. The increase in interest expense resulted primarily from increases in Federal Home Loan Bank advances, partially offset by a decrease in interest expense on deposit accounts. Interest expense on Federal Home Loan Bank advances increased \$1.4 million, or 116.7%, to \$2.6 million for the year ended December 31, 2001 from \$1.2 million for the year ended December 31, 2000. The increase resulted from a \$15.2 million increase in the average balance of Federal Home Loan Bank advances, as well as a 169 basis point increase in the cost of Federal Home Loan Bank advances. Pacific Trust Bank repaid \$7.0 million of higher cost advances resulting in prepayment penalties of \$468,000 during 2001. This resulted in an immediate negative impact to the net interest margin, with the strategy to realign borrowing rates and terms to better match those of the assets being funded. Interest expense on deposits decreased \$194,000,

or 2.1%, to \$8.9 million for the year ended December 31, 2001 from \$9.1 million for 2000. The decrease resulted from a 56 basis point decrease in the average cost of deposits to 3.79% from 4.35%, reflecting generally lower market rates of interest in 2001.

66

[next page](#)

Net Interest Income. Net interest income increased by \$1.8 million, or 21.4%, to \$10.2 million for the year ended December 31, 2001 from \$8.4 million for 2000. The net interest rate spread and the net interest margin increased during the period, reflecting lower levels of rates paid on deposits and a change in asset mix due to increased loan demand, which was partially funded with proceeds from the sale of lower yielding securities. The net interest spread increased 24 basis points to 3.37% from 3.13% while the net interest margin increased 18 basis points to 3.58% from 3.40%.

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

In 2000, we recorded a provision for loan losses of \$444,000 to reflect a 59.5% increase in gross loans, including a 117.6% increase in residential real estate loans. This growth was achieved primarily through the use of independent loan originators that were utilized for the first time in 2000. Prior to 2000, as a credit union, our ability to expand our loan customer base was significantly restricted. Since we did not have our own related loss history to apply to these loans, we utilized peer group data adjusted for local economic conditions to establish our \$1.7 million loan loss allowance, resulting in the \$444,000 provision.

The provision for 2001 declined to \$68,000 to reflect a far more modest loan balance growth rate of 9.5%, as well as net charge-offs of \$25,000, resulting in a loan loss allowance balance of \$1.7 million at December 31, 2001.

This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available or as future events change. We used the same methodology and generally similar assumptions in assessing the allowance for both periods. The allowance for loan losses as a percentage of loans outstanding decreased to .67% at December 31, 2001 from .72% at December 31, 2000. **This decline was primarily the result of a shift in the Bank's loan portfolio from consumer loans, which have experienced a higher rate of loss for both the bank and peers to real estate loans, which have experienced a lower rate of loss. Consumer loans dropped from 13.5% of the loan portfolio at December 31, 2000 to 9.0% at December 31, 2001.** The level of the allowance is based on estimates and the ultimate losses may vary from the estimates.

67

[next page](#)

Management assesses the allowance for loan losses on a quarterly basis and makes provisions for loan losses as necessary in order to maintain the adequacy of the allowance. While management uses available information to recognize losses on loans, future loan loss provisions may be necessary based on changes in economic conditions. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the allowance for loan losses and may require us to recognize additional provisions based on their judgment of information available to them at the time of their examination. The allowance for loan losses as of December 31, 2001 is maintained at a level that represents management's best estimate of inherent losses in the loan portfolio, and such losses were both probable and reasonably estimable.

Noninterest Income. Noninterest income decreased \$56,000, or 5.1%, to \$1.0 million for the year ended December 31, 2001 from \$1.1 million for 2000, primarily as a result of decreases in loan servicing fees of \$84,000 and customer service fees on deposit accounts of \$20,000 partially offset by a \$70,000 reduction in losses on sales of securities available-for-sale.

Noninterest Expense. Noninterest expense increased \$623,000, or 8.9%, to \$7.6 million for the year ended December 31, 2001 from \$7.0 million for the year ended December 31, 2000. This increase was primarily the result of a \$309,000 increase in salaries and employee benefits, a \$275,000 increase in data processing, and a \$90,000 increase in advertising, partially offset by a \$158,000 reduction in stationary, supplies and postage expense.

Salaries and employee benefits represented 44.3% and 43.8% of total noninterest expense for the years ended December 31, 2001 and 2000, respectively. Total salaries and employee benefits increased \$309,000, or 10.0%, to \$3.4 million for the year ended December 31, 2001 from \$3.1 million for the same period in 2000. The increase is primarily due to normal salary increases, bonuses, and vacation accrual.

Data processing expense increased as a result of increased volume in both loans and deposits and as a result of \$175,000 of costs incurred related to a data conversion, which has since been canceled.

Advertising increased \$90,000 primarily as a result of Pacific Trust Bank's implementation of a recognition program to inform the community of its new status as a community bank

The decrease in stationary, supplies and postage is a result of increased expenses during 2000 when the credit union converted to the thrift charter. This resulted in Pacific Trust Bank purchasing new stationary and supplies to reflect the charter change.

Other noninterest expense increased \$99,000, or 13.6%, to \$829,000 for the year ended December 31, 2001 from \$730,000 during 2000. Several small individual items resulted in this increase including website development, customer check charges, regulatory fees and miscellaneous loan charges offset slightly by decreased expenses related to debit cards, record retention and director expense.

[next page](#)

Income Tax Expense. Income tax expense increased to \$1.5 million, or 41.9%, of income before income taxes for the year ended December 31, 2001 from \$300,000, or 14.7%, of income before income taxes for the year ended December 31, 2000. As a credit union, no income tax expense was recorded due to our not-for-profit status. Upon conversion to a thrift charter in January 2000, we recorded a tax benefit of \$456,000 as a result of a change in tax status and in accordance with Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes. Absent the tax benefit, our income tax expense would have been \$756,000 in 2000, for an effective tax rate of 37.0%.

Comparison of Operating Results for the Years Ended December 31, 2000 and December 31, 1999

General. Net income decreased \$1.1 million, or 38.0%, to \$1.7 million for the year ended December 31, 2000 from \$2.8 million for the year ended December 31, 1999. The decrease in net income resulted from an increase in interest expense, an increase in the provision for loan losses and an increase in noninterest expense, including income tax expense, partially offset by an increase in interest income.

Net income for the year ended December 31, 2000 includes an income tax benefit of \$456,000. As a result of the change in our tax status on January 1, 2000, we recorded a deferred tax asset in the amount of \$456,000. Without this income tax benefit our net income for the year ended December 31, 2000 would have been \$1.3 million. The net income for the year ended December 31, 1999 reflects no income tax expense due to our not-for-profit status as a credit union at that time. Had income tax expense been recorded at the combined federal and state statutory rate of 41.15% for the year ended December 31, 1999, net income would have been \$1.7 million.

Interest Income. Total interest income increased by \$2.7 million, or 17.2%, to \$18.7 million for the year ended December 31, 2000 from \$16.0 million for the year ended December 31, 1999. The increase in interest income resulted primarily from increases in interest on loans, partially offset by a decrease in other interest-earning assets.

Interest income from loans increased \$3.8 million, or 33.0%, to \$15.3 million for the year ended December 31, 2000 from \$11.5 million for the year ended December 31, 1999. The increase resulted from a \$50.8 million, or 35.8%, increase in the average balance of loans outstanding to \$192.8 million from \$142.0 million, as loan originations exceeded repayments due to strong demand and management's intention to grow the loan portfolio and to expand outside of the credit union membership. The average yield on loans receivable decreased to 7.95% from 8.11%.

Interest income on securities decreased by \$228,000, or 7.1%, to \$3.0 million for the year ended December 31, 2000 from \$3.2 million for the year ended December 31, 1999. The average yield on securities decreased to 6.26% from 6.65%, reflecting principal repayments on higher yielding collateralized mortgage obligations in 1999.

[next page](#)

Interest income from other interest-earning assets decreased \$835,000, or 68.2%, to \$388,000 for the year ended December 31, 2000 from \$1.2 million for the year ended December 31, 1999. The decrease resulted from a decrease in the average balance of other interest-earning assets to \$6.1 million from \$27.6 million, reflecting a reduced balance in a money market investment fund. The proceeds from these funds were used to fund loan demand during the year ended 2000. The average yield on other interest-earning assets increased to 6.41% from 4.42%, due to the higher yield Pacific Trust Bank received on its investment in Federal Home Loan Bank stock.

Interest Expense. Total interest expense increased \$2.7 million, or 34.9%, to \$10.3 million for the year ended December 31, 2000 from \$7.6 million for the year ended December 31, 1999. The increase in interest expense resulted primarily from increases in the cost of deposits and interest expense on advances from the Federal Home Loan Bank. Interest expense on deposits increased \$1.5 million, or 19.4%, to \$9.1 million for the year ended December 31, 2000 from \$7.6 million for 1999. The increase resulted from a 60 basis point increase in the cost of deposits to 4.35% from 3.75%, reflecting generally higher market rates of interest in 2000. The average balance on deposits increased to \$209.9 million in 2000 from \$204.1 million in 1999. Interest expense on Federal Home Loan Bank advances was \$1.2 million for the year ended December 31, 2000, with no advances outstanding during 1999. The average yield on Federal Home Loan Bank advances was 5.45%.

Net Interest Income. Net interest income remained relatively stable, increasing \$70,000, or 0.8%, to \$8.4 million for the year ended December 31, 2000 from \$8.3 million for 1999. The net interest spread decreased 44 basis points to 3.13% from 3.57% while the net interest margin decreased 41 basis points to 3.40% from 3.81%.

Provision for Loan Losses. In 2000, we recorded a provision for loan losses of \$444,000 to reflect a 59.5% increase in gross loans, including a 117.6% increase in residential real estate loans. This growth was achieved primarily through the use of independent loan originators that were utilized for the first time in 2000. Prior to 2000, as a credit union, our ability to expand our loan customer base was significantly restricted. Since we did not have our own related loss history to apply to these loans, we utilized peer group data adjusted for local economic conditions to establish our \$1.7 million loan loss allowance, resulting in the \$444,000 provision.

The provision for 1999 was \$92,000 reflecting our historical loss experience, as well as levels of nonperforming loans.

The allowance for loan losses to gross loans receivable decreased from .87% at December 31, 1999 to .72% at December 31, 2000. *This decline was primarily the result of a shift in the Bank's loan portfolio from consumer loans, which have experienced a higher rate of loss for both the bank and peers to real estate loans, which have experienced a lower rate of loss. Consumer loans dropped from 23.0% of the loan portfolio at December 31, 1999 to 13.5% at December 31, 2000.* We used the same methodology and generally similar assumptions in assessing the adequacy of the allowance for consumer loans for both periods. For residential lending, we began to utilize peer group data to establish our allowance in 2000. The level of the allowance was based on estimates and the ultimate losses may vary from the estimates.

Noninterest Income. Noninterest income decreased \$63,000, or 5.5%, to \$1.1 million for the year ended December 31, 2000 from \$1.2 million for the same period in 1999, primarily as a result of \$125,000 of losses on sales of securities, partially offset by increases in customer service fees of \$34,000, loan servicing fees of \$19,000 and other income of \$8,000.

[next page](#)

Noninterest Expense. Noninterest expense increased \$422,000, or 6.4%, to \$7.0 million for the year ended December 31, 2000 from \$6.6 million for the year ended December 31, 1999. This was primarily the result of a \$67,000 increase in ATM costs relating to expansion from a credit union to a mutual bank focus. Additionally, there were increases in advertising expense of \$127,000, stationery, supplies, and postage of \$96,000, and other general and administrative expense of \$87,000 related to the conversion to a thrift charter.

Income Tax Expense. For the year ended December 31, 1999, there was no income tax expense due to our not-for-profit status as a credit union at that time. For the year ended December 31, 2000, we recorded income taxes of \$300,000. This amount reflected a \$456,000 tax benefit as a result of the change in tax status. In addition, our earnings as a savings bank are subject to federal and state income taxes at a combined statutory rate of 41.15%. Had our earnings for the year ended December 31, 1999 been subject to income taxes, we would have recorded income tax expense of approximately \$1.2 million. Net income after income tax expense for this same period would have been \$1.6 million. Had our earnings for the year ended December 31, 2000 not reflected the \$456,000 tax benefit mentioned above, income tax expense for the period would have been \$756,000, resulting in after-tax net income of \$1.3 million.

Liquidity and Commitments

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

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

[next page](#)

Liquidity management is both a daily and long-term function of business management. Excess liquidity is generally invested in short-term investments such as overnight deposits or U.S. Agency securities. On a longer term basis, Pacific Trust Bank maintains a strategy of investing in various lending products as described in greater detail under "Business of Pacific Trust Bank - Lending Activities." Pacific Trust Bank uses its sources of funds primarily to meet its ongoing commitments, to pay maturing certificates of deposit and savings withdrawals, to fund loan commitments and to maintain its portfolio of mortgage-backed securities and investment securities. At December 31, 2001, the total approved loan origination commitments outstanding amounted to \$2.8 million and the Bank had a commitment to purchase a \$20.0 million pool of adjustable rate one- to four-family loans from a third party. At the same date, unused lines of credit were \$19.3 million as of December 31, 2001 and outstanding letters of credit totaled \$34,000. Pacific Trust Bank also has a commitment to purchase a \$1.4 million building in Temecula for \$1.4 million, which will serve as the Bank's full service branch facility. This facility will replace a previously leased facility in Temecula. Investment and mortgage-backed securities scheduled to mature in one year or less at December 31, 2001 totaled \$139,000. Certificates of deposit scheduled to mature in one year or less at December 31, 2001, totaled \$98.2 million. Although the average cost of deposits has decreased throughout 2001, management's policy is to maintain deposit rates at levels that are competitive with other local financial institutions. Based on the competitive rates and on historical experience, management believes that a significant portion of maturing deposits will remain with Pacific Trust Bank. In addition, the Bank has the ability at December 31, 2001 to borrow an additional \$141.7 million from the Federal Home Loan Bank of San Francisco as a funding source to meet commitments and for liquidity purposes.

Capital

Consistent with its goals to operate a sound and profitable financial organization, Pacific Trust Bank actively seeks to maintain a "well capitalized" institution in accordance with regulatory standards. Total equity was \$28.7 million at December 31, 2001, or 9.27% of total assets on that date. As of December 31, 2001, Pacific Trust Bank exceeded all capital requirements of the Office of Thrift Supervision. Pacific Trust Bank's regulatory capital ratios at December 31, 2001 were as follows: core capital 9.2%; Tier I risk-based capital, 14.5%; and total risk-based capital, 15.4%. The regulatory capital requirements to be considered well capitalized are 5.0%, 6.0% and 10.0%, respectively.

Impact of Inflation

The consolidated financial statements presented herein have been prepared in accordance with accounting principles generally accepted in the United States of America. These principles require the measurement of financial position and operating results in terms of historical dollars, without considering changes in the relative purchasing power of money over time due to inflation.

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

The principal effect of inflation, as distinct from levels of interest rates, on earnings is in the area of noninterest expense. Such expense items as employee compensation, employee benefits and occupancy and equipment costs may be subject to increases as a result of inflation. An additional effect of inflation is the

possible increase in the dollar value of the collateral securing loans that we have made. We are unable to determine the extent, if any, to which properties securing our loans have appreciated in dollar value due to inflation.

[next page](#)

Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement No. 141 (FAS 141), Business Combinations and Statement No. 142 (FAS 142), Goodwill and Other Intangible Assets. FAS 141 addresses financial accounting and reporting for business combinations and requires all business combinations within the scope of the Statement to be accounted for using the purchase method. However, for combinations between two or more mutual enterprises, FAS 141 is not effective until interpretative guidance related to the application of the purchase method to those transactions is issued. FAS 142 addresses financial accounting and reporting for acquired goodwill and other intangible assets. Management does not believe these recent accounting pronouncements will have any impact on its operations at this time.

^

BUSINESS OF PACIFIC TRUST BANK

General

Originally chartered in 1941 as "Rohr Employees Federal Credit Union," serving the employees and families of Rohr, Inc., we evolved through the years into a full-service, multi-branch public financial institution in San Diego County and Riverside County. We completed the conversion from a federal credit union charter to a federal mutual savings bank charter as of January 1, 2000. The objective of the charter conversion was to better serve customers and the local community through the broader lending ability of a savings bank, and to expand our customer base beyond the limited field of membership permitted for credit unions.

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

[next page](#)

Our revenues are derived principally from interest on loans and interest on securities.

We offer a variety of deposit accounts having a wide range of interest rates and terms, which generally include savings accounts, money market deposit and term certificate accounts and checking accounts. We solicit deposits in our market areas and, to a lesser extent from financial institutions nationwide, and we have not accepted brokered deposits.

Market Areas

We intend to continue to be a community-oriented financial institution offering a variety of financial services to meet the needs of the communities we serve. We are headquartered in Chula Vista, California, a suburb of San Diego, California and have seven retail offices primarily serving San Diego and Riverside counties in California. Our geographic market area for loans and deposits is principally San Diego and Riverside Counties. As of June 30, 2001, we had a 0.69% market share of FDIC-insured deposits in San Diego County, and a 0.30% market share of FDIC-insured deposits in Riverside County, ranking us 16th and 30th, respectively, in those counties, among all insured depository institutions.

The local economy is comprised of a diverse mix of high-technology commercial endeavors as well as defense and military expenditures. Most of the job growth, particularly in San Diego County has been in the high-technology area with emerging growth in the areas of telecommunications, electronics, computers, software and biotechnology. Median household income and per capita income for San Diego County are above the state and national averages, reflecting the urban nature of the market and availability of high paying white collar and technical jobs. Riverside County's median household and per capita income levels are below the figures reported for San Diego County as Riverside County attracts more moderate income individuals, in part because of its more affordable housing. As of November 2001, San Diego and Riverside Counties reported unemployment rates of 3.5% and 5.5%, respectively, as compared to the national average of 5.4% as of November 2001.

Lending Activities

General. Our mortgage loans carry either a fixed or an adjustable rate of interest. Mortgage loans generally are long-term and amortize on a monthly basis with principal and interest due each month. We also have loans in our portfolio which require only interest payments on a monthly basis or may have the potential for negative amortization. At December 31, 2001, our net loan portfolio totaled \$257.2 million, which constituted 82.9% of our total assets.

Mortgage loans up to \$650,000 may be approved by senior loan officers. The Senior Vice President of Lending may approve loans up to \$1.0 million and the President may approve loans up to \$1.5 million. The Management Loan Committee may approve loans to one borrower or group of related borrowers up to \$3.5 million in the aggregate, with no single loan exceeding \$2.5 million. Loans over these amounts or outside our general underwriting guidelines, must be approved by the loan committee of the board of directors. Commercial and multi-family real estate loans must be approved by the Senior Vice President of Lending, the President, the Management Loan Committee or the board loan committee.

One- to four-family	166,004	64.12	130,341	55.15	51,188	34.55	47,175	33.23	48,896	32.64%
Commercial and multi- family	43,065	16.63	51,816	21.93	41,698	28.14	31,372	22.10	24,847	16.59
	2,521	0.97	---	---	---	---	---	---	---	---
Total real estate loans	211,590	81.73	182,157	77.08	92,886	62.69	78,547	55.33	73,743	49.23
Other loans										
Consumer:										
Automobile	854	0.33	1,063	0.45	1,571	1.05	1,480	1.04	1,302	0.87
Home equity	12,563	4.85	13,964	5.91	12,488	8.43	10,152	7.15	6,188	4.13
Other	1,111	0.43	3,385	1.43	5,239	3.54	6,078	4.28	7,821	5.22
Commercial	267	0.10	145	0.06	---	---	---	---	---	---
Total other loans	14,795	5.71	18,557	7.85	19,298	13.02	17,710	12.48	15,311	10.22
Total adjustable-rate loans	226,385	87.44	200,714	84.93	112,184	75.71	96,257	67.81	89,054	59.45
Total loans	258,889	100.00%	236,322	100.00%	148,165	100.00%	141,957	100.00%	149,799	100.00%
Less:										
Net deferred loan origination fees (costs)	(69)		322		789		786		763	
Allowance for loan losses	1,742		1,699		1,296		1,237		2,060	
Total loans receivable, net	\$257,216		\$234,301		\$146,080		\$139,934		146,976	

77

[next page](#)

The following schedule illustrates the contractual maturity of Pacific Trust Bank's loan portfolio at December 31, 2001. Loans which have adjustable or renegotiable interest rates are shown as maturing in the period during which the contract is due. The schedule does not reflect the effects of possible prepayments or enforcement of due-on-sale clauses.

Due During Years Ending December 31,	Real Estate											
	One- to Four-Family		Multi-family and Commercial		Residential Construction ⁽¹⁾		Consumer		Commercial Business		Total	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
	(Dollars in Thousands)											
2002 ⁽²⁾	\$10,653	6.29%	\$2,327	8.23%	2,521	8.50%	\$4,219	11.32%	267	7.50%	\$19,987	7.85%
2003	399	7.78	426	7.82	---	---	1,589	7.73	23	8.49	2,437	7.76
2004 and 2005	1,131	8.29	4,124	7.66	---	---	7,103	7.47	13	9.25	12,371	7.62
2006 to 2010	9,509	7.23	27,217	8.07	---	---	10,256	6.58	---	---	46,982	7.58
2011 to 2025	30,471	7.06	13,259	8.10	---	---	154	5.43	---	---	43,884	7.37
2026 and following	133,228	6.95	---	---	---	---	---	---	---	---	133,228	6.95
Total	\$185,391	6.95%	\$47,353	8.05%	2,521	8.05%	\$23,321	7.78%	303	7.65%	\$258,889	7.24%

⁽¹⁾ Once the construction phase has been completed these loans will automatically convert to permanent financing.

⁽²⁾ Includes demand loans, loans having no stated maturity and overdraft loans.

78

[next page](#)

The following schedule illustrates the interest rate sensitivity of Pacific Trust Bank's loan portfolio at December 31, 2001. Loans which have adjustable or renegotiable interest rates are shown as maturing in the period during which the loan reprices. The schedule does not reflect the effects of possible prepayments or enforcement of due-on-sale clauses.

Real Estate

Consumer

Total

	One- to Four- Family	Multi-family and Commercial	Residential Construction ⁽¹⁾		Commercial Business	
--	-------------------------	-----------------------------------	--	--	------------------------	--

(Dollars in Thousands)

Due During
Years Ending
December 31,

2002 ⁽²⁾	\$53,811	\$25,734	2,521	\$17,520	290	\$99,876
2003 and 2004	21,290	12,764	---	2,476	---	36,530
2005 and 2006	71,993	7,087	---	3,167	13	82,260
2007 to 2011	33,702	1,768	---	158	---	35,628
2012 to 2016	4,029	---	---	---	---	4,029
2017 and over	566	---	---	---	---	566
Total	\$185,391	\$47,353	2,521	\$23,321	303	\$258,889

⁽¹⁾ Once the construction phase has been completed these loans will automatically convert to permanent financing.

⁽²⁾ Includes demand loans, loans having no stated maturity and overdraft loans.

The total amount of loans due after December 31, 2002 which have predetermined interest rates is \$28.0 million, while the total amount of loans due after such date which have floating or adjustable interest rates is \$131.0 million.

One- to Four-Family Residential Real Estate Lending. We focus our lending efforts primarily on the origination of loans secured by first mortgages on owner-occupied, one- to four-family residences in San Diego and Riverside counties, California. At December 31, 2001, one- to four-family residential mortgage loans totaled \$185.4 million, or 71.6% of our gross loan portfolio.

We generally underwrite our one- to four-family loans based on the applicant's employment and credit history and the appraised value of the subject property. Presently, we lend up to 90% of the lesser of the appraised value or purchase price for one- to four-family residential loans. For loans with a loan-to-value ratio in excess of 80%, we generally require private mortgage insurance in order to reduce our exposure below 80% or charge a higher interest rate. Properties securing our one- to four-family loans are appraised by independent fee appraisers approved by the management loan committee. We require our borrowers to obtain title and hazard insurance, and flood insurance, if necessary.

We currently originate one- to four-family mortgage loans on either a fixed- or adjustable-rate basis, as consumer demand dictates. Our pricing strategy for mortgage loans includes setting interest rates that are competitive with other local financial institutions, and consistent with our internal needs.

Adjustable-rate mortgage, or ARM loans, are offered with flexible initial and periodic repricing dates, ranging from one month to seven years through the life of the loan. We use a variety of indices to reprice our ARM loans. During the year ended December 31, 2001, we originated \$91.8 million of one- to four-family ARM loans and \$9.3 million of one- to four-family fixed-rate mortgage loans.

[next page](#)

No loans were purchased during 2001.

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

We also offer ARM loans which may provide for negative amortization of the principal balance. These loans have monthly interest rate adjustments after the specified introductory rate term, and annual maximum payment adjustments of 7 1/2% during the first five years of the loan. The principal balance on these loans may increase up to 125% of the original loan amount as a result of the payments not being sufficient to cover the interest due during the first five years of the loan term. These loans adjust to fully amortize after five years through contractual maturity, with up to a 40 year term.

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

ARM loans generally pose different credit risks than fixed-rate loans, primarily because as interest rates rise, the borrower's payment rises, increasing the potential for default. We have not experienced significant delinquencies for these loans. However, the majority of these loans have been originated within the past two years. See "- Asset Quality - - Non-performing Assets" and "- Classified Assets." At December 31, 2001, our one- to four-family ARM loan portfolio totaled \$166.0 million, or 64.1% of our gross loan portfolio. At that date the fixed-rate one- to four-family mortgage loan portfolio totaled \$19.4 million, or 7.5% of our gross loan portfolio.

Fixed-rate loans secured by one- to four-family residences have contractual maturities of up to 30 years, and are generally fully amortizing, with payments due monthly. We generally sell our fixed rate loans with terms to maturity in excess of 15 years. We also offer a fixed-rate loan with interest only payments for 10 years, followed by a balloon payment.

Commercial and Multi-Family Real Estate Lending. We offer a variety of multi-family and commercial real estate loans. These loans are secured primarily by multi-family dwellings, and a limited amount of small retail establishments, hotels, motels, warehouses and small office buildings located in our market areas. At December 31, 2001, multi-family and commercial real estate loans totaled \$47.4 million or 18.3% of our gross loan portfolio.

80

[next page](#)

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

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

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

Loans secured by multi-family and commercial real estate properties generally involve a greater degree of credit risk than one- to four-family residential mortgage loans. These loans typically involve large balances to single borrowers or groups of related borrowers. The largest multi-family or commercial real estate loan at December 31, 2001 was a children's camp located in San Diego County with a principal balance of \$2.5 million. At December 31, 2001, this loan was fully performing.

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

Construction Lending. We have not historically originated a significant amount of construction loans. From time to time we do, however, purchase participations in commercial real estate construction loans. In addition, we may, in the future originate or purchase loans or participations in residential construction. At December 31, 2001, we had \$2.5 million in construction loans outstanding, representing 1.0% of our gross loan portfolio.

81

[next page](#)

Consumer and Other Lending. Consumer loans generally have shorter terms to maturity, which reduces our exposure to changes in interest rates, and carry higher rates of interest than do one- to four-family residential mortgage loans. In addition, management believes that offering consumer loan products helps to expand and create stronger ties to our existing customer base by increasing the number of customer relationships and providing cross-marketing opportunities. At December 31, 2001, our consumer and other loan portfolio totaled \$23.6 million, or 9.1% of our gross loan portfolio. We offer a variety of secured consumer loans, including home equity lines of credit, new and used auto loans, boat and recreational vehicle loans, and loans secured by savings deposits. We also offer a limited amount of unsecured loans. We originate our consumer and other loans primarily in our market areas.

Our home equity lines of credit totaled \$12.6 million, and comprised 4.9% of our gross loan portfolio at December 31, 2001. These loans may be originated in amounts, together with the amount of the existing first mortgage, of up to 90% of the value of the property securing the loan. Home equity lines of credit have a seven year draw period and require the payment of 1.5% of the outstanding loan balance per month during the draw period, which amount may be reborrowed at any time during the draw period. Once the draw period has lapsed, the payment is fixed based on the loan balance at that time. At December 31, 2001, unfunded commitments on these lines of credit totaled \$12.2 million. Other consumer loan terms vary according to the type of collateral, length of contract and creditworthiness of the borrower.

We originate auto loans, boat and recreational vehicle loans on a direct basis.

Auto loans totaled \$6.4 million at December 31, 2001, or 2.5% of our gross loan portfolio. Auto loans may be written for up to six years and usually have fixed rates of interest. Loan-to-value ratios are up to 100% of the sales price for new autos and 100% of retail value on autos, based on valuation from official used car guides.

Loans for recreational vehicles, including boats and planes, totaled \$591,000 at December 31, 2001, or 0.20% of our gross loan portfolio. We will finance up to 100% of the purchase price for a new recreational vehicle and 100% of the value for a used recreational vehicle, based on the applicable official used recreational vehicle guides. The term to maturity for these types of loans is up to 10 years for used recreational vehicles and up to 15 years for new recreational vehicles. These loans are generally written with fixed rates of interest.

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

[next page](#)

At December 31, 2001, commercial business loans totaled \$303,000 or 0.12% of our gross loan portfolio. Our commercial business lending policy includes credit file documentation and analysis of the borrower's background, capacity to repay the loan, the adequacy of the borrower's capital and collateral as well as an evaluation of other conditions affecting the borrower. Analysis of the borrower's past, present and future cash flows is also an important aspect of our credit analysis. We may obtain personal guarantees on our commercial business loans. Nonetheless, these loans are believed to carry higher credit risk than more traditional single family loans.

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

Loan Originations, Purchases, Sales and Repayments and Servicing

We originate loans primarily through mortgage broker and banking relationships. By originating most of our loans through brokers, we are better able to control overhead costs and efficiently utilize management resources. We are a portfolio lender of products not readily saleable to Fannie Mae and Freddie Mac, although they are saleable to private investors. *Since our conversion to a mutual savings bank, we have been able to expand our target market to include individuals who were not members of the credit union.*

We also originate consumer and real estate loans through our marketing efforts, and our existing and walk-in customers. While we originate both adjustable-rate and fixed-rate loans, our ability to originate loans is dependent upon customer demand for loans in our market areas. Demand is affected by competition and the interest rate environment. During the last few years, since we became a savings bank, we have significantly increased our origination of ARM loans. We sell most of the fixed-rate, one- to four-family residential loans we originate. We have also purchased ARM loans on one- to four-family residences and participations in commercial real estate loans. Loans and participations purchased must conform to our underwriting guidelines or guidelines acceptable to the management loan committee. Furthermore, during the past few years, we, like many other financial institutions, have experienced significant prepayments on loans due to the low interest rate environment prevailing in the United States. In periods of economic uncertainty, the ability of financial institutions, including us, to originate or purchase large dollar volumes of real estate loans may be substantially reduced or restricted, with a resultant decrease in interest income.

We currently subcontract the servicing of our loans to an independent third party. In the future, we intend to bring this in-house, when economically feasible, in order to better control and improve service to customers. *We do not expect to experience a significant change in earnings as a result of the servicing in-house, due to the increased cost of hiring additional personnel to service the loans being offset by the elimination of the cost of paying a third party for servicing.*

[next page](#)

The following table shows the loan origination, purchase, sale and repayment activities of Pacific Trust Bank for the periods indicated.

	Year Ended December 31,		
	2001	2000	1999
	(In thousands)		
<u>Originations by type:</u>			
Adjustable rate:			
Real estate - one- to four-family	\$91,788	\$94,020	\$12,766
- multi-family and commercial	8,095	24,059	12,760
- construction or development	---	---	---
Non-real estate - consumer	9,287	14,243	13,844
- commercial business	130	325	1,029
Total adjustable-rate	109,300	132,647	40,399
Fixed rate:			
Real estate - one- to four-family	9,286	6,530	8,950
- multi-family and commercial	264	782	1,683
- construction or development	---	---	---
Non-real estate - consumer	2,506	4,873	7,496
- commercial business	---	---	---
Total fixed-rate	12,056	12,185	18,129
Total loans originated	121,356	144,832	58,528

Purchases:

Real estate - one- to four-family	---	---	---
- multi-family and commercial	---	---	---
- construction or development	2,521	---	---
Non-real estate - consumer	---	---	---
- commercial business	---	---	---
	<hr/>	<hr/>	<hr/>
Total loans purchased	2,521	---	---
Sales and Repayments:			
Sales:			
Real estate - one- to four-family	(6,332)	(1,282)	(7,702)
Total loans sold	(6,332)	(1,282)	(7,702)
Principal repayments	(94,978)	(55,393)	(44,618)
	<hr/>	<hr/>	<hr/>
Total reductions	(101,310)	(56,675)	(52,320)
Increase (decrease) in other items, net	(348)	64	(62)
	<hr/>	<hr/>	<hr/>
Net increase	\$22,915	\$88,221	\$6,146
	<hr/>	<hr/>	<hr/>

84

[next page](#)

Asset Quality

Real estate loans are serviced by our agent in accordance with secondary market guidelines. When a borrower fails to make a payment on a mortgage loan on or before the default date, a late charge notice is mailed 16 days after the due date. When the loan is 31 days past due, a delinquent notice is mailed to the borrower. All delinquent accounts are reviewed by a collector, who attempts to cure the delinquency by contacting the borrower once the loan is 30 days past due. If the loan becomes 60 days delinquent, the collector will generally contact by phone or send a personal letter to the borrower in order to identify the reason for the delinquency. Once the loan becomes 90 days delinquent, contact with the borrower is made requesting payment of the delinquent amount in full, or the establishment of an acceptable repayment plan to bring the loan current. Between 100 and 120 days delinquent a drive-by inspection is made. If the account becomes 120 days delinquent, and an acceptable repayment plan has not been agreed upon, a collection officer will generally refer the account to legal counsel, with instructions to prepare a notice of intent to foreclose. The notice of intent to foreclose allows the borrower up to 30 days to bring the account current. During this 30 day period, the collector may accept a written repayment plan from the borrower which would bring the account current within the next 90 days. Once the loan becomes 150 days delinquent, and an acceptable repayment plan has not been agreed upon, the collection officer will turn over the account to our legal counsel with instructions to initiate foreclosure.

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

Delinquent Loans. The following table sets forth our loan delinquencies by type, number and amount at December 31, 2001.

	Loans Delinquent For:				Total	
	60-89 Days		90 Days or More		Delinquent Loans	
	Number of Loans	Principal Balance of Loans	Number of Loans	Principal Balance of Loans	Number of Loans	Principal Balance of Loans
	(Dollars in thousands)					
One- to four-family	5	\$ 624	---	\$---	5	\$624
Home equity	---	---	---	---	---	---
Construction	---	---	---	---	---	---
Commercial	---	---	---	---	---	---
Consumer	29	125	7	10	36	135
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	34	\$749	7	\$10	41	\$759
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Delinquent loans to total gross loans		0.29%		---%		0.29%

85

[next page](#)

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

	December 31,				
	2001	2000	1999	1998	1997
	(Dollars in Thousands)				
<i>Nonaccrual loans:</i>					
One- to four-family	\$ ---	\$ 66	\$ 148	\$ 663	\$ 263
Multi-family	---	---	---	---	---
Construction	---	---	---	---	---
Commercial	---	---	---	---	---
Consumer	10	10	48	266	278
Total	10	76	196	929	541
<i>Accruing delinquent more than 90 days:</i>					
One- to four-family	---	---	---	---	---
Multi-family	---	---	---	---	---
Construction	---	---	---	---	---
Commercial	---	---	---	---	---
Consumer	---	---	---	---	---
Total	---	---	---	---	---
<i>Non-performing loans</i>	10	76	196	929	541
<i>Foreclosed Assets</i>	---	---	---	---	---
Total non-performing assets	\$ 10	\$ 76	\$ 196	\$ 929	\$ 541
Non-performing loans to total loans	---%	0.03%	0.13%	0.65%	0.36%
Non-performing assets to total assets	---%	0.03%	0.09%	0.41%	0.25%

For the year ended December 31, 2001, there was no gross interest income which would have been recorded had the non-accruing loans been current in accordance with their original terms. No amount was included in interest income on these loans for these periods.

Other Loans of Concern. In addition to the non-performing assets set forth in the table above, as of December 31, 2001, there was also an aggregate of \$1.4 million of loans with respect to which known information about the possible credit problems of the borrowers have caused management to have doubts as to the ability of the borrowers to comply with present loan repayment terms and which may result in the future inclusion of such items in the non-performing asset categories. These loans have been considered in management's determination of the adequacy of our allowance for loan losses.

The largest loan included in the \$1.4 million above had a loan balance of \$310,000 at December 31, 2001 and is secured by a multi-family property located in San Diego, California. The loan was periodically up to 30 days delinquent during 2001. Subsequent to December 31, 2001, this loan was paid in full. **The remaining balance of the \$1.4 million consisted of owner-occupied, residential real estate loans having 30-day delinquent payment histories.**

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

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

In connection with the filing of our periodic reports with the Office of Thrift Supervision and in accordance with our classification of assets policy, we regularly review the problem assets in our portfolio to determine whether any assets require classification in accordance with applicable regulations. On the basis of management's review of our assets, at December 31, 2001, we had classified \$1.4 million of our assets as substandard, none as doubtful and none as loss. The total amount classified represented 4.5% of our equity capital and 0.4% of our assets at December 31, 2001.

Provision for Loan Losses. We recorded a provision for loan losses for the year ended December 31, 2001 of \$68,000, compared to \$444,000 for the year ended December 31, 2000. The provision for loan losses is charged to income to bring our allowance for loan losses to **reflect probable incurred losses** based on the factors discussed below under "-- Allowance for Loan Losses." The provision for loan losses for the year ended December 31, 2001 was based on management's review of such factors which indicated that the allowance for loan losses **reflected** probable incurred losses in the loan portfolio as of the year ended December 31, 2001.

87

[next page](#)

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

At December 31, 2001, our allowance for loan losses was \$1.7 million or 0.7% of the total loan portfolio. Assessing **the** allowance for loan losses is inherently subjective as it requires making material estimates, including the amount and timing of future cash flows expected to be received on impaired loans, that may be susceptible to significant change. In the opinion of management, the allowance, when taken as a whole, **reflects** estimated **probable** loan losses **in** our loan portfolios.

88

[next page](#)

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

	Year Ended December 31,				
	2001	2000	1999	1998	1997
	(Dollars in Thousands)				
Balance at beginning of period	\$1,699	\$1,296	\$1,237	\$2,060	\$2,084
Charge-offs					
One- to four-family	(54)	---	---	---	---
Multi-family	---	---	---	---	---
Construction	---	---	---	---	---
Commercial	---	---	---	---	---
Consumer	(128)	(182)	(234)	(855) ⁽¹⁾	(1,604) ⁽¹⁾
	(182)	(182)	(234)	(855)	(1,604)
Recoveries					
One- to four-family	61	7	---	---	---
Multi-family	---	---	---	---	---
Construction	---	---	---	---	---
Commercial	---	---	---	---	---
Consumer	96	134	201	258	345
	157	141	201	258	345
Net charge-offs	(25)	(41)	(33)	(597)	(1,259)
Provision (benefit) for loan losses	68	444	92	(226)	1,235
Balance at end of period	\$1,742	\$1,699	\$1,296	\$1,237	\$2,060

Net charge-offs to average loans during this period	0.13%	0.17%	0.31%	0.78%	1.31%
Net charge-offs to average nonperforming loans during this period	58.14%	30.15%	5.87%	81.22%	241.88%
Allowance for loan losses to nonperforming loans	17,420.00%	2,235.53%	661.22%	133.15%	380.78%
Allowance as a % of total loans (end of period)	0.67%	0.72%	0.87%	0.87%	1.38%

(1) \$198,000 in 1998 and \$722,000 in 1997 relates to the credit card portfolio which was sold in 1998.

89

[next page](#)

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

	2001			2000			1999			1998			1997		
	Amount	Percent of Allowance to Total Allowance	Percent of Gross Loans in Each Category Total Gross Loans	Amount	Percent of Allowance to Total Allowance	Percent of Gross Loans in Each Category Total Gross Loans	Amount	Percent of Allowance to Total Allowance	Percent of Gross Loans in Each Category Total Gross Loans	Amount	Percent of Allowance to Total Allowance	Percent of Gross Loans in Each Category Total Gross Loans	Amount	Percent of Allowance to Total Allowance	Percent of Gross Loans in Each Category Total Gross Loans
	(Dollars in Thousands)														
Secured by residential real estate	\$ 964	55.34%	71.61%	\$ 767	45.15%	62.40%	\$ 220	16.98%	45.75%	\$ 187	15.12%	46.97%	\$ 200	9.71%	46.53%
Secured by commercial real estate	152	8.73	18.29	182	10.71	24.08	209	16.13	30.85	163	13.18	27.14	124	6.02	21.35
Construction	8	0.46	0.97	---	---	---	---	---	0.12	---	---	0.54	---	---	---
Consumer	469	26.92	9.01	620	36.49	13.45	729	56.25	23.03	787	63.62	25.17	1,576	76.50	32.05
Commercial	1	0.5	0.12	---	---	0.07	---	---	0.25	---	---	0.18	---	---	0.07
Unallocated	148	8.50	---	130	7.65	---	138	10.65	---	100	8.08	---	160	7.77	---
Total Allowance for Loan Losses	\$1,742	100.00%	100.00%	\$1,699	100.00%	100.00%	\$1,296	100.00%	100.00%	\$1,237	100.00%	100.00%	\$2,060	100.00%	100.00%

90

[next page](#)

Investment Activities

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

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

The general objectives of our investment portfolio are to provide liquidity when loan demand is high, to assist in maintaining earnings when loan demand is low and to maximize earnings while satisfactorily managing risk, including credit risk, reinvestment risk, liquidity risk and interest rate risk. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Asset and Liability Management and Market Risk."

Our investment securities currently consist solely of collateralized mortgage obligations, also referred to as CMOs. CMOs are securities derived by reallocating the cash flows from mortgage-backed securities or pools of mortgage loans in order to create multiple classes, or tranches, of securities with coupon rates and average lives that differ from the underlying collateral as a whole. The term to maturity of any particular tranche is dependent upon the prepayment speed of the underlying collateral as well as the structure of the particular CMO. As a result of these factors, the estimated average lives of the CMOs may be shorter than the contractual maturities as shown on the table below. Although a significant proportion of our CMOs are interests in tranches which have been structured (through the use of cash flow priority and "support" tranches) to give somewhat more predictable cash flows, the cash flow and hence the value of CMOs are subject to change.

We invest in CMOs as an alternative to mortgage loans and conventional mortgage-backed securities as part of our asset/liability management strategy. Management believes that CMOs represent attractive investment alternatives relative to other investments due to the wide variety of maturity and repayment options available through such investments. In particular, we have from time to time concluded that short and intermediate duration CMOs (with an expected average life of five years or less) represent a better combination of rate and duration than adjustable rate mortgage-backed securities. All of our CMOs are available for sale. At December 31, 2001, we held \$13.7 million of CMOs, substantially all of which were of expected short and intermediate duration. See Note 2 of the Notes to Consolidated Financial Statements.

[next page](#)

The following table sets forth the composition of our securities portfolio and other investments at the dates indicated. Our securities portfolio at December 31, 2001, did not contain securities of any issuer with an aggregate book value in excess of 10% of our equity capital, excluding those issued by the United States Government or its agencies.

	December 31,					
	2001		2000		1999	
	Carrying Value	% of Total Total	Carrying Value	% of Total Total	Carrying Value	% of Total Total
	(Dollars in Thousands)					
Securities Available for Sale:						
U.S. government and federal agencies	\$ ---	---%	\$ 7,983	19.49%	\$15,280	27.29%
Collateralized mortgage obligations	13,661	100.00	20,935	51.13	29,573	52.81
Marketable equity securities	---	---	12,030	29.38	11,143	19.90
Total	\$13,661	100.00%	\$40,948	100.00%	\$55,996	100.00%
Average remaining life of securities	2.0 years		1.7 years		2.4 years	
Other earning assets:						
Interest-earning deposits with banks	\$ 2,606	17.07%	\$ 851	19.42%	\$ 1,491	13.22%
Federal funds sold	10,150	66.49	---	---	---	---
FHLB stock	2,509	16.44	2,705	61.74	1,221	10.83
Other investments	---	---	825	18.83	8,566	75.95
	\$15,265	100.00%	\$4,381	100.00%	\$11,278	100.00%

The composition and maturities of the securities portfolio, excluding Federal Home Loan Bank stock as of December 31, 2001 are indicated in the following table.

	December 31, 2001					
	One Year or Less	One to Five Years	Five to 10 Years	Over 10 Years	Total Securities	
	Amortized Cost	Amortized Cost	Amortized Cost	Amortized Cost	Amortized Cost	Fair Value
	(Dollars in Thousands)					
Collateralized mortgage obligations	\$139	\$3,638	\$1,540	\$8,256	\$13,573	\$13,661
Total investment securities	\$139	\$3,638	\$1,540	\$8,256	\$13,573	\$13,661
Weighted average yield	5.26%	5.28%	4.39%	5.19%		

Sources of Funds

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

[next page](#)

Deposits. We offer a variety of deposit accounts to both consumers and businesses having a wide range of interest rates and terms. Our deposits consist of savings accounts, money market deposit accounts, NOW and demand accounts and certificates of deposit. We solicit deposits primarily in our market areas and from financial institutions and have not accepted brokered deposits. We primarily rely on competitive pricing policies, marketing and customer service to attract and retain these deposits.

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

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

	Year Ended December 31,		
	2001	2000	1999
	(Dollars in thousands)		
Opening balance	\$218,695	\$200,940	\$206,007
Deposits/withdrawals	24,326	8,865	(12,708)
Interest credited	8,933	8,890	7,641
Ending balance	\$251,954	\$218,695	\$200,940
Net increase (decrease)	\$33,259	\$17,755	\$(5,067)
Percent increase (decrease)	15.21%	8.84%	(2.46)%

93

[next page](#)

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

	December 31,					
	2001		2000		1999	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
	(Dollars in thousands)					
Noninterest-bearing demand	\$ 4,001	1.59%	\$ 4,024	1.84%	\$ 3,397	1.69%
Savings	42,507	16.87	38,820	17.75	39,493	19.65
NOW	24,266	9.63	22,866	10.46	22,062	10.98
Money market	58,181	23.09	50,390	23.04	36,807	18.32
Certificates of deposit						
2.00% - 2.99%	24,733	9.82	---	---	---	---
3.00% - 3.99%	24,358	9.67	---	---	---	---
4.00% - 4.99%	35,657	14.15	4,188	1.91	44,828	22.31
5.00% - 5.99%	24,671	9.79	33,121	15.14	50,686	25.22
6.00% - 6.99%	13,328	5.29	65,051	29.75	2,819	1.40
7.00% - 7.99%	252	0.10	235	0.11	848	0.42
Total Certificates of Deposit	122,999	48.82	102,595	46.91	99,181	49.36
	\$251,954	100.00%	\$218,695	100.00%	\$200,940	100.00%

The following table indicates the amount of Pacific Trust Bank's certificates of deposit and other deposits by time remaining until maturity as of December 31, 2001.

	2002	2003	2004	2005	2006	Total
	(Dollars in Thousands)					
0.00% - 2.99%	\$22,789	\$ 1,483	\$ 461	\$ ---	\$ ---	\$ 24,733
3.00% - 3.99%	19,065	5,245	48	---	---	24,358
4.00% - 4.99%	28,209	4,915	1,391	670	472	35,657
5.00% - 5.99%	18,347	4,268	864	401	791	24,671

6.00% - 6.99%	9,814	1,718	615	1,181	---	13,328
7.00% - 7.99%	---	---	---	252	---	252
	<u>\$98,224</u>	<u>\$17,629</u>	<u>\$3,379</u>	<u>\$2,504</u>	<u>\$1,263</u>	<u>\$122,999</u>
\$100,000 and over	\$15,831	\$ 4,221	\$ 300	\$ 775	\$ 400	\$ 21,527
Below \$100,000	82,393	13,408	3,079	1,729	863	101,472
	<u>\$98,224</u>	<u>\$17,629</u>	<u>\$3,379</u>	<u>\$2,504</u>	<u>\$1,263</u>	<u>\$122,999</u>

94

[next page](#)

Borrowings. Although deposits are our primary source of funds, we may utilize borrowings when they are a less costly source of funds and can be invested at a positive interest rate spread, when we desire additional capacity to fund loan demand or when they meet our asset/liability management goals. Our borrowings historically have consisted of advances from the Federal Home Loan Bank of San Francisco. See Note 7 of the Notes to Consolidated Financial Statements.

We may obtain advances from the Federal Home Loan Bank of San Francisco upon the security of certain of our mortgage loans and mortgage-backed and other securities. These advances may be made pursuant to several different credit programs, each of which has its own interest rate, range of maturities and call features. At December 31, 2001, we had \$28.0 million in Federal Home Loan Bank advances outstanding and the ability to borrow an additional \$141.7 million.

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

	At or for the Year Ended December 31,		
	2001	2000	1999
	(Dollars in Thousands)		
Average balance outstanding	\$36,992	\$21,792	\$---
Maximum month-end balance	\$59,000	\$53,800	\$---
Balance at end of period	\$28,000	\$53,800	\$---
Weighted average interest rate during the period	7.14% ⁽¹⁾	5.45%	---%
Weighted average interest rate at end of period	4.67%	6.48%	---%

⁽¹⁾ Includes prepayment penalty of \$468,000.

Subsidiary and Other Activities

As a federally chartered savings bank, we are permitted by Office of Thrift Supervision regulations to invest up to 2% of our assets, or \$6.2 million at December 31, 2001, in the stock of, or unsecured loans to, service corporation subsidiaries. We may invest an additional 1% of our assets in service corporations where such additional funds are used for inner-city or community development purposes. Pacific Trust Bank does not currently have any subsidiary service corporations.

Competition

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

95

[next page](#)

We attract our deposits through our branch office system and through the internet. Competition for those deposits is principally from other savings institutions, commercial banks and credit unions located in the same community, as well as mutual funds and other alternative investments. We compete for these deposits by offering superior service and a variety of deposit accounts at competitive rates. **Based on the most recent branch deposit data provided by the FDIC, Pacific Trust Bank's share of deposits was ^0.69% and ^0.30% in San Diego and Riverside Counties, respectively.**

Employees

At December 31, 2001, we had a total of 62 full-time employees and 24 part-time employees. Our employees are not represented by any collective bargaining group. Management considers its employee relations to be good.

Properties

At December 31, 2001, we had six full service offices, one limited service office and a commitment to purchase one full service office at a price of \$1.4 million. This office was opened subsequent to December 31, 2001. We own the office building in which our home office and executive offices are located. At December 31, 2001, we owned all but two of our other branch offices. The net book value of our investment in premises, equipment and leaseholds, excluding computer equipment, was approximately \$3.4 million at December 31, 2001.

96

[next page](#)

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

Location	Owned or Leased	Lease Expiration Date	Net Book Value at December 31, 2001
			(Dollars in Thousands)
MAIN AND EXECUTIVE OFFICE 610 Bay Boulevard Chula Vista, CA 91910	Owned	N/A	\$211
BRANCH OFFICES:			
279 F Street Chula Vista, CA 91912	Owned	N/A	\$146
850 Lagoon Drive Chula Vista, CA 91910	Leased	N/A	N/A
350 Fletcher Parkway El Cajon, CA 91910	Leased	December 2004	N/A
5508 Balboa Avenue ⁽¹⁾ San Diego, CA 92111	Leased	March 2007	N/A
27425 Ynez Road ⁽²⁾ Temecula, CA 92591	Owned	N/A	N/A
8200 Arlington Avenue Riverside, CA 92503	Leased	N/A	\$73
5030 Arlington Avenue Riverside, CA 92503	Owned	N/A	\$185

(1) Opened as of March 4, 2002.

(2) Location effective as of February 2002.

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

We currently utilize Users DataSafe, an in-house data processing system. The net book value of the data processing and computer equipment utilized by us at December 31, 2001 was \$494,000.

Legal Proceedings

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

97

[next page](#)

MANAGEMENT

Management of First PacTrust Bancorp, Inc.,

The board of directors of First PacTrust Bancorp, Inc. consists of the same individuals who serve as directors of Pacific Trust Bank. The board of directors of First PacTrust Bancorp, Inc. is divided into three classes, each of which contains approximately one-third of the board. The directors shall be elected by the stockholders of First PacTrust Bancorp, Inc. for three year terms, or until their successors are elected. One class of directors, consisting of Hans R. Ganz and Donald A. Purdy, has a term of office expiring at the first annual meeting of stockholders. A second class of directors, consisting of Alvin L. Majors and Donald

A. Whitacre, has a term of office expiring at the second annual meeting of stockholders. The third class of directors, consisting of Francis P. Burke and Kenneth W. Scholz, has a term of office expiring at the third annual meeting of stockholders.

The following individuals are executive officers of First PacTrust Bancorp, Inc. and hold the offices set forth below opposite their names.

Executive	Position Held with First PacTrust Bancorp, Inc.
Hans R. Ganz	President and Chief Executive Officer
James P. Sheehy	Senior Vice President, Secretary and Treasurer

The executive officers of First PacTrust Bancorp, Inc. are elected annually and hold office until their respective successors have been elected or until death, resignation or removal by the board of directors.

Information concerning the principal occupations, employment and compensation of the directors and executive officers of First PacTrust Bancorp, Inc. is set forth under "- Management of Pacific Trust Bank" and "- Executive Officers Who Are Not Directors." Directors of First PacTrust Bancorp, Inc. initially will not be compensated by First PacTrust Bancorp, Inc. but will serve and be compensated by Pacific Trust Bank. It is not anticipated that separate compensation will be paid to directors of First PacTrust Bancorp, Inc. until such time as these persons devote significant time to the separate management of First PacTrust Bancorp, Inc.'s affairs, which is not expected to occur until First PacTrust Bancorp, Inc. becomes actively engaged in additional businesses other than holding the stock of Pacific Trust Bank. First PacTrust Bancorp, Inc. may determine that such compensation is appropriate in the future.

Management of Pacific Trust Bank

Because Pacific Trust Bank is a mutual savings bank, its members have elected its board of directors. Upon completion of the conversion, the directors of Pacific Trust Bank immediately prior to the conversion will continue to serve as directors of Pacific Trust Bank in stock form. The board of directors of Pacific Trust Bank in stock form will consist of six directors divided into three classes, with approximately one-third of the directors elected at each annual meeting of stockholders. Because First PacTrust Bancorp, Inc. will own all the issued and outstanding capital stock of Pacific Trust Bank following the conversion, the board of directors of First PacTrust Bancorp, Inc. will elect the directors of Pacific Trust Bank.

98

[next page](#)

The following table sets forth certain information regarding the board of directors of Pacific Trust Bank.

Name	Age ⁽¹⁾	Positions Held With Pacific Trust Bank	Director Since	Term of Office Expires
Alvin L. Majors	61	Chairman of the Board	1985	2004
Hans R. Ganz	47	President, Chief Executive Officer and Director	2000	2003
Francis P. Burke	62	Director	1994	2005
Kenneth W. Scholz	52	Director	1998	2005
Donald M. Purdy	70	Director	1998	2003
Donald A. Whitacre	49	Director	2001	2004

⁽¹⁾ As of January 31, 2002.

The business experience of each director for at least the past five years is set forth below.

Alvin L. Majors. Mr. Majors is currently retired, although he does do consulting on a part-time basis for a start-up private company. He also serves on the finance committee of Alliance Healthcare Foundation. Prior to his retirement, he was employed by Rohrs, Inc. for 26 years, with his last title being Vice President and Controller. Prior to joining Rohr, Inc., Mr. Majors worked for Deloitte and Touche for five years.

Hans R. Ganz. Mr. Ganz has been President and Chief Executive Officer of Pacific Trust Bank, and its predecessor since 1995, and a Director since 2000. He has been employed with Pacific Trust Bank and its predecessor in various other capacities since 1992.

Francis P. Burke. Mr. Burke is currently retired. He retired from Rohr, Inc. as Vice President of Airline ^{^Support} in 1997 after over 20 years of service in various positions, including Vice President, System Management, Program Manager, and Director, G.E./CFMI Programs, and with Rohr Marine, Inc. as Vice President and Surface Effect Ship Program Manager. He previously served six years as Executive Vice President of RMI, Inc., responsible for Business Development, Programs & Technology and Operations.

Kenneth W. Scholz. Mr. Scholz is Finance Director and Controller of Goodrich Aerostructures, an aerospace manufacturing company located in Chula Vista, California. He has served in this capacity since 1997, and in various other capacities for Goodrich Aerostructures since 1978.

Donald M. Purdy. Mr. Purdy is currently retired. He served as Senior Vice President - Commercial Business for Rohr, Inc., Chula Vista, CA, from 1989 to 1994, and was employed by Rohr, Inc. in various capacities for a period of 43 years.

99

Donald A. Whitacre. Mr. Whitacre is President of D.A. Whitacre Construction, Inc., a commercial framing construction company located in El Cajon, California. He has operated this company since 1978.

Executive Officers Who Are Not Directors

Each of the executive officers of Pacific Trust Bank will retain his or her office following the conversion. Officers are elected annually by the board of directors of Pacific Trust Bank. The business experience for at least the past five years for each of the six executive officers of Pacific Trust Bank who do not serve as directors is set forth below.

James P. Sheehy. Age 55 years. Mr. Sheehy serves as Senior Vice President, a position he has held since 1997 and Secretary and Treasurer for Pacific Trust Bank, positions he has held since 1999. He has been employed by Pacific Trust Bank since 1987.

Melanie M. Stewart. Age 41 years. Ms. Stewart is Senior Vice President of Lending at Pacific Trust Bank. She has served in this position since 1998, and started with Pacific Trust Bank in 1990.

Gayle N. Bland. Age 63 years. Ms. Bland, served as Senior Vice President since 1998. She has been employed by Pacific Trust Bank since 1973.

Rachel M. Carrillo. Age 31 years. Ms. Carrillo is a Vice President of Branch Operations. She has served in this capacity since 1998. Ms. Carrillo has served in various other capacities at Pacific Trust Bank since 1993.

Regan J. Gallagher. Age 32 years. Ms. Gallagher is currently serving as Vice President - Controller of Pacific Trust Bank, a position she has held since 2000. Prior to her position with Pacific Trust, Ms. Gallagher was a Senior Accountant with Deloitte & Touche.

Lisa R. ^Goodwin. Age 32 years. Ms. ^Goodwin is currently serving as Vice President Information Systems, a position she has held since 2001. Prior to serving as Vice President of Information Systems, Ms. ^Goodwin was an Assistant Vice President, and has been employed by Pacific Trust Bank since 1997. Prior to her position with Pacific Trust, Ms. ^Goodwin was an Associate Systems Engineer with Security Pacific Financial Services, a Bank of America Company, from 1993 to 1997.

Meetings and Committees of the Board of Directors

Our board of directors meets monthly. During the year ended December 31, 2001, the board of directors held 12 meetings. No director attended fewer than 75% of the total meetings of the board of directors and committees on which such board member served during this period.

We currently have standing Executive, Loan, Audit and Technology Committees. We do not have a standing Nominating Committee; rather, the Chairman appoints three members of the Bank to the nominating committee.

The Loan Committee is comprised of directors Scholz, Purdy, Whitacre and Ganz. The Loan Committee meets as needed to approve all loans over \$3.5 million, and other non-standard loans, and to review and revise loan policies. This committee met 10 times in 2001.

The Audit Committee is comprised of Directors Majors, Scholz and Whitacre. The Audit Committee meets at least quarterly and on an as needed basis. The Audit Committee hires the independent auditors and reviews the audit report prepared by the independent auditors. This committee met five times in 2001.

The Executive Committee is comprised of Directors Majors, Burke, Purdy and Ganz. The Executive Committee meets on an as needed basis and is empowered to act on behalf of the entire board. This committee met one time in 2001.

The Technology Committee is comprised of Directors Burke, Majors, Ganz and officer ^Goodwin. The Technology Committee meets on an as needed basis. The Technology Committee reviews and approves plans for changes and enhancements to the Bank's data processing and telecommunications systems, and to approve contracts with related system and service providers. This committee met one time in 2001.

Directors' Compensation

Members of Pacific Trust Bank's board of directors receive a fee of \$600 for each board meeting attended. In addition, the Chairman of the Board receives an additional \$300 per meeting attended and each director receives \$200 for committee meetings attended. Attendance by telephone is compensated at one-third the rate for directors attending in person.

Executive Compensation

The following table sets forth a summary of certain information concerning the compensation paid by Pacific Trust Bank, including amounts deferred to future periods by the officers, for services rendered in all capacities during the year ended December 31, 2001 to the President and Chief Executive Officer of Pacific Trust Bank and the three other highest compensated executive officers of Pacific Trust Bank whose salary and bonus exceeded \$100,000.

Summary Compensation Table

	Annual Compensation	Long Term Compensation Awards
--	---------------------	----------------------------------

Name and Principal Position	Fiscal Year	Salary	Bonus	Other Annual Compensation (\$) ⁽¹⁾	Restricted Stock Award (\$) ⁽²⁾	Options (#) ⁽²⁾	All Other Compensation ⁽³⁾
Hans R. Ganz, President, Chief Executive Officer and Director	2001	\$178,850	95,000	---	---	---	\$6,800 ⁽³⁾
James P. Sheehy, Senior Vice President, Secretary and Treasurer	2001	89,459	27,500	---	---	---	4,345 ⁽³⁾
Melanie M. Stewart, Senior Vice President, Lending	2001	86,867	40,000	---	---	---	1,805 ⁽³⁾

(1) This amount does not include personal benefits or perquisites which did not exceed the lesser of \$50,000 or 10% of the named individuals' salary and bonus.

(2) As a mutual institution, Pacific Trust Bank does not have any stock option or restricted stock plans. Pacific Trust Bank does, however, intend to adopt such plans following the conversion. See "- Benefits -- Other Stock Benefit Plans."

(3) This amount represents Pacific Trust Bank's contribution to its 401(k) plan on behalf of the named executive officers.

Benefits

General. Pacific Trust Bank currently provides health and welfare benefits to its employees, including hospitalization, comprehensive medical insurance, dental, life, short term and long-term disability insurance, subject to certain deductibles and copayments by employees. Pacific Trust Bank also provides certain retirements benefits. See Note 12 of the Notes to Consolidated Financial Statements.

Pacific Trust Bank Deferred Compensation Plan. Pacific Trust Bank also maintains an executive deferral program for the benefit of certain senior executives that have been designated to participate in the program. The program allows an additional opportunity for key executives to defer a portion of their income into a non-qualified deferral program to supplement their retirement earnings. Mr. Ganz had \$12,000 in income deferred pursuant to this program during 2001.

401(k) Employee Stock Ownership Plan. First PacTrust Bancorp, Inc. intends to adopt a new benefit plan which is comprised of its existing 401(k) plan and includes an employee stock ownership plan component for employees of First PacTrust Bancorp, Inc. and Pacific Trust Bank to become effective upon the conversion. This plan hereafter referred to as the "KSOP Plan." Employees of First PacTrust Bancorp, Inc. and Pacific Trust Bank who have been credited with at least 1,000 hours of service during a twelve month period are eligible to participate in the KSOP Plan.

102

[next page](#)

As part of the conversion, it is anticipated that the KSOP Plan will borrow funds from First PacTrust Bancorp, Inc. The KSOP Plan will use these funds to purchase up to 8.0% of the common stock issued in the conversion. It is anticipated that this loan will equal 100% of the aggregate purchase price of the common stock acquired by the KSOP Plan. The loan to the KSOP Plan will be repaid principally from Pacific Trust Bank's contributions to the KSOP Plan over a period of 10 years, and the collateral for the loan will be the common stock purchased by the KSOP Plan. The interest rate for the loan is expected to be the prime rate of interest. First PacTrust Bancorp, Inc. may, in any plan year, make additional discretionary contributions for the benefit of plan participants in either cash or shares of common stock, which may be acquired through the purchase of outstanding shares in the market or from individual stockholders, upon the original issuance of additional shares by First PacTrust Bancorp, Inc. or upon the sale of treasury shares by First PacTrust Bancorp, Inc. These purchases, if made, would be funded through additional borrowings by the KSOP Plan or additional contributions from First PacTrust Bancorp, Inc. The timing, amount and manner of future contributions to the KSOP Plan will be affected by various factors, including prevailing regulatory policies, the requirements of applicable laws and regulations and market conditions.

Shares purchased by the KSOP Plan with the proceeds of the loan will be held in a suspense account and released to participants' accounts as debt service payments are made. Shares released from the KSOP Plan will be allocated to each eligible participant's KSOP Plan account based on the ratio of each such participant's compensation to the total compensation of all eligible KSOP Plan participants. Forfeitures will be reallocated among remaining participating employees and may reduce any amount First PacTrust Bancorp, Inc. might otherwise have contributed to the KSOP Plan. The account balances of participants within the KSOP Plan will become 100% vested after five years of service. Credit for eligibility and vesting is given for years of service with Pacific Trust Bank prior to adoption of the KSOP Plan. In the case of a "change in control," as defined in the KSOP Plan, which triggers a termination of the KSOP Plan, participants will become immediately fully vested in their account balances. Benefits are payable upon retirement or other separation from service. First PacTrust Bancorp, Inc.'s contributions to the KSOP Plan are not fixed, so benefits payable under the KSOP Plan cannot be estimated.

_____ will serve as trustee of the KSOP Plan. Under the KSOP Plan, the trustee must vote all allocated shares held in the KSOP Plan in accordance with the instructions of the participating employees, and unallocated shares will be voted in the same ratio on any matter as those allocated shares for which instructions are given.

GAAP requires that any third party borrowing by the KSOP Plan be reflected as a liability on First PacTrust Bancorp, Inc.'s statement of financial condition. Since the KSOP Plan is borrowing from First PacTrust Bancorp, Inc., such obligation is not treated as a liability, but will be excluded from stockholders' equity. If the KSOP Plan purchases newly issued shares from First PacTrust Bancorp, Inc., total stockholders' equity would neither increase nor decrease, but per share stockholders' equity and per share net earnings would decrease as the newly issued shares are allocated to the KSOP Plan participants.

103

[next page](#)

The **KSOP Plan** will be subject to the requirements of ERISA, and the regulations of the IRS and the Department of Labor thereunder.

Other Stock Benefit Plans. In the future, we intend to adopt a stock option plan and a restricted stock plan for the benefit of selected directors, officers and employees. We anticipate that the stock option plan and restricted stock plan will have reserved a number of shares equal to 10% and 4%, respectively, of the First PacTrust Bancorp, Inc. common stock sold in the conversion. Grants of common stock pursuant to the restricted stock plan will be issued without cost to the recipient. If a determination is made to implement a stock option plan or restricted stock plan, it is anticipated that any such plans will be submitted to stockholders for their consideration at which time stockholders would be provided with detailed information regarding such plan. If such plans are approved, and effected, they will have a dilutive effect on First PacTrust Bancorp, Inc.'s stockholders as well as affect First PacTrust Bancorp, Inc.'s net income and stockholders' equity, although the actual results cannot be determined until such plans are implemented. Any such stock option plan or restricted stock plan will not be implemented less than six months after the date of the completion of the conversion, subject to continuing Office of Thrift Supervision jurisdiction.

Termination Agreements for Executive Officers. In connection with the conversion, Pacific Trust Bank intends to enter into three-year termination agreements with Messrs. Ganz and Sheehy and Ms. Stewart. The termination agreements provide for a severance payment and other benefits in the event of a change in control of First PacTrust Bancorp or Pacific Trust Bank.

The value of the severance benefits under the termination agreements is 2.99 times the executive's average annual W-2 compensation during the five calendar year period prior to the effective date of the change in control (base amount) for Mr. Ganz, and 2.00 times for Mr. Sheehy and Ms. Stewart. Assuming that a change in control had occurred at December 31, 2001, Messrs. Ganz and Sheehy and Ms. Stewart would be entitled to a payment of approximately **^\$821,549, \$233,918 and \$253,734**, respectively. Section 280G of the Internal Revenue Code provides that severance payments that equal or exceed three times the individual's base amount are deemed to be "excess parachute payments" if they are conditioned upon a change in control. Individuals receiving parachute payments in excess of three times their base amount are subject to a 20% excise tax on the amount of the excess payments. If excess parachute payments are made, First PacTrust Bancorp and Pacific Trust would not be entitled to deduct the amount of the excess payment. The termination agreements provide that severance and other payments that are subject to a change in control will be reduced as much as necessary to ensure that no amounts payable to the executive will be considered excess parachute payments.

Loans and Other Transactions with Officers and Directors

Pacific Trust Bank has followed a policy of granting loans to officers and directors, which fully complies with all applicable federal regulations. Loans to directors and executive officers are made in the ordinary course of business and on the same terms and conditions as those of comparable transactions with non-insider employees prevailing at the time, in accordance with our underwriting guidelines, and do not involve more than the normal risk of collectibility or present other unfavorable features.

104

[next page](#)

All loans we make to our directors and executive officers are subject to Office of Thrift Supervision regulations restricting loans and other transactions with affiliated persons of Pacific Trust Bank. Loans to all directors and executive officers and their associates totaled approximately \$1.2 million at December 31, 2001, which was 4.2% of our equity at that date. All loans to directors and executive officers were performing in accordance with their terms at December 31, 2001.

HOW WE ARE REGULATED

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

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

General

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

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

105

First PacTrust Bancorp, Inc.

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

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

Pacific Trust Bank

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

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

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

Pacific Trust Bank's general permissible lending limit for loans-to-one-borrower is equal to the greater of \$500,000 or 15% of unimpaired capital and surplus (except for loans fully secured by certain readily marketable collateral, in which case this limit is increased to 25% of unimpaired capital and surplus). At December 31, 2001, Pacific Trust Bank's lending limit under this restriction was \$4.3 million. Pacific Trust Bank is in compliance with the loans-to-one-borrower limitation.

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

Insurance of Accounts and Regulation by the FDIC

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

Regulatory Capital Requirements

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

The capital regulations require tangible capital of at least 1.5% of adjusted total assets, as defined by regulation. Tangible capital generally includes common stockholders' equity and retained earnings, and certain noncumulative perpetual preferred stock and related earnings. In addition, generally all intangible assets, other than a limited amount of purchased mortgage servicing rights, and certain other items, must be deducted from tangible capital for calculating compliance with the requirement. At December 31, 2001, Pacific Trust Bank had no intangible assets.

At December 31, 2001, Pacific Trust Bank had tangible capital of \$28.7 million, or 9.2% of adjusted total assets, which is approximately \$24.0 million above the minimum requirement of 1.5% of adjusted total assets in effect on that date.

The capital standards also require core capital equal to at least 3.0% of adjusted total assets. Core capital generally consists of tangible capital plus certain intangible assets, including a limited amount of purchased credit card relationships. As a result of the prompt corrective action provisions discussed below, however, a savings institution must maintain a core capital ratio of at least 4.0% to be considered adequately capitalized unless its supervisory condition is such as to allow it to maintain a 3.0% ratio. At December 31, 2001, Pacific Trust Bank had no intangibles which were subject to these tests.

At December 31, 2001, Pacific Trust Bank had core capital equal to \$28.7 million, or 9.2% of adjusted total assets, which is \$16.2 million above the minimum requirement of 4.0% in effect on that date.

The Office of Thrift Supervision also requires savings institutions to have total capital of at least 8.0% of risk-weighted assets. Total capital consists of core capital, as defined above, and supplementary capital. Supplementary capital consists of certain permanent and maturing capital instruments that do not qualify as core capital and general valuation loan and lease loss allowances up to a maximum of 1.25% of risk-weighted assets. Supplementary capital may be used to satisfy the risk-based requirement only to the extent of core capital. The Office of Thrift Supervision is also authorized to require a savings institution to maintain an additional amount of total capital to account for concentration of credit risk and the risk of non-traditional activities. At December 31, 2001, Pacific Trust Bank had \$1.7 million of general loan loss reserves, which was less than 1.25% of risk-weighted assets.

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

On December 31, 2001, Pacific Trust Bank had total risk-based capital of \$30.4 million and risk-weighted assets of \$197.4 million; or total capital of 15.4% of risk-weighted assets. This amount was \$14.6 million above the 8.0% requirement in effect on that date.

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

[next page](#)

^

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

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

The imposition by the Office of Thrift Supervision or the FDIC of any of these measures on Pacific Trust Bank may have a substantial adverse effect on its operations and profitability. **At December 31, 2001, Pacific Trust Bank was considered a "well-capitalized" institution.**

Limitations on Dividends and Other Capital Distributions

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

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

[next page](#)

Savings institutions proposing to make any capital distribution need not submit written notice to the Office of Thrift Supervision prior to such distribution unless they are a subsidiary of a holding company or would not remain well-capitalized following the distribution. **Upon completion of this offering, Pacific Trust Bank will be a subsidiary of a holding company.** Savings institutions that do not, or would not meet their current minimum capital requirements following a proposed capital distribution or propose to exceed these net income limitations must obtain Office of Thrift Supervision approval prior to making such

distribution. The Office of Thrift Supervision may object to the distribution during that 30-day period based on safety and soundness concerns. See "- Regulatory Capital Requirements."

Liquidity

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

Qualified Thrift Lender Test

All savings institutions, including Pacific Trust Bank, are required to meet a qualified thrift lender test to avoid certain restrictions on their operations. This test requires a savings institution to have at least 65% of its portfolio assets, as defined by regulation, in qualified thrift investments on a monthly average for nine out of every 12 months on a rolling basis. As an alternative, the savings institution may maintain 60% of its assets in those assets specified in Section 7701(a)(19) of the Internal Revenue Code. Under either test, such assets primarily consist of residential housing related loans and investments. At December 31, 2001, Pacific Trust Bank met the test and has always met the test since its effectiveness.

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

110

[next page](#)

Community Reinvestment Act

Under the Community Reinvestment Act, every FDIC-insured institution has a continuing and affirmative obligation consistent with safe and sound banking practices to help meet the credit needs of its entire community, including low and moderate income neighborhoods. The Community Reinvestment Act does not establish specific lending requirements or programs for financial institutions nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with the Community Reinvestment Act. The Community Reinvestment Act requires the Office of Thrift Supervision, in connection with the examination of Pacific Trust Bank, to assess the institution's record of meeting the credit needs of its community and to take such record into account in its evaluation of certain applications, such as a merger or the establishment of a branch, by Pacific Trust Bank. An unsatisfactory rating may be used as the basis for the denial of an application by the Office of Thrift Supervision. Due to the heightened attention being given to the Community Reinvestment Act in the past few years, Pacific Trust Bank may be required to devote additional funds for investment and lending in its local community. Pacific Trust Bank was examined for Community Reinvestment Act compliance in March 2001, and received a rating of satisfactory.

Transactions with Affiliates

Generally, transactions between a savings institution or its subsidiaries and its affiliates are required to be on terms as favorable to the institution as transactions with non-affiliates. In addition, certain of these transactions, such as loans to an affiliate, are restricted to a percentage of the institution's capital. Affiliates of Pacific Trust Bank include First PacTrust Bancorp, Inc. and any company which is under common control with Pacific Trust Bank. In addition, a savings institution may not lend to any affiliate engaged in activities not permissible for a bank holding company or acquire the securities of most affiliates. The Office of Thrift Supervision has the discretion to treat subsidiaries of savings institutions as affiliates on a case by case basis.

Certain transactions with directors, officers or controlling persons are also subject to conflict of interest regulations enforced by the Office of Thrift Supervision. These conflict of interest regulations and other statutes also impose restrictions on loans to such persons and their related interests. Among other things, such loans must generally be made on terms substantially the same as for loans to unaffiliated individuals.

Federal Securities Law

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

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

111

[next page](#)

Federal Reserve System

The Federal Reserve Board requires all depository institutions to maintain non-interest bearing reserves at specified levels against their transaction accounts, primarily checking, NOW and Super NOW checking accounts. At December 31, 2001, Pacific Trust Bank was in compliance with these reserve requirements. The balances maintained to meet the reserve requirements imposed by the Federal Reserve Board may be used to satisfy liquidity requirements that may be imposed by the Office of Thrift Supervision. See "- Liquidity."

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

Federal Home Loan Bank System

Pacific Trust Bank is a member of the Federal Home Loan Bank of San Francisco, which is one of 12 regional Federal Home Loan Banks, that administers the home financing credit function of savings institutions. Each Federal Home Loan Bank serves as a reserve or central bank for its members within its assigned region. It is funded primarily from proceeds derived from the sale of consolidated obligations of the Federal Home Loan Bank System. It makes loans or advances to members in accordance with policies and procedures, established by the board of directors of the Federal Home Loan Bank, which are subject to the oversight of the Federal Housing Finance Board. All advances from the Federal Home Loan Bank are required to be fully secured by sufficient collateral as determined by the Federal Home Loan Bank. In addition, all long-term advances are required to provide funds for residential home financing.

As a member, Pacific Trust Bank is required to purchase and maintain stock in the Federal Home Loan Bank of San Francisco. At December 31, 2001, Pacific Trust Bank had \$2.5 million in Federal Home Loan Bank stock, which was in compliance with this requirement. In past years, Pacific Trust Bank has received substantial dividends on its Federal Home Loan Bank stock. Over the past three fiscal years such dividends have averaged 6.22% and were 6.05% for 2001.

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

For the year ended December 31, 2001, dividends paid by the Federal Home Loan Bank of San Francisco to Pacific Trust Bank totaled \$166,000, as compared to \$112,000 for all of 2000.

112

[next page](#)

TAXATION

Federal Taxation

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

Following the conversion, First PacTrust Bancorp, Inc. anticipates that it will file a consolidated federal income tax return with Pacific Trust Bank commencing with the first taxable year after completion of the conversion. Accordingly, it is anticipated that any cash distributions made by First PacTrust Bancorp, Inc. to its stockholders would be considered to be taxable dividends and not as a non-taxable return of capital to stockholders for federal and state tax purposes.

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

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

Net Operating Loss Carryovers. A financial institution may carryback net operating losses to the preceding two taxable years and forward to the succeeding 20 taxable years. This provision applies to losses incurred in taxable years beginning after August 6, 1997. At December 31, 2001, Pacific Trust Bank had no net operating loss carryforwards for federal income tax purposes.

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

113

[next page](#)

State Taxation

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

RESTRICTIONS ON ACQUISITION OF FIRST PACTRUST BANCORP, INC. AND PACIFIC TRUST BANK

The principal federal regulatory restrictions which affect the ability of any person, firm or entity to acquire First PacTrust Bancorp, Inc., Pacific Trust Bank or their respective capital stock are described below. Also discussed are certain provisions in First PacTrust Bancorp, Inc.'s charter and bylaws which may be deemed to affect the ability of a person, firm or entity to acquire First PacTrust Bancorp, Inc.

Federal Law

The Change in Bank Control Act provides that no person, acting directly or indirectly or through or in concert with one or more other persons, may acquire control of a savings institution unless the Office of Thrift Supervision has been given 60 days prior written notice. The Home Owners' Loan Act provides that no company may acquire "control" of a savings institution without the prior approval of the Office of Thrift Supervision. Any company that acquires such control becomes a savings and loan holding company subject to registration, examination and regulation by the Office of Thrift Supervision. Pursuant to federal regulations, control of a savings institution is conclusively deemed to have been acquired by, among other things, the acquisition of more than 25% of any class of voting stock of the institution or the ability to control the election of a majority of the directors of an institution. Moreover, control is presumed to have been acquired, subject to rebuttal, upon the acquisition of more than 10% of any class of voting stock, or of more than 25% of any class of stock of a savings institution, where certain enumerated "control factors" are also present in the acquisition. The Office of Thrift Supervision may prohibit an acquisition of control if:

- it would result in a monopoly or substantially lessen competition;
- the financial condition of the acquiring person might jeopardize the financial stability of the institution; or
- the competence, experience or integrity of the acquiring person indicates that it would not be in the interest of the depositors or of the public to permit the acquisition of control by such person.

These restrictions do not apply to the acquisition of a savings institution's capital stock by one or more tax-qualified employee stock benefit plans, provided that the plans do not have beneficial ownership of more than 25% of any class of equity security of the savings institution.

114

[next page](#)

For a period of three years following completion of the conversion, Office of Thrift Supervision regulations generally prohibit any person from acquiring or making an offer to acquire beneficial ownership of more than 10% of the stock of First PacTrust Bancorp, Inc. or Pacific Trust Bank without Office of Thrift Supervision approval.

Charter and Bylaws of First PacTrust Bancorp, Inc.

The following discussion is a summary of certain provisions of the charter and bylaws of First PacTrust Bancorp, Inc. that relate to corporate governance. The description is necessarily general and qualified by reference to the charter and bylaws.

Directors. Certain provisions of First PacTrust Bancorp, Inc.'s charter and bylaws will impede changes in majority control of the board of directors. First PacTrust Bancorp, Inc.'s charter provides that the board of directors will be divided into three classes, with directors in each class elected for three-year staggered terms except for the initial directors. Thus, assuming a board of three directors or more, it would take two annual elections to replace a majority of First PacTrust Bancorp, Inc.'s board. First PacTrust Bancorp, Inc.'s charter also provides that the size of the board of directors may be increased or decreased only by a majority vote of the whole board or by a vote of 80% of the shares eligible to be voted at a duly constituted meeting of stockholders called for such purpose. The bylaws also provide that any vacancy occurring in the board of directors, including a vacancy created by an increase in the number of directors, shall be filled for the remainder of the unexpired term by a majority vote of the directors then in office.

Our bylaws also place restrictions on those individuals that are qualified to be elected or appointed to the board of directors. Individuals elected or appointed to the board must be employed or have their principal residence in any county in which Pacific Trust Bank has an office. In addition, the bylaws impose certain notice and information requirements in connection with the nomination by stockholders of candidates for election to the board of directors or the proposal by stockholders of business to be acted upon at an annual meeting of stockholders.

The charter provides that a director may only be removed for cause by the affirmative vote of 80% of the shares eligible to vote.

Restrictions on Call of Special Meetings. The charter of First PacTrust Bancorp, Inc. provides that a special meeting of stockholders may be called only through a resolution of the board of directors and only for business as directed by the board or through a written request of stockholders entitled to cast at least a majority of all the votes entitled to be cast at the meeting.

Absence of Cumulative Voting. First PacTrust Bancorp, Inc.'s charter does not provide for cumulative voting rights in the election of directors.

115

[next page](#)

Authorization of Preferred Stock. The charter of First PacTrust Bancorp, Inc. authorizes five million shares of serial preferred stock, \$.01 par value. First PacTrust Bancorp, Inc. is authorized to issue preferred stock from time to time in one or more series subject to applicable provisions of law, and the board of directors is authorized to fix the designations, powers, preferences and relative participating, optional and other special rights of such shares, including voting rights, which could be multiple or as a separate class, and conversion rights. In the event of a proposed merger, tender offer or other attempt to gain control of First PacTrust Bancorp, Inc. that the board of directors does not approve, it might be possible for the board of directors to authorize the issuance of a series of preferred stock with rights and preferences that would impede the completion of such a transaction. If First PacTrust Bancorp, Inc. issued any preferred stock which disparately reduced the voting rights of the common stock, the common stock could be required to be delisted from the Nasdaq System. An effect of the possible issuance of preferred stock, therefore, may be to deter a future takeover attempt. The board of directors has no present plans or understandings for the issuance of any preferred stock and does not intend to issue any preferred stock except on terms which the board deems to be in the best interests of First PacTrust Bancorp, Inc. and its stockholders.

Classification of Capital Stock. In addition, First PacTrust Bancorp, Inc.'s charter authorizes the board of directors to classify or reclassify any unissued shares of capital stock into one or more classes or series of stock by setting or changing in one or more respects the preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends, qualifications or terms and conditions of redemption of such shares. Thus, for example, the board of directors may reclassify any number of unissued shares of common stock as preferred stock without obtaining stockholder approval. The charter also provides by its terms

that it may be amended by action of the board of directors without a stockholder vote to change the number of shares of authorized capital stock. No shares of First PacTrust Bancorp, Inc. preferred stock will be outstanding immediately after the conversion.

Limitation on Voting Rights. The charter of First PacTrust Bancorp, Inc. provides that in no event shall any record owner of any outstanding common stock which is beneficially owned, directly or indirectly, by a person who beneficially owns more than 10% of the then outstanding shares of common stock, be entitled or permitted to any vote in respect of the shares held in excess of the 10% limit. This limitation would not stop any person from soliciting or voting proxies from other beneficial owners for more than 10% of the common stock. This includes shares beneficially owned by any affiliate of a person, shares which a person or his affiliates have the right to acquire upon the exercise of conversion rights or options and shares as to which a person and his affiliates have or share investment or voting power, but shall not include shares beneficially owned by directors, officers and employees of Pacific Trust Bank or First PacTrust Bancorp, Inc. This provision will be enforced by the board of directors to limit the voting rights of persons beneficially owning more than 10% of the stock and thus could be utilized in a proxy contest or other solicitation to defeat a proposal that is desired by a majority of the stockholders.

Procedures for Business Combinations. First PacTrust Bancorp, Inc.'s charter requires that business combinations, including transactions initiated by management, between First PacTrust Bancorp, Inc., or any majority-owned subsidiary thereof, and a 10% or more stockholder either (i) be approved by at least 80% of the total number of outstanding voting shares, voting as a single class, of First PacTrust Bancorp, Inc. or (ii) involve consideration per share generally equal to that paid by the 10% stockholder when it acquired its block of stock. To the extent that a business combination is approved by a majority of the disinterested directors on the board, such business combination may only require approval of a majority of the total number of outstanding voting shares, voting as a single class, of First PacTrust Bancorp, Inc.

116

[next page](#)

It should be noted that, since the board and management intend to purchase approximately \$3.7 million of the shares offered in the conversion and may control the voting of additional shares through the **AKSOP Plan** and proposed restricted stock plan and stock option plan, the board and management may be able to block the approval of combinations requiring an 80% vote even where a majority of the stockholders vote to approve such combinations.

Evaluation of Certain Offers. First PacTrust Bancorp, Inc.'s charter provides that the board of directors, when evaluating any offer to merge with or acquire all of the assets of First PacTrust Bancorp, Inc., may give due consideration to all relevant factors, including, but not limited to:

(1) the social and economic effect of acceptance of such offer on First PacTrust Bancorp, Inc.'s present and future customers and employees, as well as those of Pacific Trust Bank and the communities its serves;

(2) whether the proposal is acceptable based on the historical, current or projected future operating results or financial condition of First PacTrust Bancorp, Inc.;

(3) whether a more favorable price could be obtained for First PacTrust Bancorp, Inc.'s stock or other securities in the future; and

(4) the reputation and business practices of the other entity to be involved in the transaction and its management and affiliates as they would affect the employees of First PacTrust Bancorp, Inc. and its subsidiaries.

Amendments to the Charter and Bylaws. Amendments to First PacTrust Bancorp, Inc.'s charter must be approved by First PacTrust Bancorp, Inc.'s board of directors and also by a majority of the outstanding shares of First PacTrust Bancorp, Inc.'s voting stock; provided, however, that approval by at least 80% of the outstanding voting stock is generally required for amendment of certain provisions, including provisions relating to number, classification, election and removal of directors; amendment of bylaws; call of special stockholder meetings; offers to acquire and acquisitions of control; certain business combinations; power of indemnification; and amendments to provisions relating to the foregoing in the charter.

The bylaws may be amended by a majority vote of the board of directors or the affirmative vote of at least 80% of the total votes eligible to be voted at a duly constituted meeting of stockholders.

117

[next page](#)

Purpose and Takeover Defensive Effects of First PacTrust Bancorp, Inc.'s Charter and Bylaws. We believe that the provisions described above are prudent and will reduce First PacTrust Bancorp, Inc.'s vulnerability to takeover attempts and other transactions which have not been negotiated with and approved by its board of directors. These provisions will also assist us in the orderly deployment of the conversion proceeds into productive assets during the initial period after the conversion. We believe these provisions are in the best interest of Pacific Trust Bank and of First PacTrust Bancorp, Inc. First PacTrust Bancorp, Inc.'s board will be in the best position to determine the true value of First PacTrust Bancorp, Inc. and to negotiate more effectively for what may be in the best interests of our stockholders. Accordingly, we believe that it is in the best interests of First PacTrust Bancorp, Inc. and its stockholders to encourage potential acquirors to negotiate directly with the board of directors of First PacTrust Bancorp, Inc. and that these provisions will encourage such negotiations and discourage hostile takeover attempts. It is also our view that these provisions should not discourage persons from proposing a merger or other transaction at prices reflective of the true value of First PacTrust Bancorp, Inc. and which is in the best interests of all stockholders.

Attempts to take over financial institutions and their holding companies recently have recently become increasingly common. Takeover attempts which have not been negotiated with and approved by the board of directors present to stockholders the risk of a takeover on terms which may be less favorable than might otherwise be available. A transaction which is negotiated and approved by the board of directors, on the other hand, can be carefully planned and undertaken at an opportune time in order to obtain maximum value for First PacTrust Bancorp, Inc. and its stockholders, with due consideration given to matters such as the management and business of the acquiring corporation and maximum strategic development of First PacTrust Bancorp, Inc.'s assets.

An unsolicited takeover proposal can seriously disrupt the business and management of a corporation and cause it great expense. Although a tender offer or other takeover attempt may be made at a price substantially above then current market prices, these offers are sometimes made for less than all of the outstanding shares of a target company. As a result, stockholders may be presented with the alternative of partially liquidating their investment at a time that may be

disadvantageous, or retaining their investment in an enterprise which is under different management and whose objectives may not be similar to those of the remaining stockholders. The concentration of control, which could result from a tender offer or other takeover attempt, could result in First PacTrust Bancorp, Inc. no longer being a reporting company with the SEC and therefore deprive First PacTrust Bancorp, Inc.'s remaining stockholders of the benefits of the disclosure requirements of the Federal securities laws.

Despite our belief as to the benefits to stockholders of these provisions of First PacTrust Bancorp, Inc.'s charter and bylaws, these provisions may also have the effect of discouraging a future takeover attempt which would not be approved by First PacTrust Bancorp, Inc.'s board, but pursuant to which stockholders may receive a substantial premium for their shares over then current market prices. As a result, stockholders who might desire to participate in such a transaction may not have any opportunity to do so. These provisions will also render the removal of First PacTrust Bancorp, Inc.'s board of directors and of management more difficult. First PacTrust Bancorp, Inc. will enforce the voting limitation provisions of the charter in proxy solicitations and accordingly could utilize these provisions to defeat proposals that are favored by a majority of the stockholders. We, however, have concluded that the potential benefits outweigh the possible disadvantages.

118

[next page](#)

Pursuant to applicable law, at any annual or special meeting of its stockholders after the conversion, First PacTrust Bancorp, Inc. may adopt additional charter provisions regarding the acquisition of its equity securities that would be permitted to a Maryland corporation. First PacTrust Bancorp, Inc. does not presently intend to propose the adoption of further restrictions on the acquisition of First PacTrust Bancorp, Inc.'s equity securities.

Benefit Plans

In addition to the provisions of First PacTrust Bancorp, Inc.'s charter and bylaws described above, benefit plans of First PacTrust Bancorp, Inc. and Pacific Trust Bank intended to be adopted after completion of this offering contain provisions which also may discourage hostile takeover attempts which the board of directors of Pacific Trust Bank might conclude are not in the best interests of First PacTrust Bancorp, Inc., First PacTrust Bancorp, Inc. and Pacific Trust Bank or First PacTrust Bancorp, Inc.'s stockholders. For a description of the benefit plans and the provisions of these plans relating to changes in control of First PacTrust Bancorp, Inc. or Pacific Trust Bank, see "Management - Benefits."

DESCRIPTION OF CAPITAL STOCK OF FIRST PACTRUST BANCORP, INC.

General

First PacTrust Bancorp, Inc. is authorized to issue 20 million shares of common stock having a par value of \$0.01 per share and five million shares of preferred stock having a par value of \$0.01 per share. First PacTrust Bancorp, Inc. currently expects to issue up to a maximum of 3,565,000 shares of common stock, or 4,099,750 shares in the event that the maximum of the estimated offering range is increased by 15%, and no shares of preferred stock in the conversion. Each share of First PacTrust Bancorp, Inc.'s common stock will have the same relative rights as, and will be identical in all respects with, each other share of common stock. Upon payment of the purchase price for the common stock in accordance with the plan of conversion, all of the stock will be duly authorized, fully paid and nonassessable. Presented below is a description of all aspects of First PacTrust Bancorp, Inc.'s capital stock which are deemed material to an investment decision with respect to the conversion.

The common stock of First PacTrust Bancorp, Inc. will represent nonwithdrawable capital, will not be an account of an insurable type, and will not be insured by the FDIC.

Common Stock

Distributions. First PacTrust Bancorp, Inc. can pay dividends if, as and when declared by its board of directors, subject to compliance with limitations which are imposed by law. The holders of common stock of First PacTrust Bancorp, Inc. will be entitled to receive and share equally in these dividends as they may be declared by the board of directors of First PacTrust Bancorp, Inc. out of funds legally available for such purpose. If First PacTrust Bancorp, Inc. issues preferred stock, the holders of such preferred stock may have a priority over the holders of the common stock with respect to dividends. See "Our Policy Regarding Dividends."

119

[next page](#)

Voting Rights. Upon the effective date of the conversion, the holders of common stock of First PacTrust Bancorp, Inc. will possess exclusive voting rights in First PacTrust Bancorp, Inc. Each holder of common stock will be entitled to one vote per share and will not have any right to cumulate votes in the election of directors, therefore, directors will be elected by a plurality of the shares actually voting on the matter. Under certain circumstances, shares in excess of 10% of the issued and outstanding shares of common stock may be considered "excess shares" and, accordingly, not be entitled to vote. See "Restrictions on Acquisition of First PacTrust Bancorp, Inc. and Pacific Trust Bank." If First PacTrust Bancorp, Inc. issues preferred stock, holders of the preferred stock may also possess voting rights.

Liquidation. In the event of any liquidation, dissolution or winding up of Pacific Trust Bank, First PacTrust Bancorp, Inc., as holder of Pacific Trust Bank's capital stock, would be entitled to receive, after payment or provision for payment of all debts and liabilities of Pacific Trust Bank, including all deposit accounts and accrued interest thereon and the liquidation account established as part of this offering, all assets of Pacific Trust Bank available for distribution. In the event of liquidation, dissolution or winding up of First PacTrust Bancorp, Inc., the holders of its common stock would be entitled to receive, after payment or provision for payment of all its debts and liabilities, all of the assets of First PacTrust Bancorp, Inc. available for distribution. If preferred stock is issued, the holders thereof may have a priority over the holders of the common stock in the event of liquidation or dissolution.

Rights to Buy Additional Shares. Holders of the common stock of First PacTrust Bancorp, Inc. will not be entitled to preemptive rights with respect to any shares which may be issued. Preemptive rights are the priority right to buy additional shares if First PacTrust Bancorp, Inc. issues more shares in the future.

Therefore, if additional shares are issued by First PacTrust Bancorp, Inc. without the opportunity for existing stockholders to purchase more shares, a stockholder's ownership interest in the Company may be subject to dilution. The common stock is not subject to redemption.

Preferred Stock

None of the shares of First PacTrust Bancorp, Inc.'s authorized preferred stock will be issued in the conversion. This stock may be issued with preferences and designations as the board of directors may from time to time determine. The board of directors can, without stockholder approval, issue preferred stock with voting, dividend, liquidation and conversion rights which could dilute the voting strength of the holders of the common stock and may assist management in impeding an unfriendly takeover or attempted change in control. First PacTrust Bancorp, Inc. has no present plans to issue preferred stock. If preferred stock is issued in the future, First PacTrust Bancorp, Inc. will not offer preferred stock to promoters except on the same terms as it is offered to all other existing stockholders or to new stockholders; or the issuance will be approved by a majority of First PacTrust Bancorp, Inc.'s independent directors who do not have an interest in the transaction and who have access, at First PacTrust Bancorp, Inc.'s expense, to its or independent legal counsel.

120

[next page](#)

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for First PacTrust Bancorp, Inc. common stock is _____.

EXPERTS

Our consolidated financial statements at December 31, 2001 and 2000 and for the three years ended December 31, 2001 included in this prospectus have been audited by Crowe, Chizek and Company LLP, independent auditors, as set forth in their report thereon appearing elsewhere herein and in the registration statement, and are included in reliance upon the report of this firm given upon the authority as experts in accounting and auditing.

RP Financial has consented to the publication herein of the summary of its report to Pacific Trust Bank setting forth its opinion as to the estimated pro forma market value of the common stock upon conversion and its letter with respect to subscription rights.

LEGAL AND TAX OPINIONS

The legality of the common stock and the federal income tax consequences of the conversion have been passed upon for Pacific Trust Bank by Silver, Freedman & Taff, L.L.P., Washington, D.C., special counsel to Pacific Trust Bank and First PacTrust Bancorp, Inc. The California income tax consequences of the conversion have been passed upon for Pacific Trust Bank by Crowe, Chizek and Company LLP, Oak Brook, Illinois. Certain legal matters will be passed upon for Keefe, Bruyette & Woods by Jenkens & Gilchrist, a Professional Corporation, Washington D.C.

ADDITIONAL INFORMATION

First PacTrust Bancorp, Inc. has filed with the SEC a registration statement under the Securities Act of 1933 with respect to the common stock offered hereby. As permitted by the rules and regulations of the SEC, this prospectus does not contain all the information set forth in the registration statement. This information, including the appraisal report which is an exhibit to the registration statement, can be examined without charge at the public reference facilities of the SEC located at 450 Fifth Street, N.W., Washington, D.C. 20549, and copies of this material can be obtained from the SEC at prescribed rates. In addition, the SEC maintains a web site (<http://www.sec.gov>) that contains reports, proxy and information statements and other information regarding registrants that file electronically with the SEC, including First PacTrust Bancorp, Inc. The statements contained in this prospectus as to the contents of any contract or other document filed as an exhibit to the registration statement are, of necessity, brief descriptions thereof and are not necessarily complete; each statement is qualified by reference to the contract or document. Pacific Trust Bank also maintains a website (<http://www.pacifictrustbank.com>) which contains various information about Pacific Trust Bank.

121

[next page](#)

Pacific Trust Bank has filed an Application for Conversion and a Holding Company Application on Form H-(e)1s with the Office of Thrift Supervision with respect to the conversion. This prospectus omits certain information contained in those applications. The applications may be examined at the principal office of the Office of Thrift Supervision, 1700 G Street, N.W., Washington, D.C. 20552, and at the West Regional Office of the Office of Thrift Supervision located at Pacific Plaza, 2001 Junipero Serra Boulevard, Suite 650, Daly City, California 94014-1976.

In connection with the conversion, First PacTrust Bancorp, Inc. has registered its common stock with the SEC under Section 12 of the Securities Exchange Act of 1934, and, upon such registration, First PacTrust Bancorp, Inc. and the holders of its stock will become subject to the proxy solicitation rules, reporting requirements and restrictions on stock purchases and sales by directors, officers and greater than 10% stockholders, the annual and periodic reporting and certain other requirements of the Securities Exchange Act of 1934. Under the plan of conversion, First PacTrust Bancorp, Inc. has undertaken that it will not terminate this registration for a period of at least three years following the conversion.

A copy of the plan of conversion, the charter and bylaws of First PacTrust Bancorp, Inc. and Pacific Trust Bank are available without charge from Pacific Trust Bank. Requests for such information should be directed to: Stockholder Relations, Pacific Trust Bank, 610 Bay Boulevard, Chula Vista, California 91910.

122

[next page](#)

	<u>Page</u>
Report of Independent Auditors	F-2
Consolidated Statements of Financial Condition as of December 31, 2001 and 2000	F-3
Consolidated Statements of Income for the Years Ended December 31, 2001, 2000 and 1999	F-4
Consolidated Statements of Equity for the Years Ended December 31, 2001, 2000 and 1999	F-5
Consolidated Statements of Cash Flows for the Years Ended December 31, 2001, 2000 and 1999	F-6
Notes to Consolidated Financial Statements	F-7

All schedules are omitted because the required information is not applicable or is included in the Consolidated Financial Statements and related Notes.

The financial statements of First PacTrust Bancorp, Inc. have been omitted because First PacTrust Bancorp, Inc. has not yet issued any stock, has no assets or liabilities, and has not conducted any business other than that of an organizational nature.

F-1

[next page](#)

REPORT OF INDEPENDENT AUDITORS

Board of Directors
Pacific Trust Bank
Chula Vista, California

We have audited the accompanying consolidated statements of financial condition of Pacific Trust Bank as of December 31, 2001 and 2000 and the related consolidated statements of income, equity, and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Pacific Trust Bank as of December 31, 2001 and 2000 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

/s/ Crowe, Chizek and Company LLP

Oak Brook, Illinois
January 12, 2002

F-2

[next page](#)

PACIFIC TRUST BANK
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
December 31, 2001 and 2000

	2001	2000
ASSETS		
Cash and due from banks	\$ 5,227,563	\$ 6,714,024
Federal funds sold	10,150,000	-
Interest bearing deposits	2,625,176	985,460
	18,002,739	7,699,484
Total cash and cash equivalents	18,002,739	7,699,484
Securities available-for-sale	13,660,542	40,947,600
Other investments	-	824,500

Federal Home Loan Bank stock, at cost	2,508,600	2,705,000
Loans, net of allowance for loan losses of \$1,742,558 in 2001 and \$1,699,385 in 2000	257,215,870	234,301,008
Accrued interest receivable	1,459,770	1,596,098
Premises and equipment, net	3,863,234	3,632,226
Servicing agent receivable	11,687,133	7,922,902
Other assets	1,677,754	717,960
Total assets	\$310,075,642	\$300,346,778

LIABILITIES AND EQUITY

Deposits:

Non-interest-bearing	\$ 4,000,940	\$ 4,024,227
Interest-bearing checking	24,265,198	22,864,766
Money market accounts	58,181,438	50,389,921
Savings accounts	42,506,844	38,820,440
Certificates of deposit	122,999,470	102,595,299
Total deposits	251,953,890	218,694,653
Advances from Federal Home Loan Bank	28,000,000	53,800,000
Accrued expenses and other liabilities	1,401,237	1,395,625
Total liabilities	281,355,127	273,890,278
Commitments and contingencies		
Equity:		
Retained earnings	28,669,004	26,572,749
Accumulated other comprehensive income (loss)	51,511	(116,249)
Total equity	28,720,515	26,456,500
Total liabilities and equity	\$310,075,642	\$300,346,778

See accompanying notes to consolidated financial statements.

F-3

[next page](#)

PACIFIC TRUST BANK
CONSOLIDATED STATEMENTS OF INCOME
Years ended December 31, 2001, 2000, and 1999

	2001	2000	1999
Interest and dividend income			
Loans, including fees	\$19,987,233	\$15,315,953	\$11,513,016
Securities	1,378,118	2,991,693	3,219,338
Other interest-earning assets	456,996	388,471	1,223,093
Total interest and dividend income	21,822,347	18,696,117	15,955,447
Interest expense			
Savings	896,354	1,083,452	1,061,150
Checking and money market	2,035,477	2,454,693	1,629,507
Certificates of deposit	6,001,348	5,588,736	4,953,895
Federal Home Loan Bank advances	2,640,172	1,188,412	-
Total interest expense	11,573,351	10,315,293	7,644,552
Net interest income	10,248,996	8,380,824	8,310,895
Provision for loan losses	67,718	444,058	92,000

Net interest income after provision for loan losses	10,181,278	7,936,766	8,218,895
Noninterest income			
Customer service fees	961,941	982,021	947,897
Loan servicing fees	4,361	88,475	69,049
Net loss on sales of securities available-for-sale	(55,131)	(125,010)	-
Other	119,928	141,663	133,241
Total noninterest income	1,031,099	1,087,149	1,150,187
Noninterest expense			
Salaries and employee benefits	3,366,640	3,057,695	3,054,781
Occupancy and equipment	1,741,460	1,780,530	1,690,706
Advertising	282,119	191,762	64,897
Professional fees	233,466	158,678	173,222
Stationary, supplies and postage	303,284	460,794	364,625
Data processing	474,184	198,771	231,461
ATM costs	374,207	402,616	335,789
Other general and administrative	828,566	729,936	642,835
Total noninterest expense	7,603,926	6,980,782	6,558,316
Income before income taxes	3,608,451	2,043,133	2,810,766
Income tax expense	1,512,196	300,351	-
Net income	\$2,096,255	\$1,742,782	\$2,810,766

See accompanying notes to consolidated financial statements.

F-4

[next page](#)

PACIFIC TRUST BANK
CONSOLIDATED STATEMENTS OF EQUITY
Years ended December 31, 2001, 2000, and 1999

	Regular Reserve	Undivided Earnings	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 1, 1999	\$5,211,357	\$16,807,844	\$ -	\$ (75,578)	\$21,943,623
Transfers, net	566,455	(566,455)	-	-	-
Comprehensive income:					
Net income	-	2,810,766	-	-	2,810,766
Change in net unrealized loss on securities available-for-sale	-	-	-	(721,860)	(721,860)
Total comprehensive income					2,088,906
Balance at December 31, 1999	5,777,812	19,052,155	-	(797,438)	24,032,529
Conversion to thrift charter on January 1, 2000	(5,777,812)	(19,052,155)	24,829,967	-	-
Comprehensive income:					
Net income	-	-	1,742,782	-	1,742,782
Change in net unrealized gain on securities available-for-sale, net of reclassification and tax effects	-	-	-	681,189	681,189
Total comprehensive income					2,423,971
Balance at December 31, 2000	-	-	26,572,749	(116,249)	26,456,500
Comprehensive income:					
Net income	-	-	2,096,255	-	2,096,255
Change in net unrealized gain on securities available-for-sale, net of reclassification and tax effects	-	-	-	167,760	167,760

Balance at December 31, 2001

\$ -

\$ -

\$28,669,004

\$ 51,511

\$28,720,515

See accompanying notes to consolidated financial statements.

F-5

[next page](#)

PACIFIC TRUST BANK
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2001, 2000, and 1999

	2001	2000	1999
Cash flows from operating activities			
Net income	\$ 2,096,255	\$ 1,742,782	\$ 2,810,766
Adjustments to reconcile net income to net cash provided by (used in) operating activities			
Provision for loan losses	67,718	444,058	92,000
Net amortization of securities	128,900	149,985	196,468
Amortization of deferred loan fees	(391,424)	(467,227)	(266,619)
Depreciation and amortization	445,285	486,098	495,929
Realized loss on sales of securities available-for-sale, net	55,131	125,010	-
Loss on disposal of premises and equipment	-	1,740	19,778
Deferred income tax benefit	30,267	(238,089)	-
Gain on sale of loans	-	2,990	-
FHLB stock dividends	(166,000)	(111,300)	-
Net change in:			
Accrued interest receivable	136,328	(507,737)	(36,496)
Other assets	(1,107,366)	169,398	706,789
Accrued expenses and other liabilities	5,612	659,335	26,384
Net cash provided by operating activities	1,300,706	2,457,043	4,044,999
Cash flows from investing activities			
Proceeds from sales of securities available-for-sale	12,258,567	10,856,567	-
Proceeds from maturities of securities available-for-sale	20,384,354	5,497,607	17,630,501
Purchases of securities available-for-sale	(5,254,829)	(980,625)	(28,671,035)
Net decrease in other investments	824,500	-	5,000,000
Loan originations and principal collections, net	(26,355,387)	(94,852,926)	(5,069,057)
Additions to premises and equipment	(676,293)	(520,717)	(301,810)
Change in NCUSIF deposit	-	1,897,887	(31,338)
Redemption of Federal Home Loan Bank stock	362,400	-	-
Increase in Federal Home Loan Bank stock	-	(1,372,900)	(1,220,800)
Net cash provided by (used in) investing activities	1,543,312	(79,475,107)	(12,663,539)
Cash flows from financing activities			
Net increase (decrease) in deposits	33,259,237	17,754,378	(5,614,361)
Net change in Federal Home Loan Bank open line	(28,800,000)	28,800,000	-
Repayments of Federal Home Loan Bank advances	(20,000,000)	-	-
Proceeds from Federal Home Loan Bank advances	23,000,000	25,000,000	-
Net cash provided by (used in) financing activities	7,459,237	71,554,378	(5,614,361)
Net change in cash and cash equivalents	10,303,255	(5,463,686)	(14,232,901)
Cash and cash equivalents at beginning of year	7,699,484	13,163,170	27,396,071
Cash and cash equivalents at end of year	\$18,002,739	\$7,699,484	\$13,163,170
Supplemental cash flow information			
Interest paid on deposits and borrowed funds	\$11,690,459	\$10,193,528	\$ 7,641,104
Income taxes paid	1,619,514	363,000	-

See accompanying notes to consolidated financial statements.

F-6

[next page](#)

PACIFIC TRUST BANK
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2001, 2000, and 1999

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation: The accompanying consolidated financial statements include the accounts of Pacific Trust Bank (the Bank) and its wholly owned subsidiary, Alternate Insurance Services, Inc. All significant intercompany transactions and balances are eliminated in consolidation. Alternate Insurance Services, Inc. was dissolved during 2000.

On January 1, 2000, Pacific Trust Federal Credit Union converted to a federal mutual savings bank and changed its name to Pacific Trust Bank. As a result of the conversion, the Bank is subject to regulation and examination by the Office of Thrift Supervision (OTS), its primary regulator.

Credit unions are required by regulation to maintain a statutory reserve. This reserve, which represents a regulatory restriction of members' equity, is not available for the payment of interests to members. Upon conversion to a thrift charter, the statutory reserve and the undivided earnings were transferred to retained earnings.

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

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

Securities: Securities are classified as held-to-maturity when the Bank has the positive intent and ability to hold those securities to maturity. Accordingly, they are stated at cost, adjusted for amortization of premiums and accretion of discounts. All other securities are classified as available-for-sale since the Bank may decide to sell those securities in response to changes in market interest rates, liquidity needs, changes in yields or alternative investments, and for other reasons. These securities are carried at fair value with unrealized gains and losses, net of taxes, reported in other comprehensive income. Realized gains and losses on disposition are based on the net proceeds and the adjusted carrying amounts of the securities sold, using the specific identification method.

(Continued)

F-7

[next page](#)

PACIFIC TRUST BANK
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2001, 2000, and 1999

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans: Loans that management has the intent and ability to hold [^] until maturity or [^] repayment are reported at the principal balance outstanding, net of unearned interest, deferred loan fees and costs, and an allowance for loan losses. Loans held for sale are reported at the lower of cost or market, on an aggregate basis. Management will periodically sell one to-four family real estate loans into the secondary market. Gains and losses are recognized at the time of sale based on the specific identification method. In addition, management will periodically sell participations in real estate loans originated by the Bank to third party financial institutions. These loan participations are typically sold at par value. Any premium or discount would be recorded into income over the life of the loan using the level yield method.

Interest income is reported on the interest method and includes amortization of net deferred loan fees and costs over the loan term. Interest income is not reported when full loan repayment is in doubt. Payments received on such loans are reported as principal reductions.

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

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

Premises and Equipment: Premises and equipment are stated at cost less accumulated depreciation. [^] Buildings and leasehold improvements are depreciated on the straight-line method over [^] estimated useful lives [^] primarily ranging from fifteen to forty years. Equipment and furniture are depreciated on the straight-line

method over useful lives generally ranging from five to seven years. Maintenance and repairs are charged to expense as incurred, and improvements that extend the useful lives of assets are capitalized.

(Continued)

F-8

[next page](#)

PACIFIC TRUST BANK
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2001, 2000, and 1999

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Income Taxes: The Bank records income tax expense based on the amount of taxes due on its tax return, plus deferred taxes computed on the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities, using enacted tax rates. Prior to January 1, 2000, the Bank was chartered as a credit union and not subject to income taxes.

Statement of Cash Flows: Cash and cash equivalents include cash on hand, amounts due from banks, and daily federal funds sold. The Bank reports net cash flows for customer loan transactions and deposit transactions.

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

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

(Continued)

F-9

[next page](#)

PACIFIC TRUST BANK
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2001, 2000, and 1999

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

	For the years ended December 31,	
	2001	2000
Proceeds from sales of securities	\$12,258,567	\$10,856,567
Gross realized losses	55,131	125,010

There were no sales of securities in 1999.

NOTE 2 - SECURITIES

The amortized cost and fair value of securities available-for-sale at December 31 follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2001:				
Collateralized mortgage obligations:				
Federal National Mortgage Association [^]	\$ 4,142,419	\$66,410	\$(1,727)	\$ 4,207,102
Government National Mortgage Association	642,860	365	(278)	642,947
Federal Home Loan Mortgage Corporation	8,787,733	32,848	(10,088)	8,810,493
	\$13,573,012	\$99,623	\$ (12,093)	\$13,660,542
Total securities available-for-sale				

2000:

U.S. government and federal agency	\$ 7,968,808	\$17,659	\$ (3,646)	\$ 7,982,821
Collateralized mortgage obligations:				
Federal National Mortgage Association^	11,062,653	5,315	(82,490)	10,985,478
Government National Mortgage Association	1,495,591	8,948	-	1,504,539
Federal Home Loan Mortgage Corporation	8,492,650	14,845	(62,857)	8,444,638
	<u>21,050,894</u>	<u>29,108</u>	<u>(145,347)</u>	<u>20,934,655</u>
Marketable equity securities	12,125,433	-	(95,309)	12,030,124
Total securities available-for-sale	<u>\$ 41,145,135</u>	<u>\$46,767</u>	<u>\$(244,302)</u>	<u>\$40,947,600</u>

(Continued)

F-10

[next page](#)

^ PACIFIC TRUST BANK
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2001, 2000, and 1999

NOTE 2 - SECURITIES (Continued)

Other Investments: At December 31, 2000, the Bank had a capital account in Western Corporate Federal Credit Union with a balance of \$824,500. The carrying amount of such investment is shown in the balance sheet at cost, which approximates fair value. This capital account was redeemed by the Bank on December 31, 2001.

NOTE 3 - LOANS

Loans receivable consist of the following:

	2001	2000
One to-four family	\$185,391,513	\$147,471,904
Commercial real estate and multi-family	47,352,917	56,894,846
Construction loans	2,520,531	-
Home equity loans	12,562,964	15,866,569
Consumer	10,758,248	15,915,433
Commercial	303,008	173,818
Total	<u>258,889,181</u>	<u>236,322,570</u>
Less:		
Allowance for loan losses	(1,742,558)	(1,699,385)
Net deferred loan costs (fees)	69,247	(322,177)
Loans receivable, net	<u>\$257,215,870</u>	<u>\$234,301,008</u>

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

	2001	2000	1999
Balance at beginning of year	\$1,699,385	\$1,296,095	\$1,237,432
Loans charged-off	(181,745)	(181,634)	(234,120)
Recoveries of loans previously charged off	157,200	140,866	200,783
Provision for loan losses	67,718	444,058	92,000
Balance at end of year	<u>\$1,742,558</u>	<u>\$1,699,385</u>	<u>\$1,296,095</u>

There were no impaired loans in 2001 or 2000.

(Continued)

F-11

PACIFIC TRUST BANK
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2001, 2000, and 1999

NOTE 4 - PREMISES AND EQUIPMENT

Premises and equipment are summarized as follows:

	2001	2000
Land and improvements	\$1,055,812	\$1,055,812
Buildings	2,926,430	2,947,290
Furniture, fixtures, and equipment	^3,903,236	3,948,629
Leasehold improvements	313,621	296,976
Construction in process	269,417	110,088
	8,468,516	8,358,795
Total	8,468,516	8,358,795
Less accumulated depreciation and amortization	(4,605,282)	(4,726,569)
	\$3,863,234	\$3,632,226
Premises and equipment, net	\$3,863,234	\$3,632,226

Pursuant to the terms of noncancelable lease agreements in effect at December 31, 2001, pertaining to banking premises and equipment, future minimum rent commitments under various operating leases are as follows:

2002	\$ 94,087
2003	96,440
2004	98,851
	\$289,378
Total	\$289,378

The leases contain options to extend for periods from one to four years. The cost of such rentals is not included above. Total rent expense for the years ended December 31, 2001, 2000, and 1999 amounted to \$176,477, \$173,145, and \$178,694, respectively. The lease for the Temecula branch expired on December 31, 2001. The Bank has entered into an agreement to purchase a branch location in Temecula at a purchase price of \$1,362,500. This acquisition is expected to close in the first quarter of 2002. Until such time, the Bank will continue to lease the existing branch location and will operate under a month-to-month lease agreement.

(Continued)

F-12

PACIFIC TRUST BANK
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2001, 2000, and 1999

NOTE 5 - ACCRUED INTEREST RECEIVABLE

Accrued interest receivable consists of the following at December 31:

	2001	2000
Loans	\$1,354,385	\$1,357,678
Securities	72,296	202,218
Other interest-earning assets	33,089	36,202
	\$1,459,770	\$1,596,098
	\$1,459,770	\$1,596,098

NOTE 6 - DEPOSITS

Certificate of deposit accounts with balances of \$100,000 or more totaled approximately \$21,526,935 and \$13,229,643 at December 31, 2001 and 2000, respectively. Deposits greater than \$100,000 are not federally insured.

The scheduled maturities of time deposits at December 31, 2001 are as follows:

2002	\$98,224,103
2003	17,629,533
2004	3,379,100
2005	2,503,753
2006	1,262,981
	<hr/>
Total	\$122,999,470
	<hr/>

(Continued)

F-13

[next page](#)

PACIFIC TRUST BANK
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2001, 2000, and 1999

NOTE 7 - ADVANCES FROM FEDERAL HOME LOAN BANK

At December 31, 2001, the interest rates on the Bank's advances from the FHLB ranged from 4.05% to 5.58%.

The contractual maturities of the Bank's advances from the FHLB are as follows:

	2001	2000
	<hr/>	<hr/>
Due in 2001	\$ -	\$20,000,000
Due in 2002	6,000,000	-
Due in 2003	1,000,000	-
Due in 2004	14,000,000	5,000,000
Due in 2005	7,000,000	-
Overnight borrowings	-	28,800,000
	<hr/>	<hr/>
Total advances	\$28,000,000	\$53,800,000
	<hr/>	<hr/>

The Bank's advances from the FHLB were collateralized by certain real estate loans of an aggregate unpaid principal balance of approximately \$209,226,000, by certain mortgage-backed securities of approximately \$6,627,112, and the Bank's investment of capital stock of FHLB of San Francisco of \$2,508,600.

During 2001, the Bank repaid \$7,000,000 of advances and incurred a prepayment penalty of \$468,000, which is included in interest expense in the consolidated statement of income.

NOTE 8 - INCOME TAXES

On January 1, 2000, Pacific Trust Bank converted from a federally chartered credit union, which was not subject to federal or state income tax, to a federal mutual savings bank, subject to both federal and state income tax. In accordance with Statement of Financial Accounting Standards (SFAS) No. 109, the conversion of an entity from nontaxable to taxable status requires the recognition of deferred tax assets and liabilities for temporary differences existing at the time of conversion. As such, a net deferred tax asset of approximately \$456,000 was recognized, and the benefit from recognizing such asset reduced the income tax provision for 2000.

(Continued)

F-14

[next page](#)

PACIFIC TRUST BANK
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2001, 2000, and 1999

NOTE 8 - INCOME TAXES (Continued)

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

	2001	2000
Current tax provision:		
Federal	\$1,077,922	\$403,511
State	404,007	134,929
	<u>1,481,929</u>	<u>538,440</u>
Deferred tax benefit:		
Federal	22,862	322,119
State	7,405	(104,253)
	<u>30,267</u>	<u>217,866</u>
Change in tax status:		
Federal	-	(376,398)
State	-	(79,557)
	<u>-</u>	<u>(455,955)</u>
	<u>\$1,512,196</u>	<u>\$300,351</u>

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

	2001	2000
Statutory federal tax rate	34.0%	34.0%
Increase (decrease) resulting from:		
State taxes, net of federal tax benefit	7.4	6.7
Tax impact of conversion to a taxable corporation	-	(24.0)
Other	0.5	(2.0)
	<u>41.9%</u>	<u>14.7%</u>

(Continued)

F-15

[next page](#)

PACIFIC TRUST BANK
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2001, 2000, and 1999

NOTE 8 - INCOME TAXES (Continued)

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

	2001	2000
Deferred tax assets:		
Allowance for loan losses	\$343,310	\$280,590
Accrued bonus	116,418	-
Depreciation	196,099	196,099
Unrealized loss on securities available-for-sale	-	81,286
Section 475 mark-to-market adjustment	36,019	-
Other	37,864	17,864
	<u>729,710</u>	<u>575,839</u>
Deferred tax liabilities:		
Deferred loan fees	(353,373)	(192,284)

FHLB stock dividends	(114,121)	(45,805)
Unrealized gain on securities available-for-sale	(36,019)	-
Section 475 mark-to-market adjustment	-	(81,286)
	<hr/>	<hr/>
	(503,513)	(319,375)
	<hr/>	<hr/>
Net deferred tax asset	\$226,197	\$256,464
	<hr/>	<hr/>

NOTE 9 - OFF-BALANCE-SHEET ACTIVITIES

Credit-Related Financial Instruments: The Bank 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 amounts recognized in the consolidated balance sheets.

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

(Continued)

F-16

[next page](#)

PACIFIC TRUST BANK
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 December 31, 2001, 2000, and 1999

NOTE 9 - OFF-BALANCE-SHEET ACTIVITIES (Continued)

	Contract Amount December 31,	
	2001	2000
	<hr/>	<hr/>
Financial instruments whose contract amounts represent credit risk		
Commitments to purchase loans	\$20,000,000	\$ -
Commitments to extend credit including loans in process	2,851,350	4,130,500
Unused lines of credit	19,281,302	20,414,435
Letters of credit	34,000	33,600

The Bank entered into an agreement to purchase a pool of \$20.0 million of one-to-four family residential loans from a third party on December 18, 2001 with a settlement date of January 18, 2002. The pool consists of 34 adjustable rate loans with an average balance of \$508,000. The average coupon rate for the pool of loans is 6.23% and the terms are for 30 years.

At December 31, 2001 and 2000, fixed rate commitments to extend credit, including loans in process, consisted of \$137,000 and \$25,000, respectively. The fixed rate commitments at December 31, 2001 are due to expire within 1 to 60 days of issuance and have rates ranging from 7.50% to 8.50%.

Financial instruments that potentially subject the Bank to concentrations of credit risk include interest-bearing deposit accounts in other financial institutions and loans. At December 31, 2001 and 2000, the Bank had deposit accounts with balances totaling approximately \$95,158 and \$356,397, respectively, at the Federal Home Loan Bank of San Francisco.

NOTE 10 - MINIMUM REGULATORY CAPITAL REQUIREMENTS

The Bank is 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 Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative judgments of their 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 weightings, and other factors.

(Continued)

F-17

[next page](#)

PACIFIC TRUST BANK
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 December 31, 2001, 2000, and 1999

NOTE 10 - MINIMUM REGULATORY CAPITAL REQUIREMENTS (Continued)

Quantitative measures established by regulation to ensure capital adequacy require the Bank 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, 2001, that the Bank met all capital adequacy requirements to which it is subject.

As of December 31, 2001, the most recent notification from the OTS, categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the 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 Bank's category. The Bank's actual capital amounts and ratios are presented in the table.

	Actual		Minimum Capital Requirements		Minimum Required to Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in Thousands)						
<u>December 31, 2001</u>						
Total capital (to risk-weighted assets)	\$30,389	15.40%	\$15,789	8.00%	\$19,736	10.00%
Tier 1 capital (to risk-weighted assets)	28,669	14.53	7,894	4.00	11,841	6.00
Tier 1 (core) capital (to adjusted tangible assets)	28,669	9.24	12,413	4.00	15,516	5.00
<u>December 31, 2000</u>						
Total capital (to risk-weighted assets)	\$28,087	14.40%	\$15,601	8.00%	\$19,501	10.00%
Tier 1 capital (to risk-weighted assets)	26,573	13.63	7,800	4.00	11,701	6.00
Tier 1 (core) capital (to adjusted tangible assets)	26,573	8.85	12,005	4.00	15,007	5.00

(Continued)

F-18

[next page](#)

PACIFIC TRUST BANK
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2001, 2000, and 1999

NOTE 10 - MINIMUM REGULATORY CAPITAL REQUIREMENTS (Continued)

The following is a reconciliation of the Bank's equity under accounting principles generally accepted in the United States of America (GAAP) to regulatory capital (in thousands):

	2001	2000
GAAP equity	\$28,721	\$26,457
Unrealized loss (gain) on securities available-for-sale	(52)	116
Tier I capital	28,669	26,573
General regulatory loan loss reserves	1,720	1,514
Total regulatory capital	\$30,389	\$28,087

NOTE 11 - EMPLOYEE BENEFIT PLANS

The Bank has a 401(k) plan whereby substantially all employees participate in the plan. Employees may contribute up to 15% of their compensation subject to certain limits based on federal tax laws. The Bank makes matching contributions, to be determined annually by management, on the first 4% of the employee's compensation contributed to the plan. Matching contributions vest to the employee upon contribution date. For the years ended December 31, 2001, 2000, and 1999, expense attributable to the plan amounted to \$57,765, \$55,517, and \$53,298, respectively.

Effective June 1, 2001, the Board of Directors adopted a Deferred Compensation Plan under Section 401 of the Internal Revenue Code. The purpose of this plan is to provide specified benefits to a select group of management and highly compensated employees. Participants may elect to defer compensation, which accrues interest quarterly at the prime rate as reflected in *The Wall Street Journal* as of the last business day of the prior quarter.

NOTE 12 - RELATED PARTY TRANSACTIONS

The Company has granted loans to certain officers and directors and their related interests. Related party loans are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated persons and do not involve more than normal risk of collectibility.

(Continued)

F-19

[next page](#)

PACIFIC TRUST BANK
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2001, 2000, and 1999

NOTE 12 - RELATED PARTY TRANSACTIONS (Continued)

Activity in the loan accounts of officers and directors and their related interests follows for the year ended December 31, 2001:

Balance at beginning of year	\$436,966
Loans originated	894,011
Principal repayments	(179,442)
	<hr/>
Balance at end of year	<u>\$1,151,535</u>

NOTE 13 - FAIR VALUES OF FINANCIAL INSTRUMENTS

The approximate carrying amount and estimated fair value of financial instruments consist of the following:

	December 31, 2001		December 31, 2000	
	Approximate Carrying Amount	Estimated Fair Value	Approximate Carrying Amount	Estimated Fair Value
<u>Financial Assets</u>				
Cash and cash equivalents	\$ 18,002,739	\$ 18,002,739	\$ 7,699,484	\$ 7,699,484
Securities available-for-sale	13,660,542	13,660,542	40,947,600	40,947,600
Federal Home Loan Bank stock	2,508,600	2,508,600	2,705,000	2,705,000
Other investments	-	-	824,500	824,500
Loans, net	257,215,870	257,894,418	234,301,008	235,882,376
Servicing agent receivable	11,687,133	11,687,133	7,922,902	7,922,902
Accrued interest receivable	1,459,770	1,459,770	1,596,098	1,596,098
<u>Financial Liabilities</u>				
Deposits	\$251,953,890	\$253,348,273	\$218,694,653	\$217,489,854
Advances from Federal Home Loan Bank	28,000,000	28,029,000	53,800,000	56,248,028
Accrued interest payable	8,106	8,106	125,214	125,214

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

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

(Continued)

F-20

[next page](#)

PACIFIC TRUST BANK
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2001, 2000, and 1999

NOTE 13 - FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

The fair value of advances from the Federal Home Loan Bank is based on current rates for similar financing. The fair value of off-balance-sheet items is based on the current fees or the cost that would be charged to enter into or terminate such arrangements. **The fair value of the commitment to purchase the pool of one- to four-family residential loans is equal to the agreed-upon purchase price of \$20 million. The fair value of the other off-balance sheet financial instruments is immaterial.**

NOTE 14 - OTHER COMPREHENSIVE INCOME

Other comprehensive income components and related taxes were as follows:

	2001	2000	1999
Unrealized holding gains (losses) on securities available-for-sale	\$229,934	\$474,893	\$(721,860)
Reclassification adjustments for losses recognized in income	55,131	125,010	-
Net unrealized gains (losses)	285,065	599,903	(721,860)
Change in tax status	-	328,145	-
Tax effect	(117,305)	(246,859)	-
Other comprehensive income (loss)	\$167,760	\$681,189	\$(721,860)

NOTE 15 - ADOPTION OF PLAN OF CONVERSION (UNAUDITED)

On March 1, 2002, the Board of Directors of the Bank adopted a Plan of Conversion to convert from a federal mutual savings bank to a federal stock savings bank with the concurrent formation of a holding company. The conversion will be accomplished through the amendment of the Bank's charter and the sale of the proposed holding company's common stock in an amount equal to the consolidated pro forma market value of the holding company and the Bank after giving effect to the conversion. A subscription offering of the shares of common stock will be offered initially to the Bank's eligible deposit account holders, then to other members of the Bank. Any shares of the holding company's common stock not sold in the subscription offering will be offered for sale to the general public, giving preference to the Bank's market area.

At the time of conversion, the Bank will establish a liquidation account in an amount equal to its total net worth as of the latest statement of financial condition appearing in the final prospectus. The liquidation account will be maintained for the benefit of eligible depositors who continue to maintain their accounts at the Bank after the conversion. The liquidation account will be reduced annually to the extent that eligible depositors have reduced their qualifying deposits. Subsequent increases will not restore an eligible account holder's interest in the liquidation account. In the event of a complete liquidation, each eligible depositor will be entitled to

(Continued)

F-21

[next page](#)

PACIFIC TRUST BANK
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2001, 2000, and 1999

NOTE 15 - ADOPTION OF PLAN OF CONVERSION (UNAUDITED) (Continued)

receive a distribution from the liquidation account in an amount proportionate to the current adjusted qualifying balances for accounts then held. The liquidation account balance is not available for payment of dividends.

Conversion costs will be deferred and deducted from the proceeds of the shares sold in the conversion. If the conversion is not completed, all costs will be charged to expense. At December 31, 2001, \$48,131 has been deferred.

F-22

No person has been authorized to give any information or to make any representation other than as contained in this prospectus in connection with the offering made hereby, and, if given or made, such other information or representation must not be relied upon as having been authorized by First PacTrust Bancorp, Inc., Pacific Trust Bank or Keefe, Bruyette & Woods, Inc. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of the securities offered hereby to any person in any jurisdiction in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so, or to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction. Neither

**UP TO
4,099,750 SHARES**

the delivery of this prospectus nor any sale hereunder shall under any circumstances create any implication that there has been no change in the affairs of First PacTrust Bancorp, Inc. or Pacific Trust Bank since any of the dates as of which information is furnished herein or since the date hereof.

TABLE OF CONTENTS	Page
Summary	3
Risk Factors	^10
Recent Developments	^14
Management's Discussion and Analysis of Recent Developments	^16
Selected Financial and Other Data	^18
First PacTrust Bancorp, Inc.	^22
Pacific Trust Bank	^22
How We Intend to Use the Proceeds	^23
Market for the Common Stock	^25
Our Policy Regarding Dividends	^25
Pro Forma Data	^26
Capitalization	^31
Pacific Trust Bank Exceeds All Regulatory Capital Requirements	^32
Pacific Trust Bank's Conversion	^34
Proposed Purchases by Management	^57
Management's Discussion and Analysis of Financial Condition and Results of Operations	^58
Business of Pacific Trust Bank	^73
Management	^98
How We Are Regulated	^105
Taxation	^113
Restrictions on Acquisition of First PacTrust Bancorp, Inc. and Pacific Trust Bank	^114
Description of Capital Stock of First PacTrust Bancorp, Inc.	^119
Transfer Agent and Registrar	^121
Experts	^121
Legal and Tax Opinions	^121
Additional Information	^121
Index to Consolidated Financial Statements	F-1

FIRST PACTRUST BANCORP, INC.

(Proposed Holding Company for
Pacific Trust Bank)

COMMON STOCK

PROSPECTUS

KEEFE, BRUYETTE & WOODS, INC.

[_____], 2002

Dealer Prospectus Delivery Obligation

Until the later of [_____] or 25 days after the commencement of the public offering, if any, all dealers that effect transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers' obligation of dealers to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 24. Indemnification of Directors and Officers

Article 12 of First PacTrust Bancorp, Inc.'s Charter provides for indemnification of current and former directors and officers or individuals serving any other entity at the request of First PacTrust Bancorp, Inc., to the fullest extent required or permitted under Maryland law. In addition, Article 12 provides for the indemnification of other employees and agents to the extent authorized by the Board of Directors and permitted under Maryland law. Article 12 also provides First PacTrust Bancorp, Inc. with the authority to purchase insurance for indemnification purposes. The indemnification provisions set forth within Article 12 are non-exclusive in nature, however, First PacTrust Bancorp, Inc. shall not be liable for any payment under Article 12 to the extent that said person entitled to be indemnified has actually received payment under any insurance policy, agreement or otherwise of the amounts indemnifiable under Article 12.

Section 2-418 of the General Corporation Law of the State of Maryland permits a corporation to indemnify a person against judgments, penalties, settlements and reasonable expenses unless it is proven that (1) the conduct of the person was material to the matter giving rise to the proceeding and the person acted in bad faith or with "active and deliberate dishonesty," (2) the person actually received an improper benefit or (3) in the case of a criminal proceeding, the person had reason to believe that his conduct was unlawful.

Maryland law provides that where a person is a defendant in a derivative proceeding, the person may not be indemnified if the person is found liable to the corporation. Maryland law also provides that a person may not be indemnified in any proceeding alleging improper personal benefit to the person in which the

person was found liable on the grounds that personal benefit was improperly received.

Maryland law further provides that unless otherwise provided in the corporation's Charter, a director or officer (but not an employee or agent) who is successful on the merits or otherwise in defense of any proceeding must be indemnified against reasonable expenses. The Charter does not otherwise provide a bar against mandatory indemnification.

Finally, Section 2-418 of the General Corporation Law also permits expenses incurred by a person in defending a proceeding to be paid by the corporation in advance of the final disposition of the proceeding upon the receipt of an undertaking by the director or officer to repay this amount if it is ultimately determined that he or she is not entitled to be indemnified by the corporation against these expenses. The person seeking indemnification of expenses must affirm in writing that he or she believes in good faith that he or she has met the applicable standard for indemnification of expenses.

II-1

[Next Page](#)

Insofar as indemnification for liabilities arising under the Securities Act of 1933 (the "Act") may be permitted to directors, officers and controlling persons of First PacTrust Bancorp, Inc. pursuant to the foregoing provisions, or otherwise, First PacTrust Bancorp, Inc. has been advised that in the opinion of the Securities and Exchange Commission, such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable.

Item 25. Other Expenses of Issuance and Distribution

Set forth below is an estimate of the amount of fees and expenses (other than underwriting discounts and commissions) to be incurred in connection with the issuance of the shares.

Counsel fees and expenses	\$ 195,000
Accounting fees and expenses	95,000
Appraisal and business plan preparation fees and expenses	54,500
Underwriting fees ⁽¹⁾ (including financial advisory fee and expenses)	461,000
Underwriter's counsel fees and expenses	35,000
Printing, postage and mailing	230,000
Registration and Filing Fees	12,172
NASDAQ Listing Fee	100,000
Stock transfer agent and certificates	20,000
Other expenses ⁽¹⁾	8,328
	<hr/>
TOTAL	\$1,211,000

⁽¹⁾ Based on maximum of Estimated Valuation Range.

Item 26. Recent Sales of Unregistered Securities

The Registrant is newly incorporated, solely for the purpose of acting as the holding company of Pacific Trust Bank, pursuant to the Plan of Conversion (filed as Exhibit 2 herein), and no sales of its securities have occurred to date.

Item 27. Exhibits and Financial Statement Schedules

See the Exhibit Index filed as part of this Registration Statement.

II-2

[Next Page](#)

Item 28. Undertakings

The undersigned Registrant hereby undertakes:

- (1) To file, during any period in which offers or sales are being made, a post-effective amendment to this Registration Statement to:
 - (i) Include any Prospectus required by Section 10(a)(3) of the Securities Act of 1933;
 - (ii) Reflect in the Prospectus any facts or events arising after the effective date of the Registration Statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the Registration Statement; and
 - (iii) Include any material information with respect to the plan of distribution not previously disclosed in the Registration Statement or any material change to such information in the Registration Statement.
- (2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new Registration Statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof.
- (3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and it will be governed by the final adjudication of such issue.

II-3

[Next Page](#)

SIGNATURES

In accordance with the requirements of the Securities Act of 1933, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements of filing on Form S-1 and authorized this Registration Statement to be signed on its behalf by the undersigned, in the City of Chula Vista, State of California, on [^]May 1, 2002.

FIRST PACTRUST BANCORP, INC.

By: /s/ HANS R. GANZ

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

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Hans R. Ganz his true and lawful attorney-in-fact and agent, with full power of substitution and re-substitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments (including post-effective amendments) to this Registration Statement, and to file the same, with all exhibits thereto, and all other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all said attorney-in-fact and agent or his substitute or substitutes may lawfully do or cause to be done by virtue hereof.

In accordance with the requirements of the Securities Act of 1933, this Registration Statement has been signed below by the following persons in the capacities and on the dates indicated.

/s/ HANS R. GANZ

Hans R. Ganz
President, Chief Executive Officer
and Director

[^] May 1, 2002;

/s/ ALVIN L. MAJORS

Alvin L. Majors
Chairman of the Board

[^] May 1, 2002

/s/ FRANCIS P. BURKE

Francis P. Burke

Director

^ May 1, 2002;

/s/ KENNETH SCHOLZ

Kenneth Scholz

Director

^ May 1,, 2002

II-4

[Next Page](#)

/s/ DONALD PURDY

Donald Purdy

Director

^ May 1, 2002;

/s/ DONALD WHITACRE

Donald Whitacre

Director

^ May 1,, 2002

/s/ REGAN GALLAGHER

Regan Gallagher

Controller (*Principal Financial and
Accounting Officer*)

^ May 1,, 2002;

II-5

[Exhibit Index](#)

EXHIBIT INDEX

Exhibits:

- 1.1 Engagement Letter with Keefe, Bruyette & Woods, Inc.*
- 1.2 Form of Agency Agreement with Keefe, Bruyette & Woods, Inc.*
- 2.0 Plan of Conversion*
- 3.1 Charter for First PacTrust Bancorp, Inc.*
- 3.2 Bylaws of First PacTrust Bancorp, Inc.*
- 4.0 Form of Stock Certificate of First PacTrust Bancorp, Inc.*

- 5.0 Opinion of Silver, Freedman & Taff L.L.P. re: Legality*
- 8.1 Opinion of Silver, Freedman & Taff L.L.P. re: Federal Tax Matters*
- 8.2 Opinion of Crowe, Chizek and Company re: State Tax Matters**
- ^ 8.3 Letter of RP Financial, L.C. re: Subscription Rights*
- 10.1 Form of Severance Agreement*
- 10.2 401(k) Employee Stock Ownership Plan**
- 10.3 Letter Agreement regarding Appraisal Services*
- 10.4 Letter Agreement regarding Business Plan*
- 21.0 Subsidiaries of the Registrant*
- 23.1 Consent of Silver, Freedman & Taff L.L.P. re: Legality (included in Exhibit 5.0)*
- 23.2 Consent of Crowe, Chizek and Company**
- 23.3 Consent of RP Financial, L.C.*
- 24.0 Power of Attorney, included in signature pages**
- 99.1 Appraisal Report of RP Financial, L.C.**
- ^99.2 Subscription Order Form and Instructions*
- 99.3 Additional Solicitation Material*

* ^ Filed previously

PRO FORMA VALUATION REPORT
FIRST PACTRUST BANCORP, INC.
PROPOSED HOLDING COMPANY FOR
PACIFIC TRUST BANK
Chula Vista, California

Dated As Of:
March 15, 2002

Prepared By:

RP Financial, L.C.
1700 North Moore Street
Suite 2210
Arlington, Virginia 22209

RP FINANCIAL, L.C.

Financial Services Industry Consultants

March 15, 2002

Board of Directors
Pacific Trust Bank
610 Bay Boulevard
Chula Vista, California 91910

Gentlemen:

At your request, we have completed and hereby provide an independent appraisal ("Appraisal") of the estimated pro forma market value of the common stock which is to be issued in connection with the mutual-to-stock conversion of Pacific Trust Bank, Chula Vista, California ("Pacific Trust" or the "Bank"). The common stock issued in connection with the Bank's conversion will simultaneously be acquired by a holding company, First PacTrust Bancorp, Inc. ("Bancorp"). Pursuant to the Plan of Conversion, the common stock will be offered to depositors of the Bank, the Bank's employee stock ownership plan (the "ESOP") directors, officers and employees of the Bank, members of the local community and the public at large (the Subscription and Community Offerings).

This Appraisal is furnished pursuant to the conversion regulations promulgated by the Office of Thrift Supervision ("OTS"). This Appraisal has been

prepared in accordance with the written valuation guidelines promulgated by the OTS, most recently updated as of October 21, 1994. Specifically, this Appraisal has been prepared in accordance with the "Guidelines for Appraisal Reports for the Valuation of Savings and Loan Associations Converting from Mutual to Stock Form of Organization" of the OTS, dated as of October 21, 1994; and applicable regulatory interpretations thereof.

Description of Reorganization

The Board of Directors of the Bank has adopted a plan of conversion pursuant to which the Bank will convert from a federally chartered mutual savings bank to a federally chartered stock savings bank and issue all of its outstanding shares to Bancorp. First PacTrust Bancorp will sell in the Subscription and Community Offerings, Holding Company common stock in the amount equal to the appraised value of the Bank. Immediately following the conversion, the only significant assets of Bancorp will be the capital stock of the Bank and the net conversion proceeds remaining after purchase of the Bank's common stock by Bancorp. First PacTrust Bancorp will use 50 percent of the net conversion proceeds to purchase the Bank's common stock. A portion of the net conversion proceeds retained by Bancorp will be loaned to the ESOP to fund the ESOP's stock purchases in the offering, and the remainder will be reinvested into investment securities.

Washington Headquarters

Rosslyn Center
1700 North Moore Street, Suite 2210
Arlington, VA 22209
www.rpfinancial.com

Telephone: (703) 528-1700
Fax No.: (703) 528-1788
Toll-Free No.: (866) 723-0594
E-Mail: mail@rpfinancial.com

Board of Directors

March 15, 2002

Page 2

RP Financial, L.C.

RP Financial, L.C. ("RP Financial") is a financial consulting firm serving the financial services industry nationwide that, among other things, specializes in financial valuations and analyses of business enterprises and securities, including the pro forma valuation for savings institutions converting from mutual-to-stock form. The background and experience of RP Financial is detailed in Exhibit V-1. We believe that, except for the fee we will receive for our appraisal and assisting in the preparation of related business plans, we are independent of the Bank and the other parties engaged by Pacific Trust to assist in the corporate reorganization and stock issuance process.

Valuation Methodology

In preparing our appraisal, we have reviewed Pacific Trust's application for Approval of Conversion, including the Proxy Statement, as filed with the OTS, and Bancorp's Form S-1 registration statement as filed with the Securities and Exchange Commission ("SEC"). We have conducted a financial analysis of the Bank that has included due diligence related discussions with Pacific Trust's management; Crowe, Chizek & Company, LLP, the Bank's independent auditor; Silver Freedman & Taff, L.L.P., Pacific Trust's conversion counsel; and Keefe, Bruyette & Woods, Inc., which has been retained as the financial and marketing advisor in connection with Bancorp's stock offering. All conclusions set forth in the Appraisal were reached independently from such discussions. In addition, where appropriate, we have considered information based on other available published sources that we believe are reliable. While we believe the information and data gathered from all these sources are reliable, we cannot guarantee the accuracy and completeness of such information.

We have investigated the competitive environment within which Pacific Trust operates and have assessed the Bank's relative strengths and weaknesses. We have kept abreast of the changing regulatory and legislative environment and analyzed the potential impact on Pacific Trust and the industry as a whole. We have analyzed the potential effects of conversion on the Bank's operating characteristics and financial performance as they relate to the pro forma market value of First PacTrust Bancorp. We have reviewed the economy in the Bank's primary market area and have compared Pacific Trust's financial performance and condition with selected publicly-traded thrift institutions with similar characteristics as the Bank, as well as all publicly-traded thrifts. We have reviewed conditions in the securities markets in general and in the market for thrift stocks in particular, including the market for existing thrift issues and the market for initial public offerings by thrifts.

Our Appraisal is based on Pacific Trust's representation that the information contained in the regulatory applications and additional information furnished to us by the Bank and its independent auditors are truthful, accurate and complete. We did not independently verify the financial statements and other information provided by the Bank and its independent auditors, nor did we independently value the assets or liabilities, on or off balance sheet, of the Bank. The valuation considers Pacific Trust only as a going concern and should not be considered as an indication of the liquidation value of the Bank.

Board of Directors

March 15, 2002

Page 3

Our appraised value is predicated on a continuation of the current operating environment for Pacific Trust and for all thrifts. Changes in the local, state and national economy, the legislative and regulatory environment, the stock market, interest rates, and other external forces (such as natural disasters or significant world events) may occur from time to time, often with great unpredictability and may materially impact the value of thrift stocks as a whole or the Bank's value

alone. It is our understanding that Pacific Trust intends to remain an independent institution and there are no current plans for selling control of the Bank as a converted institution. To the extent that such factors can be foreseen, they have been factored into our analysis.

Pro forma market value is defined as the price at which First PacTrust Bancorp's stock, immediately upon completion of the conversion offering, would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or sell and both having reasonable knowledge of relevant facts.

Valuation Conclusion

It is our opinion that, as of March 15, 2002, the aggregate pro forma market value of Bancorp's common stock, is \$31,000,000 at the midpoint, equal to 3,100,000 shares, based on an offering price per share value of \$10.00. The resulting range of value pursuant to regulatory guidelines, and the corresponding number of shares based on the Board determined \$10.00 per share offering price, is set forth below.

<u>Valuation Range</u>	<u>Offering Amount</u>	<u>Total Shares Issued</u>
Minimum	\$26,350,000	2,635,000
Midpoint (Appraised Value)	\$31,000,000	3,100,000
Maximum	\$35,650,000	3,565,000
Supermaximum	\$40,997,500	4,099,750

Limiting Factors and Considerations

Our valuation is not intended, and must not be construed, as a recommendation of any kind as to the advisability of purchasing shares of the common stock. Moreover, because such valuation is necessarily based upon estimates and projections of a number of matters, all of which are subject to change from time to time, no assurance can be given that persons who purchase shares of common stock in the conversion will thereafter be able to buy or sell such shares at prices related to the foregoing valuation of the pro forma market value thereof.

RP Financial's valuation was determined based on the financial condition and operations of Pacific Trust as of December 31, 2001, the date of the financial data included in the regulatory applications and prospectus.

*Board of Directors
March 15, 2002
Page 4*

RP Financial is not a seller of securities within the meaning of any federal and state securities laws and any report prepared by RP Financial shall not be used as an offer or solicitation with respect to the purchase or sale of any securities. RP Financial maintains a policy which prohibits the company, its principals or employees from purchasing stock of its client institutions.

The valuation will be updated as provided for in the conversion regulations and guidelines. These updates will consider, among other things, any developments or changes in the Bank's financial performance and condition, management policies, and current conditions in the equity markets for thrift shares. These updates may also consider changes in other external factors which impact value including, but not limited to: various changes in the legislative and regulatory environment, the stock market and the market for thrift stocks, and interest rates. Should any such new developments or changes be material, in our opinion, to the valuation of the shares, appropriate adjustments to the estimated pro forma market value will be made. The reasons for any such adjustments will be explained in the update at the date of the release of the update.

Respectfully submitted,
RP FINANCIAL, L.C.

Ronald S. Riggins
President and Managing Director

James P. Hennessey
Senior Vice President

RP Financial Approach to the Valuation	4.1
Valuation Analysis	4.2
1. Financial Condition	4.3
2. Profitability, Growth and Viability of Earnings	4.4
3. Asset Growth	4.5
4. Primary Market Area	4.5
5. Dividends	4.7
6. Liquidity of the Shares	4.8
7. Marketing of the Issue	4.9
A. The Public Market	4.9
B. The New Issue Market	4.15
C. The Acquisition Market	4.16
8. Management	4.18
9. Effect of Government Regulation and Regulatory Reform	4.18
Summary of Adjustments	4.19
Valuation Approaches	4.19
1. Price-to-Earnings ("P/E")	4.20
2. Price-to-Book ("P/B")	4.21
3. Price-to-Assets ("P/A")	4.22
Comparison to Recent Conversions	4.22
Valuation Conclusion	4.22

RP Financial, LC.

LIST OF TABLES
PACIFIC TRUST BANK
CHULA VISTA, CALIFORNIA

<u>TABLE</u>	<u>DESCRIPTION</u>	<u>PAGE</u>
1.1	Historical Balance Sheets	1.7
1.2	Historical Income Statements	1.11
2.1	Summary Demographic Data	2.3
2.2	Major Employers in San Diego and Riverside Counties	2.8
2.3	Unemployment Trends	2.9
2.4	Employment Projections	2.10
2.5	Deposit Summary for San Diego and Riverside Counties	2.15
3.1	Peer Group of Publicly-Traded Thrifts	3.3
3.2	Balance Sheet Composition and Growth Rates	3.8
3.3	Income as a Percent of Average Assets and Yields, Costs, Spreads	3.11
3.4	Loan Portfolio Composition and Related Information	3.13
3.5	Credit Risk Measures and Related Information	3.15
3.6	Interest Rate Risk Measures and Net Interest Income Volatility	3.16

4.1	Peer Group Market Area Comparative Analysis	4.6
4.2	Market Area Unemployment Rates	4.7
4.3	Pricing Characteristics and After-Market Trends	4.17
4.4	Public Market Pricing	4.24

RP Financial, LC.

Page 1.1

I. OVERVIEW AND FINANCIAL ANALYSIS

Introduction

Pacific Trust Bank ("Pacific Trust" or the "Bank") is a federally-chartered mutual savings bank operating eight office locations in the greater metropolitan area of San Diego, California. The Bank's main office in Chula Vista is located approximately 10 miles south of downtown San Diego, while the remaining offices are located throughout San Diego County and, to a lesser extent, Riverside County. Certain locations reflect the Bank's former credit union corporate affiliation with Goodrich Aerostructures Group ("Goodrich"), a division of Goodrich Corporation (formerly Rohr, Inc. or "Rohr", until the 1997 merger). Goodrich is primarily engaged in the manufacture of aerospace structures including jet nacelles and pylons in the San Diego area.

The Bank was originally chartered as a federal credit union in 1941 in affiliation with Rohr. As the field of membership expanded over time, Rohr Employees Federal Credit Union changed its name to Pacific Trust Federal Credit Union. Pacific Trust completed a charter change from a federal credit union to a mutual federal savings bank on January 1, 2000 (the "Charter Conversion"), and has since been regulated by the Office of Thrift Supervision ("OTS"). The Bank is currently a member of the Federal Home Loan Bank ("FHLB") system. The Bank's deposits are insured up to the regulatory maximums by the Savings Association Insurance Fund ("SAIF") of the Federal Deposit Insurance Corporation ("FDIC").

The Charter Conversion was pursued to broaden the customer base beyond the authorized field of membership to include the general public in San Diego and Riverside Counties. Such customer diversification has reduced the exposure to volatility in the aerospace sector. Over the years, the Bank has evolved into a full-service, multi-branch institution serving the greater San Diego area. The Bank's limited operations to date as a federal savings bank have been characterized by growth in both deposits and loans. As would be expected, the Bank's profitability today reflects its status as a taxable institution, resulting in a less profitable posture than prior to the Charter Conversion. To some degree, the Bank's current profitability also reflects the expense of transitioning from a corporate credit union to a community-based thrift.

RP Financial, LC.

Page 1.2

As of December 31, 2001, the Bank maintained \$310.1 million in assets, \$252.0 million in deposits and \$28.8 million in equity, equal to 9.3% of assets. For the 12 months ended December 31, 2001, the Bank reported net income of \$2.1 million, equal to 0.68% of average assets.

Plan of Conversion

On March 1, 2002, the Board of Directors adopted a plan to reorganize as a unitary thrift holding company (the "Reorganization"), whereby Pacific Trust will become a wholly-owned subsidiary of First PacTrust Bancorp, Inc. ("Bancorp") and Bancorp will conduct an offering of its common stock. Concurrent with the Reorganization, Bancorp will retain approximately 50% of the net conversion proceeds, and the balance will be downstreamed to the Bank. It is not currently anticipated that the Bancorp will engage in any significant business activity other than ownership of the subsidiary bank and management of the net proceeds retained at the holding company level. The assets and liabilities of the stock subsidiary will be substantially equivalent to those of Pacific Trust prior to the Reorganization, before incorporating the impact of the conversion transaction.

The conversion offering is expected to provide the capital necessary to facilitate continued expansion and diversification. The conversion also provides the opportunity for local stock ownership, which may enhance the financial success of the Bank if local shareholders become/remain customers and promote the Bank's products and services.

The near term deployment of the net offering proceeds is anticipated to be as follows.

Bancorp. Bancorp is expected to retain up to 50% of the net proceeds of the offering including the proceeds to fund the loan to the ESOP, with the remaining funds downstreamed to the Bank for reinvestment in interest-earning assets. The remaining funds are expected to be initially invested in high quality investment securities with relatively short duration.

Over time, Bancorp funds will be utilized for various corporate purposes, including the possible payment of regular and/or special

cash dividends, acquisitions, infusing additional equity into the Bank and/or repurchases of common stock. Dividends are expected to be paid to Bancorp from the Bank, provided the Bank remains well-capitalized.

RP Financial, LC.
Page 1.3

Pacific Trust. At least 50% of the net proceeds will be infused into the Bank in exchange for all of the Bank's stock. The net investable cash proceeds are expected to be lower based on expectations of deposit withdrawals to fund stock purchases. Cash proceeds infused into the Bank will initially become part of general funds, which are expected to be initially invested into cash and short-term investments pending reinvestment into whole loans and the Bank's regular investment activities.

On a pro forma basis, Pacific Trust is expected to have a capital ratio above regulatory requirements. The Board of Directors has determined to pursue a strategy of controlled growth in order to maintain well-capitalized status, with growth expected to be funded primarily through local retail deposit growth. Bancorp may also consider various capital management strategies if appropriate to assist in the long-run objective of increasing return on equity.

Strategic Overview

Pacific Trust operates as a community-oriented financial institution, with its primary focus on meeting the mortgage and retail deposit needs of the local community in San Diego and Riverside Counties. In the face of intense competition from conforming mortgage lenders, the Bank's lending strategy focuses on two population groups: the low to moderate income population, primarily through multifamily lending whereby affordable rental rates are offered; and, the upper income population, particularly through jumbo and super jumbo residential mortgage lending. Such lending is largely focused on sales of existing units. Additionally, construction and consumer lending has been an important albeit smaller component of the Bank's historical lending operations.

The Bank's 1-4 family lending is conducted through direct solicitation techniques utilizing targeted marketing, the Internet and through certain real estate and mortgage broker industry relationships maintained by its executive and lending staff. At the present time, the majority of the Bank's loan volume is derived from brokers and other 3rd party lenders, who take applications consistent with the Bank's lending programs. These applications are submitted to the Bank for underwriting and funding decisions. Currently, the majority of the applications are from three brokers. Loans are also acquired through bulk purchases from, and participations with, other lenders.

RP Financial, LC.
Page 1.4

The Bank originates and purchases non-conforming loans for portfolio, and these loans currently represent a majority of the 1-4 family portfolio. Such loans are typically non-conforming due to the size of the loan (i.e., jumbo or super jumbo mortgages) or other characteristics (i.e., negative amortization loans whereby the loan payment may not cover the principal and interest and the difference is added to the loan balance). Although non-conforming with agency standards, the Bank does not believe the credit risk profile of such loans are significantly higher than conforming 1-4 family loans. At the same time, the Bank's rapid growth since the Charter Conversion has resulted in limited seasoning on a large portion of the portfolio.

Operations have been primarily funded with retail deposits attracted from the local area, and, to a lesser extent, borrowed funds. Past operations as a credit union have resulted in a predominantly retail deposit portfolio, with core deposits, such as passbook, money market and non-interest checking accounts, representing more than 50% of current deposits. While these core deposits provide a stable low cost deposit base, they require a higher level of customer service relative to certificates of deposit ("CDs").

In the first year following the Charter Conversion, Pacific Trust expanded at a relatively rapid pace, in part due to favorable market conditions and the demand for the types of loans offered by the Bank. Growth was more limited in fiscal 2001, as Pacific Trust realized high loan repayment rates and was reluctant to invest free cash flow into low yielding long term mortgages which were predominant in the market. The Bank will continue to seek to grow at a moderate to strong pace, facilitated by the Bank's position as one of three locally-owned and operated savings banks in San Diego County. In order to enhance the ability to grow, Pacific Trust opened a new branch office in San Diego in early March 2002 and plans on opening additional branches over the next couple of years. Future branch locations are expected to be primarily "fill-in" branches in the greater San Diego metropolitan area.

Despite the growth and customer diversification since the Charter Conversion, a large portion of the Bank's customers, particularly deposit customers, continue to be employees of Goodrich. Goodrich has announced a substantial downsizing of its workforce, in the range of 20% of its workforce during coming months, potentially including employees in southern California. Historically, such workforce downsizing led to significant deposit withdrawals as

well as increased loan delinquencies and loan losses. While the recent diversification of the customer base is expected to temper the impact of such job losses on the Bank, Pacific Trust may still be impacted to a greater extent than other local banks and thrifts of such downsizing.

Today, the Bank offers a broader array of banking services, including: (1) a wide variety of retail deposits products and related services (ATM and debit cards, safe deposit boxes, wire transfers, online banking and telephone banking); and (2) a variety of lending programs, including fixed and adjustable residential and commercial mortgage lending and consumer lending.

The Bank's primary lending objective is to serve the local community as a portfolio lender, which uniquely postures the Bank to be more flexible in its residential lending programs than the majority of the conforming mortgage lenders operating in the market. As a growing community-sized thrift, the Bank seeks to provide attractive rates on loans and deposit products and maintain a lower service charge structure in comparison to local competition. While such pricing strategies may limit profitability in the short-run, such strategies are designed to stimulate growth and thus improve return on equity over the longer run.

Today, the credit union depositors are estimated to hold approximately 80% of total deposits, but only 37% of total loans. The proportion of borrowers with a deposit relationship has rapidly declined since the Charter Conversion. As a credit union, Pacific Trust was restricted to making loans only to members, i.e., those customers with an existing deposit relationship. As such lending restrictions were removed, the Bank commenced an active program of originating loans for non-customers. This loan diversification away from the former credit union members has lessened the Bank's credit risk profile directly linked to the aerospace industry.

Uniquely, the Bank has retained certain credit union affiliations which may provide a slight competitive advantage. First, the Bank continues to be a member of The CO-OP ATM Network, which features over 10,000 ATMs nationwide where the Bank's customers can make deposits or withdrawals without paying a service charge. Second, the Bank is a member of the CU Service Centers, where the Bank's customers can perform deposit and loan transactions at hundreds of CU Service Centers "shared branches" located throughout the country (the Bank's Temecula branch is a "shared branch", and is among the busiest in the CU Service Centers

network). At the same time, the enhanced customer access through these credit union organizations does not provide the Bank any revenues, and the Temecula "shared branch" actually costs the Bank certain related staff and office expense.

At present, the Bank's operations are limited by its current internal data processing system, which is geared towards credit union operations. For example, the Bank is currently unable to service residential mortgage loans on its system and thus must outsource the loan servicing function to a 3rd party under a fee arrangement. The pending data processing conversion, which has presented several hurdles, delays and considerable expense to date, is still months away. The software and hardware upgrades are expected to adversely impact earnings initially, but are expected to improve customer convenience, delivery of products and services and operating efficiency.

While Pacific Trust recognized certain benefits with regard to its credit union charter including its non-taxable status and strong corporate ties, the credit union charter limited the types of products and services it could offer and to whom. Prior to the Charter Conversion, the Bank had developed a niche in mortgage lending but was limited in its ability to expand such lending operations beyond the field of membership. Today, the Bank has the ability to serve the local community and offer a more diverse array of products and services.

Balance Sheet Trends

Growth Trends

Growth trends over the last five fiscal years reflect the impact of the Charter Conversion on Pacific Trust's operations. Through the end of fiscal 1999, balance sheet growth was relatively limited by the field of membership restrictions of its credit union charter. Operating as a savings bank in fiscal 2000, the Bank's community-wide focus enabled it to realize relatively strong loan and asset growth. Specifically, loans and assets increased by 60.4% and 33.3%, respectively, in fiscal 2000 (see Table 1.1 for details). Balance sheet growth subsided in fiscal 2001 as the low interest rate environment accelerated loan repayment rates while the Bank was selective in adding in longer term fixed rate mortgage loans in the low interest rate environment.

(Table 1.1 on this page)

Growth in fiscal 2000 was primarily funded through FHLB advances, which increased from a zero balance at the end of fiscal 1999 to \$53.8 million as of December 31, 2000. Subsequently, a portion of the Bank's borrowings have been retired and replaced with deposit growth. In fiscal 2001, the level of borrowed funds decreased by 48% to \$28 million while deposits increased 15.2% in fiscal 2001 to \$252.0 million.

The equity growth rate slowed following the Charter Conversion as the Bank became a fully-taxable entity. In this regard, while the average rate of equity growth over the last five fiscal years equaled 13.76 percent, equity increased by only 10.1% and 8.6% in fiscal 2000 and 2001, respectively. The future equity growth rate will fall well below historical levels as the earnings will continue to be taxable and the equity base will increase with net proceeds.

Loans Receivable

As previously noted, the Bank has been primarily emphasizing real estate lending, primarily the origination and purchase of 1-4 family residential mortgage loans. Over the long term, the Bank plans to continue to emphasize 1-4 family residential mortgage loans, while also gradually building the portfolio of multi-family mortgage loans. The majority of Pacific Trust's 1-4 family residential mortgage loans consist of loans which are non-conforming to standards set by Freddie Mac, Fannie Mae or Ginnie Mae, as the Bank's intention is to hold such loans for portfolio, a key aspect of its competitive profile. The Bank's residential mortgages are typically variable rate or hybrid ARMs (i.e., fixed for a period of up to 7 years and adjustable thereafter).

Pacific Trust's loan portfolio composition as of December 31, 2001, reflects the Bank's emphasis on residential lending, whereby permanent first mortgage loans secured by 1-4 family residential properties totaled \$185.4 million, or 71.6% of total loans. At the same date, multi-family and commercial real estate loans approximated 18.3%, while the balance of the loan portfolio consisted of construction loans (1.0%) and non-mortgage loans (9.1%).

Cash, Investments and Mortgage-Backed Securities

Pacific Trust's preference is to deploy the majority of assets into loans while maintaining required liquidity. The Bank anticipates initially reinvesting the net conversion proceeds into investments with shorter maturities, pending longer-term deployment primarily

into loans. Pacific Trust does not anticipate significant changes in liquidity portfolio composition following the stock conversion.

Investment securities equaled \$13.7 million, or 4.4% of total assets, as of December 31, 2001. Cash and interest-bearing deposits totaled \$18.0 million, or 5.8% of assets. As of December 31, 2001, the cash and investments portfolio consisted of cash, interest-earning deposits in other financial institutions, collateralized mortgage obligations ("CMOs") issued by Ginnie Mae, Fannie Mae or Freddie Mac, and U.S. government agency obligations. Additionally, the Bank holds FHLB stock.

Due From Servicing Agent

The Bank has contracted with a servicing agent to process payments and service a portion of the Bank's real estate mortgage loan portfolio (primarily the 1-4 family residential mortgage loan portfolio). The servicing agent remits cash received in connection with loan payments made to the Bank and remits such cash receipts to the Bank within 15 days of the end of each month for the loan payments received. The accrued amounts (i.e., the accrued amounts paid by the borrower but not yet received by the Bank) are reflected as due from servicing agent on the financial statements. As of December 31, 2000 and 2001, funds due from the Bank's servicing agent totaled \$7.9 million (2.6% of assets) and \$11.7 million (3.8% of assets), respectively.

Funding Structure

The Bank's assets were funded with a combination of retail deposits, borrowings, and retained earnings as of December 31, 2001. Retail deposits have

consistently met the substantial portion of Pacific Trust's funding needs. The Bank has been a member of the Federal Home Loan Bank since January 1999 and has had the ability to borrow from this source since that time. Pacific Trust also had the capacity to borrow however from a corporate credit union prior to the Charter Conversion. Partially as a result of the former credit union charter, the Bank maintains a strong level of core deposit accounts, which totaled \$129.0 million, or 51.2% of total deposits, as of December 31, 2001. While savings and transaction accounts comprise the largest portion of deposits in aggregate, CDs comprise the single largest segment of deposits and equaled \$123.0

RP Financial, LC.

Page 1.10

million, or 48.8% of total deposits. In comparison, NOW and Money Market totaled \$82.4 million, or 32.7% of deposits and savings accounts totaled \$42.5 million, or 16.9% of deposits

As of December 31, 2001, borrowed funds consisting solely of \$28 million of FHLB advances, equal to 9.0% of total assets. The Bank expects to continue to utilize borrowings: (1) when such funds are priced attractively relative to deposits; (2) to lengthen the duration of liabilities; (3) to enhance earnings when attractive revenue enhancement opportunities arise; and (4) to generate additional liquid funds, if required. The level of borrowings increased to \$53.8 million as of December 31, 2000, to fund strong loan growth achieved during fiscal 2000. The level of borrowings diminished in fiscal 2001 as strong deposit growth facilitated the reduction of borrowings as loan growth slowed.

Capital

The Bank maintained capital surpluses relative to all of its regulatory capital requirements at December 31, 2001, qualifying as a "well capitalized" institution. As of December 31, 2001, the equity/assets ratio was 9.27%. The addition of conversion proceeds will serve to further strengthen will serve to further strengthen Pacific Trust's capital position.

Income and Expense Trends

The Bank's net income through fiscal year 1999 reflect a non-taxable position, whereas earnings for fiscal 2000 and thereafter reflect a taxable position. Additionally, the earnings for fiscal 2000 reflect a large one-time benefit related to the establishment of a deferred tax asset on the outstanding balance of valuation allowances and, thus, the tax rate for fiscal 2000 is below the marginal rate. Due to the change in tax status, for historical analysis purposes we have also analyzed the Bank's earnings prior to the Charter Conversion assuming a 42% tax.

Pacific Trust's fiscal 2001 net income totaled \$2.1 million, equal to 0.68% of average assets (see Table 1.2). Fiscal 2001 earnings nearly approach core earnings as there are few non-recurring items other than a small gain on sale and certain expenses pertaining to the pending data processing conversion. On a core after-tax basis, excluding non-recurring gains and losses and incorporating a tax effect equal to 42% of pre-tax income for all years prior to fiscal 2001,

RP Financial, LC.

Page 1.11

(Table 1.2 on this page)

RP Financial, LC.

Page 1.12

earnings have ranged between \$1.3 million (0.48% of average assets) in fiscal 2000 to \$2.1 million (0.69% of average assets) reported in fiscal 2001. The Bank's after-tax core income trended downward between fiscal 1998 and fiscal 2000, primarily as a result of continued net interest income compression, a steady reduction in other non-operating income and an increase in operating expenses following the Charter Conversion. Core earnings improved in fiscal 2001 as the Bank realized the benefit of balance sheet growth in the prior year, as the operating expense ratio declined while the ratio of net interest income increased. Trends with regard to the components of the Bank's earnings are explained more fully below.

Net Interest Income

Pacific Trust's net interest income ratio reflects compression from fiscal 1997 through fiscal 2000 due to several factors. First, balance sheet growth was limited between fiscal 1997 and fiscal 1999, thus the interest rate environment was more pronounced to the Bank. Growth in loans, deposits and borrowings realized in fiscal 2000 did not immediately benefit net interest income as many of the ARMs placed into portfolio had low initial "teaser" rates which provided a limited spread. Additionally, much of the balance sheet growth was realized in the latter half of fiscal 2000 and thus, the earnings benefit was only partially reflected in earnings in fiscal 2000.

Net interest income increased by \$1.9 million in fiscal 2001 to equal \$10.2 million, or 3.33% of average assets. Recent growth in interest income reflects both an improving spread as well as the impact of growth. More specifically, the Bank's asset yields increased by 4 basis points in fiscal 2001 while the cost of funds diminished by 20 basis points, providing for a 24 basis point overall improvement in the Bank's net interest rate spread to 337 basis points. Details regarding the Bank's yields, costs and spreads are included as Exhibit I-4.

Loan Loss Provisions

Provisions for loan losses totaled \$1.2 million, equal to 0.58% of asset in fiscal 1997, which primarily reflected a greater portfolio concentration in credit card loans and other unsecured consumer loans. The Bank realized net recoveries in fiscal 1998 and modest loan loss provisions equal to \$92,000 in fiscal 1999. Loan loss provisions increased in fiscal 2000 to

RP Financial, LC.
Page 1.13

\$444,000, owing to substantial growth in mortgage loans during the year. Loan loss provisions equaled only \$68,000 in fiscal 2001 as growth in the loan portfolio was limited and non-performing asset levels continued to be limited. The Bank evaluates the adequacy of the level of general valuation allowances ("GVAs") on a regular basis, and establishes additional loan loss provisions in accordance with the Bank's asset classification and loss reserve policies.

Non-Interest Income

The Bank's non-interest income has steadily declined in recent years largely due to a business strategy to competitively position the Bank as a low fee service provider. The Bank's non-interest income is generated from the Bank's core deposit base in the form of various fees and charges on deposit accounts and transactions. A smaller portion of this income is obtained from other miscellaneous retail banking sources and lending activities. Non-interest income is expected to remain at moderate levels since Pacific Trust employs a low fee structure as a marketing tool. Non-interest income totaled \$1.1 million for the 12 months ended December 31, 2001, equal to 0.35% of average assets.

Operating Expenses

After gradually increasing through fiscal 2000, operating expenses have increased significantly in fiscal 2001 due in part to the preparations for the data processing conversion and de novo branch opening. For fiscal 2001, operating expenses totaled \$7.6 million, equal to 2.47% of average assets. While the dollar amount of operating expenses has increased since 1999, the operating expense ratio has declined, from 2.85% of average assets in fiscal 1999 to 2.47% of average assets in fiscal 2001, reflecting the benefit of growth.

In the future, Pacific Trust expects that operating expenses will continue to increase given the Bank's growth and expansion targets and due to the costs of the stock-related benefit plans. At the same time, continued growth and reinvestment of the conversion proceeds should offset the anticipated expense increase.

RP Financial, LC.
Page 1.14

Non-Operating Income/Expense

Net non-operating income (expense) has had a minor impact on overall profitability in recent years. For the 12 months ended December 31, 2001, the Bank realized net losses of \$55,000 on the sale of certain available for sale ("AFS") securities.

Taxes

Prior to January 1, 2000, Pacific Trust incurred no tax liabilities due to its exempt status as a credit union. Following the Charter Conversion, the Bank became subject to standard taxation, which approximated a combined federal and state tax rate of 42% for fiscal 2001.

Efficiency Ratio

The Bank's efficiency ratio parallels the trends noted with regard to the Bank's core income. Specifically, the efficiency ratio increased from fiscal 1997 to fiscal 2000, from 64.46% to 72.77 percent, which paralleled a general decline in the Bank's core earnings over this time frame. During fiscal 2001, Pacific Trust's efficiency ratio improved to 67.08% while core earnings also improved in fiscal 2001. On a post-offering basis, the efficiency ratio is expected to show some improvement as the net interest ratio increases with the reinvestment of proceeds, although the increased operating expenses (reflecting the public company and stock plans expense) may limit the improvement.

Interest Rate Risk Management

Pacific Trust's interest rate risk management strategy has been developed to seek a balance between controlling risk and maintaining profitability levels. The rate shock analysis as of December 31, 2001 (see Exhibit I-6) reflects a modest liability sensitive position with the net portfolio value ("NPV") declining by a projected 80 basis points pursuant to a positive 200 basis point instantaneous and permanent rate shock, resulting in a post-shock NPV ratio equal to 12.50 percent. By way of comparison, OTS estimates NPV data on a regional and national basis. Based on OTS estimates incorporating September 30, 2001 financial data and market rate information, assuming a positive 200 basis point instantaneous and permanent rate shock, the

RP Financial, LC.

Page 1.15

post-shock NPV ratio for all thrifts operating in the OTS Western Region equaled 9.34 percent, which reflects a 105 basis point decline relative to the base scenario.

The NPV analysis is an indicator to the risk of earnings in a volatile interest rate environment as it incorporates changing assumptions with respect to maturity and repricing of assets and liabilities. The OTS NPV analysis indicates that Pacific Trust has a higher NPV ratio and lower interest sensitivity measure (i.e., the change in the post-shock NPV ratio is more limited) pursuant to a rising interest rate scenario, which is typically the more adverse scenario for a thrift institution. In this regard, the Bank's interest rate risk exposure is moderated by the relatively high level of ARMs whose short to intermediate term repricing structure closely matches the short term repricing structure of the deposit base.

Overall, the data suggests that the Bank's earnings would be impacted on moderately by changes in market interest rate levels. On a pro forma basis, the Bank's interest rate risk position is expected to improve as the conversion proceeds are reinvested in interest earning assets.

Lending Activities and Strategy.

Pacific Trust's portfolio lending strategy has been developed to take advantage of the Bank's expertise in the origination and servicing of 1-4 family residential mortgage loans as well as income producing property loans primarily secured by multi-family properties. To a lesser extent, the Bank will originate or purchase other loans such as construction, consumer and commercial loans. Details regarding the Bank's loan portfolio composition are included in Exhibits I-7, I-8 and I-9.

Residential Lending

As of December 31, 2001, 1-4 family residential mortgage loans approximated \$185.4 million, or 71.6% of total loans. The 1-4 family residential loan programs and terms currently offered by the Bank are summarized on the rate schedules included in Exhibit I-2. Pacific Trust originates both fixed rate and adjustable rate 1-4 family mortgage loans. The Bank's general philosophy is to seek to originate adjustable rate loans and/or shorter-term fixed rate mortgage loans for portfolio (hybrid loans with a fixed rate of up to 7 years initially). The repricing of ARM loans is tied to a variety of indexes primarily including the 11th district cost of

RP Financial, LC.

Page 1.16

funds index, U.S. Treasury rate and LIBOR. Depending on the type of loan, there are a variety of periodic and lifetime rate caps which are generally structured based on the conditions prevailing in the competitive market. Periodically, the Bank will sell both fixed or adjustable rate loans, primarily for asset-liability management purposes.

Pacific Trust originates 1-4 family loans up to a loan-to-value ("LTV") ratio of 90%, with private mortgage insurance ("PMI"), or a self-insured rate premium, being required for loans in excess of a 80.0% LTV ratio. Substantially all of the 1-4 family mortgage loans originated or purchased by the Bank are secured by residences in southern California.

As a complement to 1-4 family permanent mortgage lending, the Bank also offers home equity loans including fixed rate amortizing term loans and variable rate lines of credit tied to the Prime rate.

Multi-Family and Commercial Mortgage Lending

Multi-family and commercial mortgage lending has been an area of portfolio diversification for the Bank. Such loans are typically secured by properties in southern California but the Bank may originate or purchase loans secured by properties in other California markets or other nearby western states in the future. As of December 31, 2001, multi-family and commercial mortgage loans equaled \$47.4 million, or 18.3% of total loans; the majority of this portfolio is secured by multi-family mortgage loans secured by properties within the Bank's normal lending territory.

Multi-family loans are typically offered with adjustable rates of interest, which adjust based on a U.S. Treasury index, the Prime rate, or COFI index, and typically possess terms ranging up to 5 to 30 years and loan-to-value ratios of up to 80%, and target a debt-coverage ratio of at least 1.2 times. The typical multi-family property has between 5 and 20 units and are moderately priced within the range of rental properties exhibited by the local markets overall. Nonresidential real estate loans generally have adjustable rates, terms of up to 30 years and LTVs of up to 80%, and target a debt coverage ratio of at least 1.2 times. Among the properties securing nonresidential real estate loans are small retail centers, office buildings and motels.

RP Financial, LC.
Page 1.17

Construction Loans

On a relatively limited basis, Pacific Trust originates or participates in construction loans for residential and non-residential buildings. Residential construction loans may be made to both owner-occupants and to builders on a speculative (unsold) basis. Construction loans for 1-4 family residences have LTVs of up to 80%, and construction loans for commercial, multifamily and nonresidential properties have LTVs of up to 75%. At December 31, 2001, Pacific Trust had approximately \$2.5 million of construction loans, equal to 1.0% of total loans. Construction lending is expected to remain a limited portion of the loan portfolio.

Non-Mortgage Loans

Pacific Trust originates non-mortgage loans, including commercial and consumer loans, which in the aggregate, totaled \$23.6 million as of December 31, 2001. The majority of Pacific Trust's non-mortgage loans consist of consumer loans including loans on deposit, auto loans and various other installment loans. The Bank primarily offers consumer loans (excluding second mortgage loans and home equity lines of credit) as an accommodation to customers. The Bank occasionally extends commercial loans, working capital lines of credit, loans for equipment and loans for other business purposes. Such loans are typically extended to accommodate existing customers.

Loan Originations, Purchases and Sales

As discussed in the Strategic Overview earlier in this section, the Bank's 1-4 family lending is conducted both in a traditional fashion utilizing direct solicitation techniques, through real estate industry relationships maintained by its loan officers, targeted marketing and through the Internet. At the present time, the majority of the Bank's loan volume is derived from loan brokers and other lenders, whereby applications are forwarded from such sources to the Bank where the underwriting and funding decisions are made. Loans are also acquired through the bulk purchase of portfolios and participations with other lenders. Currently the Bank maintains relationships with a number of mortgage bankers (the majority come from 3) which provide the Bank with the majority of its loan applications.

RP Financial, LC.
Page 1.18

Exhibit I-10, which shows the Bank's recent data regarding loan originations, repayments and sales, highlights Pacific Trust's emphasis on residential mortgage and multi-family lending. In this regard, for fiscal 2001, 1-4 family residential mortgage loan originations totaled \$101.1 million or 83% of total loan originations and purchases. High loan repayment rates reflect the current interest rate environment and the high balance of short-term and adjustable rate loans in the portfolio. Accordingly, the level of loan repayments limited the growth in the overall loan balance. The Bank has not been an active seller of loans in recent periods, as loan sales equaled only \$6.3 million in the most recent fiscal year, which is indicative of management's desire to build the loan portfolio and enhance asset yields.

Asset Quality

Pacific Trust's asset quality has improved over the most recent periods examined and the level of non-performing assets ("NPAs") is low currently. As reflected in Exhibit I-9, the NPA balance was de minimus as of December 31, 2001 (only \$10,000), consisting solely of one repossessed auto. While asset quality is strong, the ratio of allowances to total loans has declined from 1.38% as of the end of fiscal 1997 to 0.67% currently (see Exhibits I-5 and I-11).

While Pacific Trust's asset quality has been strong, we believe there are two risk factors which are not reflected in the data. First, the majority of the Bank's loan portfolio is comprised of jumbo and non-conforming mortgage loans as well as income producing property loans, primarily secured by multi-family rental properties. The performance of such loans tends to be highly correlated to the strength of the local economy including the real estate markets, all of which have

been very strong in Pacific Trust's markets through fiscal 2001. Accordingly, in the event of a market downturn, loan portfolio quality may likely diminish more rapidly in comparison to other local lenders. The second risk factor pertains to the limited seasoning of a large portion of the loan portfolio. As reflected in Table 1.1, the balance of loans receivable has increased by \$111.1 million or by 76% over the last two fiscal years. The limited seasoning of the portfolio is important since asset quality problems in mortgage loans often do not initially arise until after several years of seasoning.

RP Financial, LC.

Page 1.19

Funding Composition and Strategy.

As of December 31, 2001, the Bank's assets were funded primarily with deposits, and, to a lesser extent, retained earnings (see Exhibits I-12 and I-13). The Bank's deposit services cater to individuals rather than commercial businesses. At the present time, Pacific Trust's commercial account offerings consist of a limited business checking account.

Deposits

Local retail deposits have consistently addressed the substantial portion of Pacific Trust's funding needs, with core deposits in the form of passbook accounts, money market deposit accounts, NOW accounts and non-interest bearing accounts comprising the majority of deposits. In the aggregate, these accounts totaled \$129.0 million, or 51.2% of total deposits as of December 31, 2001. Although CDs represent the largest single account type for the Bank, the Bank maintains significant balance of savings, NOW and money market accounts.

As of December 31, 2001, CDs accounted for approximately 48.8% of Pacific Trust's deposit base, and approximately 80% of CDs had remaining maturities of one year or less. Large balance CDs (i.e. balances greater than \$100,000), which tend to be more rate sensitive than lower balance CDs, accounted for \$15.6 million, or 6.3% of deposits, at December 31, 2001.

Borrowings

The Bank has utilized borrowed funds to supplement deposits and to facilitate balance sheet growth since Pacific Trust converted to a federal savings bank charter at the beginning of fiscal 2000. The level of borrowings increased to \$53.8 million as of December 31, 2000, to fund strong loan growth achieved during fiscal 2000. The level of borrowings diminished in fiscal 2001, to equal \$28 million, as deposits were utilized to paydown outstanding borrowings. As of December 31, 2001, the borrowings in the Bank's portfolio possessed laddered maturities extending out to 2005.

RP Financial, LC.

Page 1.20

Legal Proceedings

Other than the routine legal proceedings that occur in the Bank's ordinary course of business, the Bank is not involved in litigation which is expected to have a material impact on the Bank's financial condition or operations.

RP Financial, LC.

Page 2.1

II. MARKET AREA

Introduction

Pacific Trust currently conducts operations through its main office in Chula Vista, California, and a total of 7 additional branch offices in San Diego and Riverside Counties in southern California. The Bank's main office in Chula Vista is located approximately 10 miles south of downtown San Diego, while the remaining offices cover a broad cross-section of San Diego and Riverside Counties (see the map of locations below). Certain of the locations reflect, in part, the

credit union roots and the location of Rohr, Inc. The Bank intends to continue expanding its regional branch office network and opened its 7th office on Balboa Avenue in San Diego on March 4, 2002. The Bank anticipates to open at least one new office annually in coming years. Over the near term, the new locations are expected to fill-in gaps in the existing branch office network. Pacific Trust may consider expanding into other nearby markets such as Orange and Los Angeles Counties over the longer term.

[MAP GOES HERE]

RP Financial, LC.
Page 2.2

Future growth opportunities for Pacific Trust depend on the growth and stability of the regional economy, demographic growth trends, and the nature and intensity of the competitive environment. These factors have been briefly examined in the following pages to help determine the growth potential that exists for the Bank and the relative economic health of Pacific Trust's market area. The growth potential and the stability provided by the market area have a direct bearing on the market value of the Bank, and will be factored into our valuation analysis accordingly.

Local and Regional Market Conditions

Economic Overview - San Diego County

San Diego's economy has historically been tied to the military and defense industries and has realized strong growth since the beginning of World War II. The Navy's presence coupled with San Diego's mild economy also attracted the aerospace industry, which has developed an international reputation for pioneering work in both military and civilian air flight. San Diego's economic dependence on defense expenditures expanded with the Navy operations in the region and as defense contracts flowed to local private companies. The reliance upon the defense industry historically brought immense growth and prosperity to San Diego County, but also introduced significant volatility. The region's growth came to a sudden halt in the early 1990s with the combined impact of the national recession, the commencement of the Gulf War, the breakup of the Soviet Union and subsequent end of the Cold War and downsizing of the U.S. military, all of which led to severe recessionary conditions through the mid-1990s.

San Diego's economy has improved dramatically since the mid-1990s when the most longest and deepest recession in 60 years ended. In this regard, many economists and local business leaders believe the most recent economic recovery and expansion were not mere business or cyclical adjustments, but an extensive overhauling and restructuring of the region's basic economic drivers.

From an economy largely dominated by defense and military expenditures, San Diego's economic base has transformed into a more diversified mix of high-technology commercial endeavors. Some of these sectors were by-products of the defense-related industries and knowledge, which capitalized on the highly educated and skilled labor force. Emerging

RP Financial, LC.
Page 2.3

growth areas include telecommunications, electronics, computers, software, and biotechnology.

International trade has also contributed to San Diego's economic recovery in recent years. San Diego's cross border trade and interactions with Mexico provide economic advantages and opportunities for local businesses, becoming an increasingly important facet of San Diego's economic strength. San Diego exports totaled nearly \$9.0 billion in 1999. Mexico and Canada, the U.S. partners under the North American Free Trade Agreement (NAFTA) dominate San Diego's export markets by far, accounting for more than one-half (55%) of all export production. San Diego has clearly benefited from NAFTA, not only because the agreement further opened up the markets of the U.S.'s two largest customers, but because nearby Tijuana and Baja California greatly benefited and was stimulated by the heightened trade and dollars flowing across the border. International trade now accounts for more than one-third (37%) of San Diego's manufacturing dollars and is the largest economic sector for local dollars generated, with electronics, computers, industrial machinery, aerospace and shipbuilding, and instruments leading local production.

Electronics and electrical equipment, specifically, are San Diego's top export commodities, followed by industrial machinery and instruments. Specific products made and exported from San Diego, in addition to televisions, include other radio and broadcasting/communications equipment, cellular telephones, semiconductors, circuit boards, computers, and scientific, medical and other measuring instruments.

Inland Empire

Riverside and San Bernardino Counties are commonly referred to as the "Inland Empire" and together, these two counties comprise the Riverside-San Bernardino Metropolitan Statistical Area ("MSA"). While the Inland Empire encompasses a huge geographic area extending to the Nevada, Pacific Trust's operations are concentrated in the western portions of Riverside County.

The Inland Empire has realized strong business and population growth in the last several decades owing, in part, to defense spending and the large

military infrastructure in the region and to its location adjacent to the high cost coastal areas of Los Angeles, Orange and San Diego Counties. In this regard, many manufacturing, transportation and distribution companies

RP Financial, LC.

Page 2.4

have located in the Inland Empire. The area has also been a magnet for new residents seeking affordable housing outside of the expensive coastal markets.

Like San Diego County, the Inland Empire markets were dramatically impacted by the cutbacks in defense spending and base closures in the early 1990s. Concurrently, other significant employment losses occurred in the financial services and construction sectors, primarily as a result of Southern California's troubled real estate markets. Since that time, the Inland Empire economy has recovered and is one of the fastest growing metropolitan areas in the country.

Much of the Inland Empire's business growth can be attributed to companies that expand locally, and to those that relocate from the nearby coastal counties. Over 750 of the Inland Empire's new business operations have migrated from the congested and high-priced regions of Los Angeles, Orange and San Diego Counties over the last six years -- a trend that is expected to continue in the coming decades. The region's prominent role as a transportation corridor also translates to healthy employment rates in affiliated industries. Fifty-six percent of the region's new businesses were manufacturers, adding over 31,000 jobs into the economic base, while 33% were distributors, which brought over 20,000 jobs to the region. The Inland Empire's modern and rapidly-expanding logistics infrastructure accommodates the transport of goods to every corner of the country and the world, and provides thousands of jobs in the warehousing and transportation of goods, air cargo, rail transportation, and trucking.

Record levels of foreign trade and motion picture production, and a pronounced recovery in tourism have also had a positive economic impact. The Inland Empire's diverse terrain and unique settings make it a popular region for film and entertainment production, while its mountain, lake and desert resorts and proximity to major population centers contributed to tourism. Notwithstanding increasing real estate prices, the Inland Empire still represents a relatively affordable housing market which continues to fuel the residential and commercial construction industries.

RP Financial, LC.

Page 2.5

Market Area Demographics

For reasons described above, San Diego and Riverside Counties have demonstrated strong population growth. The large size of the markets overall - San Diego County has 2.9 million residents while Riverside County has 1.6 million residents - gives the Bank exposure to a large base of potential customers (see Table 2.1), although it is a very competitive market.

Total population in San Diego and Riverside Counties increased at a 1.4% and 3.0% annual rate from 1990 to 2000, respectively, exceeding both state and national averages. Paralleling trends for population growth, the total number of households increased at comparably high levels. Projected population and household data indicates that recent growth trends are expected to continue through 2005.

Based on a recent survey conducted by the San Diego Association of Governments ("SANDAG"), the majority of growth in San Diego County is expected to occur in southern portions of the County near the international border where many of the remaining large tracts of developable land are located. Growth in the City of San Diego and areas in northern portions of the County are expected to be slower based on the limited availability of land for substantial residential construction. Consequently, it is anticipated that southern sections of San Diego County will experience faster growth than the County overall during the next decade.

Median household and per capita income levels in San Diego County (\$45,892 and \$24,123, respectively, as of 2000) are relatively favorable to the national average and comparable to the state average. Riverside County's residents have more modest income levels on average as the median household income, of \$43,898 was below the state average of \$47,551 but above the national average equal to \$41,994 as of 2000. Riverside County's higher average household size supported the median household income, as per capita income levels were relatively modest at \$20,906.

RP Financial, LC.

Page 2.6

Table 2.1

(Table 2.1 on this page)

RP Financial, LC.
 Page 2.7

Local Economy/Largest Employers

The largest employers in San Diego and Riverside Counties reflect the characteristics and trends previously described. In this regard, the major employers in San Diego County reflects the traditionally large role played by the military, but also reflects the growing importance of high tech industries (see Table 2.2). In this regard, the list of largest employers now includes such technology companies as Gateway, Kyocera and Qualcomm, which have grown considerably over the last decade.

The largest employers in Riverside County reflect its suburban character with its mix of government and health care providers, as well as defense related entities including BF Goodrich and March Air Reserve Base. The Riverside County government is the largest employer followed by March Air Reserve Base. As discussed earlier, many Riverside County residents commute to the heavily urbanized coastal areas which are more densely populated and have higher housing prices.

RP Financial, LC.
 Page 2.8

Table 2.2
 Pacific Trust Bank
 Major Employers in San Diego and Riverside Counties

<u>Employer</u>	<u>Business</u>
<u>San Diego County</u>	
Astec America, Inc.	Electric Dist. Equip.
Foodmaker, Inc.	Restaurants
Gateway, Inc.	Computer Equipment
Kyocera	Electronic Components
North Island Naval Air Station	Military
Qualcomm, Inc.	Com. Equipment
San Diego Naval Air Station	Military
Science Applications Int. Corp.	Engineering Services
Sempra Energy	Utility
Sharp Healthcare	Health Care
University of California (La Jolla)	Education
<u>Riverside County</u>	
Riverside County	Government
March Air Reserve Base	Military
Ralphs Grocery Company	Grocery
Wal-Mart	Retailer
Riverside County Regional Medical Center	Health Care
Riverside County Office of Education	Education
Riverside Community College	Education
Stater Brothers Markets	Grocery
Riverside Unified School District	Education
University of California at Riverside	Education
City of Riverside	Government

BF Goodrich
Pacific Bell
Kaiser Permanente
The Press Enterprise
Alvord Unified School District

Aerospace
Telecommunications
Health Care
Publisher
Education

Source: Local Chambers of Commerce.

Unemployment Rates

Unemployment levels on a local, state and national level have been trending upward over the most recent twelve months, reflecting the weakening economy which has led to the current

RP Financial, LC.
Page 2.9

recessionary economic conditions (see Table 2.3). Notwithstanding current economic weakness, unemployment rates in Pacific Trust's markets and the State of California remain at comparatively moderate levels by historical standards. In this regard, the rate of unemployment increased in San Diego County from 2.7% to 3.5% over the prior year and from 5.1% to 5.5% in Riverside County over the corresponding time frame. The rate of increase is below the level for the California as a whole, which increased to 4.7% to 5.9% as of November 2001.

Given that there are signs that the Federal Reserve rate reductions are having their intended effect to stimulate the economy, the current level of unemployment may be nearing peak levels. Proposed increases in defense spending may have a favorable impact on regional labor conditions.

Table 2.3
Pacific Trust Bank
Unemployment Trends (1)

<u>Region</u>	<u>November 2000 Unemployment</u>	<u>November 2001 Unemployment</u>
United States	4.0%	5.6%
California	4.7	5.9
San Diego County	2.7	3.5
Riverside County	5.1	5.5

(1) Unemployment rates are not seasonally adjusted.
Source: U.S. Bureau of Labor Statistics.

Employment Projections

Employment projections for San Diego and Riverside Counties, provided by the Employment Department of the State of California, are set forth in Table 2.4. The projections reflect strong projected growth for the labor market, paralleling overall population growth trends. Over the seven year period from 1997 to 2004, total non-farm employment is projected to increase by 17.7% in San Diego County (2.4% compound annual growth) and by 25.0% in Riverside County (3.2% compound annual growth). These growth rates translate into 186,500

RP Financial, LC.
Page 2.10

additional projected non-farm jobs in San Diego County and 92,600 additional non-farm jobs in Riverside County. It is expected that job growth will continue to be fueled by the same economic and demographic forces at work during the 1990s (i.e., defense, aerospace, international trade, etc.). Service sector jobs represent the largest component of growth for both San Diego and Riverside Counties, as the service sector alone are projected to account for approximately 49% and 35% of all job growth, respectively. Other significant areas of growth are projected to include the trade, government, manufacturing and construction sectors.

RP Financial, LC.
Page 2.11

Real Estate Markets

Since Pacific Trust emphasizes real estate lending, the health and trends with regard to condition prevailing in the local real estate market are important to understand the opportunities and risks. The following provides a summary of the conditions prevailing in each sector of the real estate market.

San Diego County

Residential Housing

In both the rental and sale markets, the residential housing demand continues to outpace supply. Despite the high demand for housing, requests for new housing construction permits have decreased, although the number of permits granted remains higher than the level granted during the last recession. A cooling economy has had little impact on the continuing upward trend in apartment rental rates and sales prices in the residential housing market. It is estimated that an additional 50,000 people will move to San Diego annually over the next few years, further supporting the demand side of the housing market.

Industrial Market

The San Diego industrial market is characterized by strong absorption rates, continuing construction activity, low vacancy and strong demand. Driving the market are its defense and high-tech sectors, bustling port activity from international trade with Pacific Rim countries, and the growth of trans-border enterprises as a result of the NAFTA agreement. Standard industrial space vacancy rates have been in the range of 6% to 7% while the average asking rent for standard industrial space has risen an average of 3.1% per year since 1997. This average includes a 2.8% rise in 2000; a smaller gain of 1.7% was estimated for 2001 as landlords began to lose bargaining power in the face of a slow economy. REIS, a national market research firm, estimates average asking and effective rents for such industrial space at \$5.60 per square foot, by year-end 2001, a high figure by U.S. norms. In the future, REIS foresees a scenario of slowly increasing vacancy, with rates for standard space growing to 9.1% by 2003, before decreasing again. Rents are expected to be relatively stable with limited growth over the next few years until vacancy rates decrease in response to growing demand.

RP Financial, LC.
Page 2.12

Office Market

At nearly 47 million square feet, the San Diego office market is small relative to the city's population as many standard office users gravitate north toward Orange County and Los Angeles, or take flex and R&D space instead of orthodox office space. Nonetheless, the market is growing in stature as a result of strong recent rent growth, solid occupancy, and the beginning of a new construction cycle. By the third quarter of 2001, the national economic slowdown had caught up with San Diego's office users. REIS reports an average vacancy of 9.9%, up from 5.5% a year earlier as dot-coms, high-tech companies, and financial services firms were all significantly impacted by the economic slowdown which substantially diminished the need for more office space. As a result of increasing vacancy rates, which REIS estimates will increase to 10.7% in 2002, the growth in rental rates are expected to be tempered. By 2005, however, vacancy should return to the 9% range, according to REIS.

Retail Market

Strong employment gains and high levels of population growth have provided this market with the framework for a strong local retail sector in San Diego. Vacancy levels have been kept low by relatively small amounts of new construction, but the current economic recession, if prolonged, may serve to curb further development while spurring increased vacancy as a result of store closures. As of the end of the third quarter of 2001, the retail vacancy rate had increased slightly to 3.9%, while rents were up modestly from the prior year levels. Between 2002 and 2005 annual construction completions are expected to average 716,000 square feet, as compared to 599,000 square feet of expected annual net absorption. Thus, REIS estimates that vacancy rates will climb into the low 5% range.

Inland Empire

Residential Housing

In both the rental and sale markets, the residential housing demand continues to remain strong, primarily as a result of the on-going disparity in prices of the Inland Empire as compared to nearby areas in Los Angeles, Orange and San Diego Counties. Rental rates for apartments continue to remain strong and REIS projects rental rates to increase in the range of 5% annually over the next several years.

Industrial Market

The region's industrial real estate market continues to show strength in the face of a national economic recession in the form of high occupancy. However, rental growth has slowed. But with affordable land and generally active development profile, the outlook for this market is essentially positive. While REIS expects vacancy rates to increase modestly over the next several years as a result of the sluggish economy, rental rates are expected to remain relatively stable over the near term.

Office Market

The region's office market has been treading water in the midst of the recession as vacancy rates have increased modestly though demand still remains relatively strong. Rental growth has slowed, however, and is expected to show only incremental gains this year. As of the end of the third quarter of 2001, REIS reports a vacancy level of 12.1%, which was estimated to equal 12.4% at year-end. REIS forecasts vacancy rates to decrease modestly in 2002. As a result of the current market weakness, little if any increase in rental rates are expected until the market improves, which REIS projects may be in 2004.

Retail Market

Even though the Inland Empire's population and employment statistics continued to show growth in the face of the national recession, the retail market in San Bernardino/Riverside markets reflects the current state of the economy. In this regard, construction has slowed as developers take a cautious approach in tough economic times. As a result, vacancy rates have increased although rental rates have held relatively firm. As of the end of the third quarter of 2001, REIS reported a vacancy level of 5.7%, forecast to reach 6.3% by year-end. Rents have been increasing by slightly more than 3% a year since 1997, with slightly lower growth in rental rates projected for the future.

Competition

As a savings bank with its primary business functions of real estate lending and the gathering deposits in San Diego and Riverside Counties, Pacific Trust's primary competitors are: (1) other financial institutions with offices in San Diego and Riverside Counties (including banks, thrifts and credit unions); (2) other mortgage loan originators; (3) those depository and lending organizations not physically located within the San Diego area, but capable of doing business remotely through the Internet or by other means; and (4) other competitors such as investment firms, mutual funds, insurance companies, etc.

Competition among financial institutions in the Bank's market is significant. As larger institutions compete for market share to achieve economies of scale, the environment for the Bank's products and services is expected to remain highly competitive. Community-sized institutions such as Pacific Trust typically compete with larger institutions on pricing or operate in a niche that will allow for operating margins to be maintained at profitable levels. The Bank's business plan reflects elements of both strategies.

Table 2.5 displays deposit market trends over recent years for San Diego and Riverside Counties since 1999. The large size of the markets overall are indicated by the deposit totals, which equaled \$30.4 billion for San Diego County and \$12.2 billion for Riverside County. Furthermore, growth trends are relatively favorable as the San Diego County deposit market has been increasing at a 10% annual rate since June 30, 1999, while the Riverside County market has been increasing at a 7% annual rate.

The largest competitors in the markets served by Pacific Trust are comprised of some of the largest financial institutions in California and the nation as a whole. In this regard, Bank of America holds the largest market share in both San Diego and Riverside Counties, equal to 19.8% and 20.9%, respectively, based on deposit data as of June 30, 2001. Other large competitors include Washington Mutual, Wells Fargo, Union Bank and World Savings. At the same time, there are many smaller competitors, each holding less than 1.0% of the deposit market. Based on the most recent branch deposit data, Pacific Trust held 0.63% of the San Diego County market and 0.45% of the Riverside County market.

(Table 2.5 on this page)

RP Financial, LC.

Page 2.16

(Table 2.5 on this page)

RP Financial, LC.

Page 3.1

III. PEER GROUP ANALYSIS

This chapter presents an analysis of Pacific Trust's operations versus a group of comparable savings institutions (the "Peer Group") selected from the universe of all publicly-traded savings institutions in a manner consistent with the regulatory valuation guidelines. The basis of the pro forma market valuation of Pacific Trust is derived from the pricing ratios of the Peer Group institutions, incorporating valuation adjustments for key differences in relation to the Peer Group. Since no Peer Group can be exactly comparable to Pacific Trust, key areas examined for differences are: financial condition; profitability, growth and viability of earnings; asset growth; primary market area; dividends; liquidity of the shares; marketing of the issue; management; and effect of government regulations and regulatory reform.

Peer Group Selection

The Peer Group selection process is governed by the general parameters set forth in the regulatory valuation guidelines. Accordingly, the Peer Group is comprised of only those publicly-traded savings institutions whose common stock is either listed on a national exchange (NYSE or AMEX), or is NASDAQ listed, since their stock trading activity is regularly reported and generally more frequent than non-publicly traded and closely-held institutions. Non-listed institutions are inappropriate since the trading activity for thinly-traded or closely-held stocks is typically highly irregular in terms of frequency and price and thus may not be a reliable indicator of market value. We have also excluded from the Peer Group those companies under acquisition or subject to rumored acquisition, mutual holding companies and recent conversions, since their pricing ratios may be subject to unusual distortion and/or have limited trading history. A recent listing of the universe of all publicly-traded savings institutions is included as Exhibit III-1.

Ideally, the Peer Group, which must have at least 10 members to comply with the regulatory valuation guidelines, should be comprised of locally or regionally-based savings institutions with comparable resources, strategies and financial characteristics. There are approximately 240 publicly-traded institutions nationally and, thus, it is typically the case that the Peer Group will be comprised of institutions with relatively comparable characteristics. To the

RP Financial, LC.

Page 3.2

extent that differences exist between the converting institution and the Peer Group, valuation adjustments will be applied to account for the differences. Since Pacific Trust will be a full public company upon completion of the offering, we considered only full public companies to be viable candidates for inclusion in the Peer Group. From the universe of publicly-traded thrifts, we selected 11 institutions with characteristics similar to those of Pacific Trust. In the selection process, we applied two "screens" to the universe of all public companies subject to the exclusions noted above:

Screen #1. California institutions with total assets of less than \$2 billion. Eight companies met the criteria for Screen #1 and five were included in the Peer Group: ITLA Capital Corp., Quaker City Bancorp, Provident Financial Holdings, Monterey Bay Bancorp and Broadway Financial Corp. Three companies met the foregoing Peer Group selection criteria but were excluded from the Peer Group as follows: (1) Life Financial Corp. was excluded as it was recently recapitalized and the benefits of the recapitalization proceeds have not been reflected in its reported financial data; (2) United PanAm Financial Corp. was excluded as it has a

significant non-banking premium financing operation which it conducts in 22 states and as it has recently filed the regulatory applications to convert to a state-chartered commercial bank; and (3) Hawthorne Financial Corp was excluded owing to its recently announced pending acquisition of First Fidelity Bancorp, which has unduly influenced its pricing ratios due to investor speculation about the pro forma impact of the acquisition. Exhibit III-2 provides financial and public market pricing characteristics of all publicly-traded thrifts in California.

Screen #2. Washington and Oregon based institutions with assets less than \$1 billion. Seven companies met the criteria for Screen #2 and six were included in the Peer Group. The only company identified by Screen #2 that was excluded from the Peer Group was Oregon Trail Financial Corp. in rural eastern Oregon and Washington. Oregon Trail was excluded for market reasons, but primarily since it has been subject to a prolonged proxy battle with an activist shareholder -- which has impacted earnings and its stock price. Exhibit III-3 provides financial and public market pricing characteristics of all publicly-traded thrifts in Washington and Oregon.

Table 3.1 shows the general characteristics of each of the 12 Peer Group members. While there are expectedly some differences between the Peer Group companies and Pacific Trust, we believe that the Peer Group companies, on average, provide a good basis for valuation subject to valuation adjustments. The following sections present a comparison of Pacific Trust's financial condition, income and expense trends, loan composition, interest rate risk and credit risk versus the Peer Group as of the most recent publicly available date.

RP Financial, LC.
Page 3.3

(Table 3.1 on this page)

RP Financial, LC.
Page 3.4

A summary description of the key characteristics of each of the Peer Group companies is detailed below.

ITLA Capital Corp. of CA. ITLA Capital is a \$1.5 billion institution operating through six offices in California, five of which are located in southern California. ITLA Capital maintains a high ratio of loans and the loan portfolio reflects significant diversification in high risk-weight real estate loans. The funding composition reflects a relatively high ratio of borrowings in comparison to the Peer Group. Profitability is above the Peer Group average owing to strong yields generated by the high risk-weight loan portfolio which is further supported by an operating expense ratio which is well below the Peer Group average. Asset quality reflects a relatively high level of real estate owned ("REO") and the reserve ratio to total loans is relatively strong in comparison to the Peer Group average.

Quaker City Bancorp of CA. Quaker City Bancorp is a \$1.4 billion thrift operating through 17 offices in southern California. The overall balance sheet composition is relatively comparable to the Peer Group average, and the loan portfolio composition indicates a wide array of lending. Profitability exceeds the Peer Group average, which is primarily the result of a favorable operating expense ratio. Asset quality was favorable relative to the Peer Group, both in terms of the level of NPAs and reserve coverage ratio.

Provident Financial Holdings of CA. Provident Financial, with an asset base of \$1.1 billion, operates through a network of 12 branches offices in the Inland Empire region of southern California. Provident Financial maintains a high level of investments and borrowings, attributable to a wholesale leveraging strategy. Profitability is below the Peer Group average, and is supported by gains on the sale of loans, reflecting its mortgage banking operations. NPAs are lower than the Peer Group average while the reserve coverage ratio is also modestly lower.

Horizon Financial Corp. of WA. Horizon Financial is a \$745 million thrift operating through 15 branch offices in areas north of Seattle. Horizon Financial's balance sheet reflects a modestly lower ratio of loans and a higher ratio of deposits than the Peer Group averages. Loan portfolio diversification was more limited than the Peer Group given its higher ratio of single family mortgage loans. The ROA is above the Peer Group average primarily reflecting a low ratio of operating expenses. The asset quality ratios are favorable, both in terms of the ratio of NPAs and the reserve coverage.

First Mutual Bancshares of WA. First Mutual maintains \$678 million in total assets and operates through a total of 10 branches primarily in the Seattle

metropolitan area. The overall balance sheet composition is relatively comparable to the Peer Group, although the loan portfolio reflects significant diversification into higher risk-weight real estate lending. Earnings approximate the Peer Group average as a favorable operating expense ratio is partially offset by comparatively modest levels of non-interest income and net interest income. The asset quality ratios are favorable, both in terms of the ratio of NPAs and the reserve coverage in relation to loans.

EverTrust Financial Group, Inc. of WA. EverTrust Financial, with an asset base of \$647 million, operates through 11 branch offices in the Seattle metropolitan area. The asset structure reflects a higher proportion of loans while the funding structure reflects a lower proportion of deposits in comparison to the Peer Group. The capital ratio exceeds the Peer Group average, which is reflective of the capital raised in the stock conversion offering completed in October 1999. Notwithstanding its strong capital ratio, its ROA is below the Peer Group average as a result of its high operating expenses. The loan portfolio composition reflects an emphasis multi-family and commercial mortgage lending which contributes to the high ratio of risk-weighted assets to total assets.

Heritage Financial Corp. of WA. Heritage Financial is a \$592 million asset company operating through a savings bank and commercial bank subsidiary in western Washington. The balance sheet reflects a higher ratio of loans and deposits than the Peer Group averages. Portfolio lending operations reflect comparatively modest levels of residential lending and greater consumer, multi-family/commercial mortgage and construction lending. The ROA is modestly above the Peer Group average reflecting a comparatively strong net interest margin, which is partially reflective of its comparatively stronger level of capitalization and comparatively higher high risk weight lending. NPAs are below the Peer Group average while reserve coverage ratios are also lower.

Monterey Bay Bancorp of CA. Monterey Bay Bancorp has \$537 million in assets and operates out of eight offices south of the San Francisco Bay area. The balance sheet reflects a higher ratio of loans and deposits than the Peer Group averages and the composition of the loan portfolio reflects a modestly greater level of investment in 1-4 family mortgage loans. Profitability levels are below the Peer Group average owing in part, to a high ratio of operating expenses. The asset quality ratios are favorable, both in terms of the ratio of NPAs and the reserve coverage.

Riverview Bancorp, Inc. of WA. Riverview Bancorp is a \$396 million asset thrift operating through 12 branch offices in southern Washington, many of which are within the Portland, Oregon metropolitan area. Riverview Bancorp maintains a high level of investment securities and borrowings, reflecting a wholesale

leveraging strategy. The loan portfolio composition reflects a comparable level of diversification into high risk-weight loans, although construction lending is an important. Profitability is above the Peer Group average owing to a comparatively high levels of non-interest income, which is partially offset by Riverview Bancorp's high operating expense ratio. The level of NPAs are above the Peer Group average, while reserve coverage ratios are below the Peer Group average.

Timberland Bancorp, Inc. of WA Timberland Bancorp has \$380 million in assets and operates out of twelve offices in western Washington. Timberland Bancorp reported a modestly higher ratio of loans and lower percentage of deposits in comparison to the Peer Group average. Timberland Bancorp emphasizes residential and construction lending, and thus its ratio of multi-family and commercial mortgage loans was below the Peer Group average. ROA was very strong and was supported by a comparatively high capital ratio. However, the high capital ratio leads to an ROE ratio below the Peer Group average. Asset quality figures were less favorable than the Peer Group, both in terms of the level of NPAs and the reserve coverage ratios.

Broadway Financial Corp. of CA. Broadway Financial is a \$179 million asset company operating through 5 branches in the Los Angeles metropolitan area. The balance sheet reflects a lower ratio of loans and a higher ratio of deposits than the Peer Group averages. Portfolio lending operations reflect comparatively modest levels of residential lending and greater multi-family and commercial mortgage lending. ROA is below the Peer Group average, primarily reflecting the comparatively higher ratio of operating expenses. Asset quality is favorable in comparison to the Peer Group averages, both in terms of the level of NPAs and reserve coverage in relation to NPAs.

In aggregate, the Peer Group companies maintain a slightly higher level of capital than the industry average (11.40% of assets versus 10.48% for all public thrifts), generate stronger earnings as a percent of average assets (0.91% core ROA versus 0.71% for all public thrifts), and generate a higher ROE (8.27% core ROE versus 7.23% for all public thrifts). Overall, the Peer Group's average P/B ratio and average core P/E multiple were modestly below the respective averages

	<i>All Publicly-Traded Savings Institutions</i>	<i>Peer Group</i>
<u>Financial Characteristics (Averages)</u>		
Assets (\$Mil)	\$2,231	\$739
Market Capitalization (\$Mil)	\$295.63	\$87.66
Equity/Assets (%)	10.48%	11.40%
Core Return on Assets (%)	0.71%	0.91%
Core Return on Equity (%)	7.23%	8.27%
<u>Pricing Ratios (Averages)(1)</u>		
Core Price/Earnings (x)	16.30x	13.99x
Price/Book (%)	124.99%	109.00%
Price/Assets (%)	12.80%	12.31%

(1) Based on market prices as of March 15, 2002.

Ideally, the Peer Group companies would be comparable to Pacific Trust in terms of all of the selection criteria. However, in general, the companies selected for the Peer Group were fairly comparable to Pacific Trust, as will be highlighted in the following comparative analysis.

Financial Condition

Table 3.2 shows comparative balance sheet measures for Pacific Trust and the Peer Group. Pacific Trust's net worth base of 9.3% was modestly below the Peer Group's average net worth ratio of 11.4 percent; however, with the addition of stock proceeds, the Bank's pro forma capital position (consolidated with the holding company) will exceed the Peer Group's ratio. The Bank's equity consisted solely of tangible equity while the Peer Group's equity consisted of a small amount of intangible assets, equal to 0.2% of assets on average. The increased equity is anticipated to enhance Pacific Trust's earnings potential through reinvestment of proceeds and lower funding costs. However, at the same time, the Bank's increased pro forma capital position is expected to result in a decline in return on equity (based on core earnings) over the near term. Both the Bank's and the Peer Group's current equity ratios reflect strong surpluses over regulatory capital requirements; on a post-offering basis the Bank is anticipating a stronger cushion over capital requirements relative to the Peer Group.

[Table 3.2 goes here]

Pacific Trust's asset composition reflects a higher concentration of loans, as loans comprised 82.9% of assets versus an average of 80.3% of assets for the Peer Group. Comparatively, the ratio of cash, investments, and MBS for Pacific Trust was lower than for the Peer Group (11.0% of assets versus 16.3% for the Peer Group). Overall, Pacific Trust's interest-earning assets ("IEA") approximated 93.9% of assets, which was lower than the comparative Peer Group ratio of

96.3%. The Bank's lower IEA ratio reflects in part, the large balance of funds accounted for as due from servicing agent, which equaled 2.6% of assets as of December 31, 2001. Unlike the majority of the Peer Group institutions, Pacific Trust does not service its own residential mortgage loans and thus, does not receive the float benefit on loan payments until such funds are remitted to the Bank on approximately the 15th of each month. On a pro forma basis, the Bank's IEA disadvantage is expected to diminish as the proceeds are reinvested into IEA.

The Bank's deposits equaled 81.3% of assets, which was above the Peer Group average of 71.5%. Borrowings were utilized to a lesser degree by Pacific Trust, at 9.0% versus the Peer Group ratio of 15.8%. Total interest-bearing liabilities ("IBL") maintained by Pacific Trust and the Peer Group, equaled 90.3% and 87.3% of assets, respectively.

A key measure of balance sheet strength and earnings power is the IEA/IBL ratio. Presently, the Peer Group's IEA/IBL ratio is above Pacific Trust's ratio, based on respective ratios of 110.3% and 104.0%. The disparity is attributable to the large balance of funds held by the Bank's servicing agent as well as to its lower pre-conversion capital ratio. The additional capital realized from stock proceeds should provide Pacific Trust with an IEA/IBL ratio that exceeds the level currently maintained by the Peer Group, as the interest-free capital realized in Pacific Trust's stock offering is expected to be deployed primarily into interest-earning assets.

The growth rate section of Table 3.2 shows growth rates for key balance sheet items for the most recent 12 months. Pacific Trust posted lower asset growth than the Peer Group, based on annual growth rates equal to 3.28% and 4.92%, respectively, notwithstanding comparatively faster loan and deposit growth. In this regard, the Bank's loans increased 9.78% versus 5.83% for the Peer Group on average. The Bank's deposits increased at more than double the rate of the Peer Group average (15.21% for the Bank versus 4.26% for the Peer Group). Conversely,

RP Financial, LC.
Page 3.10

the Bank's cash and investments and borrowings shrank while the comparable balance sheet aggregates increased.

The Bank's equity increased 9.03%, versus an average of 3.52% for the Peer Group. The Peer Group's more limited equity growth, notwithstanding higher profitability, reflects their dividend and capital management strategies. On a post-offering basis, the Bank's capital growth rate should be diminished due to the increased equity level, despite improved profitability.

Income and Expense Components

Pacific Trust and the Peer Group reported net income to average assets ratios of 0.68% and 1.05%, respectively (see Table 3.3), based on earnings for the most recent twelve months. The Bank's profitability is comparatively lower given its lower net interest income ratio and non-interest income ratio. Excluding the after-tax impact of non-recurring income and expenses (primarily consisting of net gains on sale), the Bank's core profitability of 0.69% remained below the 0.91% core profitability ratio for the Peer Group.

Pacific Trust's lower net interest income ratio, reflects a lower interest income ratio, despite a more favorable ratio of interest expense. Pacific Trust and the Peer Group reported net interest income ratios of 3.33% and 3.79%, respectively. Pacific Trust's lower interest income ratio (7.08% of average assets for the Bank versus 7.75% for the Peer Group) reflects the Bank's higher concentration of 1-4 family residential mortgage loans, the majority of which are adjustable rate. In contrast, the Peer Group has diversified their loan into higher yielding loans. The Bank's comparatively lower interest expense ratio (3.75% versus 3.96% for the Peer Group) reflects the Bank's limited reliance on borrowed funds (which typically entail a higher interest costs vis-à-vis retail deposits) as well as the Bank's higher ratio of savings and transaction accounts. Pacific Trust's interest expense ratio should diminish on a pro forma basis as the conversion proceeds will represent cost-free funds for the Bank.

Pacific Trust's modestly lower operating expense ratio partially offset its comparatively lower net interest income ratio. The operating expense ratios for Pacific Trust and the Peer Group were 2.47% and 2.61%, respectively, while intangible amortization was relatively nominal. The Bank's growth since the Charter Conversion (which has effectively leveraged its

RP Financial, LC.
Page 3.11

[Table 3.3 goes here]

cost structure) coupled with its strategic focus on residential lending and outsourcing major portions of its loan origination and servicing contributed to its lower operating expense ratio. On a post-offering basis, Pacific Trust's operating expenses can be expected to increase with the stock benefit plans.

Non-interest operating income is a lower contributor to Pacific Trust's profitability relative to the Peer Group, at 0.35% and 0.49%, respectively, in part reflecting Pacific Trust's credit union roots where fees were typically limited and its low fee structure as a marketing tool.

Pacific Trust's efficiency ratio (operating expenses, net of amortization of intangibles, as a percent of the sum of non-interest operating income and net interest income) of 67.1% was less favorable than the Peer Group's efficiency ratio of 61.0%. The Bank's efficiency ratio is expected to improve on a post-conversion basis, but remain at a competitive disadvantage to the Peer Group.

Loan loss provisions were a larger factor in the Peer Group's earnings, amounting to 0.02% and 0.18% of average assets for Pacific Trust and the Peer Group, respectively. Loan loss provisions were limited for the Bank since the current NPAs were diminimus.

Non-operating expense of 2 basis points for Pacific Trust consisted primarily of losses on the sale of AFS Securities. The Peer Group reported net non-operating income equal to 0.22% of average assets, which was largely comprised of gains on the sale of loans and investments. Such gains are subject to volatility due to fluctuations in market and other interest rates, and, thus are not viewed as being a recurring source of income, and thus will be excluded from the calculation of the valuation earnings base.

The Bank's effective tax rate for the last 12 months of 41.9% is modestly above the Peer Group average of 36.6%. The Bank expects that its effective tax rate will continue to approximate the recent historical level in the upcoming fiscal year.

Loan Composition

Pacific Trust's loan portfolio reflects a comparatively greater concentration of 1-4 family residential mortgage loans and MBS, which aggregated to 64.2% of assets and 31.9% of assets for the Bank and the Peer Group, respectively (see Table 3.4). Loans secured by permanent 1-4

[Table 3.4 goes here]

family residential mortgage loans equaled 59.8% of assets for the Bank versus 26.3% on average for the Peer Group, while MBS comprised 4.4 and 5.5%, respectively.

Pacific Trust's lending activities show more limited diversification, as the Bank maintained significantly lower levels of multi-family and commercial real estate loans than the Peer Group (15.3% of assets for the Bank versus 39.6% for the Peer Group), notwithstanding greater non-mortgage lending for the Bank (7.6% of assets for the Bank versus 4.4% for the Peer Group). The greater diversification of the Peer Group's loan portfolio is underscored by the Bank's lower risk-weighted assets ratio of 63.65% compared to the Peer Group average of 69.58%. The Bank's lower level of lending diversification tends to limit credit risk exposure and operating costs relative to the Peer Group, but also results in lower yields.

Credit Risk

The level of Pacific Trust's non-performing loans and NPAs was favorable relative to the Peer Group averages (see Table 3.5). Specifically, Pacific Trust's NPAs were nominal (less than 1 basis point of total assets) while the Peer Group reported non-performing loans to total loans equal to 0.40% and a ratio of NPAs to assets equal to 0.43% of assets. Reserve coverage in relation to non-performing loans and assets was favorable for the Bank while the reserve ratio in relation to total loans was lower.

Overall, Pacific Trust's credit risk exposure appears to be favorable based on its highly favorable recent history with respect to losses and chargeoffs and the low level of NPAs overall. At the same time, the nature of the Bank's loan portfolio including the high proportion of non-conforming or income producing property loans and the limited seasoning of a significant portion of the Bank's loan portfolio tend to increase the Bank's risk profile in comparison to the Peer Group.

Interest Rate Risk

Table 3.6 reflects various key ratios highlighting the relative interest rate risk exposure. From a balance sheet perspective, Pacific Trust's similar pre-conversion capital position and lower IEA/IBL ratio suggest higher exposure. On a post-conversion basis, these ratios should

RP Financial, LC.
Page 3.15

[Table 3.5 goes here]

RP Financial, LC.
Page 3.16

[Table 3.6 goes here]

RP Financial, LC.
Page 3.17

improve relative to the Peer Group. In the absence of comparability in timely interest rate risk reporting and methodology, we reviewed quarterly changes in the net interest income ratio. In general, the quarterly fluctuations in the Bank's net interest income ratio exceed the Peer Group average. At the same time, the Bank's net interest income ratio should stabilize to some degree following the conversion, given the initial expected proceeds reinvestment strategy (primarily shorter term investment securities). Additionally, regulatory data set forth in Section One suggests that the Bank's interest rate risk exposure as measured by the change in the post-shock NPV ratio is relatively limited in relation to its industry peers (i.e., OTS regulated thrifts operating in the Western Region).

Summary

Based on the foregoing, the Peer Group appears to provide a reasonable basis for determining the pro forma market value of Pacific Trust. Areas where comparative differences exist will be addressed in the form of valuation adjustments in the following section.

RP Financial, L.C.
Page 4.1

IV. VALUATION ANALYSIS

Introduction

This chapter presents the valuation analysis and methodology used to determine the Bank's estimated pro forma market value of the common stock to be issued in conjunction with the conversion transaction. The valuation incorporates the appraisal methodology promulgated by the OTS, particularly regarding selection of the Peer Group, fundamental analysis on both the Bank and the Peer Group, and determination of the Bank's pro forma market value utilizing the market value approach.

Appraisal Guidelines

The OTS written appraisal guidelines, originally released in October 1983 and updated in late-1994, specify the market value methodology for estimating the pro forma market value of an institution pursuant to a mutual-to-stock conversion. The valuation methodology provides for: (1) the selection of a peer group of comparable publicly-traded institutions, excluding from consideration institutions which have recently converted, subject to acquisition or in MHC form; (2) a financial and operational comparison of the subject company to the selected peer group, identifying key differences and similarities; and (3) a valuation analysis in which the pro forma market value of the subject company is determined based on the market pricing of the peer group as of the date of valuation, incorporating valuation adjustments for key differences. In addition, the pricing characteristics of recent conversions, both at conversion and in the aftermarket, must be considered.

RP Financial Approach to the Valuation

The valuation analysis herein complies with such regulatory appraisal guidelines, i.e., the pro forma market value approach. Accordingly, the valuation incorporates a detailed analysis based on the Peer Group, discussed in Chapter III, which constitutes "fundamental analysis" techniques. Additionally, the valuation incorporates a "technical analysis" of recently completed stock conversions, including closing pricing and aftermarket trading of such offerings. It should

RP Financial, L.C.

Page 4.2

be noted that such analyses cannot possibly fully account for all the market forces which impact trading activity and pricing characteristics of a stock on a given day.

The pro forma market value determined herein is a preliminary value for the Bank's to-be-issued stock. Throughout the conversion process, RP Financial will: (1) review changes in the Bank's operations and financial condition; (2) monitor the Bank's operations and financial condition relative to the Peer Group to identify any fundamental changes; (3) monitor the external factors affecting value including, but not limited to, local and national economic conditions, interest rates, and the stock market environment, including the market for thrift stocks; and (4) monitor pending conversion offerings (including those in the offering phase) both regionally and nationally. If material changes should occur prior to closing the offering, RP Financial will evaluate if updated valuation reports should be prepared reflecting such changes and their related impact on value, if any. RP Financial will also prepare a final valuation update at the closing of the offering to determine if the prepared valuation analysis and resulting range of value continues to be appropriate.

The appraised value determined herein is based on the current market and operating environment for the Bank and for all thrifts. Subsequent changes in the local and national economy, the legislative and regulatory environment, the stock market, interest rates, and other external forces (such as natural disasters or major world events), which may occur from time to time (often with great unpredictability) may materially impact the market value of all thrift stocks, including the Bank's value, or the Bank's value alone. To the extent a change in factors impacting the Bank's value can be reasonably anticipated and/or quantified, RP Financial has incorporated the estimated impact into its analysis.

Valuation Analysis

A fundamental analysis discussing similarities and differences relative to the Peer Group was presented in Chapter III. The following sections summarize the key differences between the Bank and the Peer Group and how those differences affect the pro forma valuation. Emphasis is placed on the specific strengths and weaknesses of the Bank relative to the Peer Group in such key areas as financial condition, profitability, growth and viability of earnings, asset growth, primary market area, dividends, liquidity of the shares, marketing of the issue, management, and

RP Financial, L.C.

Page 4.3

the effect of government regulations and/or regulatory reform. We have also considered the market for thrift stocks, in particular new issues, to assess the impact on value of the Bank's coming to market at this time.

1. Financial Condition

The financial condition of an institution is an important determinant in pro forma market value, because investors typically look to such factors as liquidity, capital, asset composition and quality, and funding sources in assessing investment attractiveness. The similarities and differences in financial strength are noted as follows:

Overall A/L Composition. The Bank's asset composition includes a higher proportion of 1-4 family mortgage loans. Notwithstanding the higher ratio of total loans to assets, the Bank's net interest income ratio falls below the Peer Group average

due to the lower asset yields given less diversification into higher yielding loans. The Peer Group is currently supplementing retail deposits with higher borrowings utilization, while the Bank currently relies more heavily on retail deposits. On a post-offering basis the Bank may consider increased use of borrowings for leveraging purposes, but not to the degree of the Peer Group. The Bank's ratio of IEA/IBL will improve on a post-offering basis, thereby diminishing its current disadvantage.

Credit Quality. The Bank's credit risk profile appears to be favorable based on a lower NPAs/assets ratio and favorable reserve coverage with respect to NPAs, although reserve ratio in relation to total loans was lower. However, Pacific Trust's favorable asset quality currently may be mitigated by the limited seasoning of a significant segment of the 1-4 family residential mortgages based on the strong growth realized since the Charter Conversion. Furthermore, a large proportion of the Bank's 1-4 family residential mortgage loans are non-conforming, in part due to the large size of such loans.

Balance Sheet Liquidity. The Bank currently maintains a lower level of cash, investments and MBS. Like the Peer Group, substantially all of the Bank's investments are designated AFS. The infusion of the stock proceeds will initially increase the Bank's level of liquid assets pending investment of the proceeds into loans and other longer-term investments. The Bank appears to have greater current borrowing capacity than the Peer Group due to the smaller balance of borrowed funds.

Equity Capital. The Bank's pro forma equity capital ratio will exceed the Peer Group average.

On balance, we have made no adjustment for the Bank's financial condition on a pro forma basis relative to the Peer Group.

2. Profitability, Growth and Viability of Earnings

Earnings are a key factor in determining pro forma market value, as the level and risk characteristics of an institution's earnings stream and the prospects and ability to generate future earnings heavily influence the multiple the investment community will pay for earnings. The major factors considered in the valuation are described below.

Reported Earnings. The Bank reported lower profitability than the Peer Group for the most recent 12 months due to a less favorable net interest spread and lower fee income. While profitability is expected improve on a pro forma basis, pro forma ROA is expected to remain at a substantial disadvantage. In addition, there remain certain unknown aspects of future earnings, such as the cost of the data processing conversion, the relative efficiency of bringing loan servicing in-house once the data processing conversion has taken place and the risk profiles described below.

Core Earnings. On a core basis, adjusting for non-operating items for both, the Bank remains at a disadvantage, even on a pro forma basis.

Interest Rate Risk. The Bank's interest rate risk exposure is expected improve on a pro forma basis given the improvement in the capital ratio, IEA/IBL ratio and the proceeds reinvestment benefit. Under a rising rate scenario, the Bank's apparent greater interest rate risk may be somewhat diminished on a pro forma basis.

Credit Risk. Loss provisions had a lesser impact on the Bank's earnings for the past year and the Bank's NPA/Assets ratio is lower in comparison to the Peer Group. At the same time, limited seasoning of the Bank's more rapidly growing 1-4 family loan portfolio may pose a higher risk profile than suggested for the current non-performing data.

Earnings Growth Potential. The higher expected pro forma capital position is expected to facilitate the Bank's ability to achieve asset and earnings growth. At the same time, as note above, there is some uncertainty of the impact of certain factors which may adversely impact earnings growth in the near term.

Return on Equity. Following the infusion of stock proceeds, the Bank's pro forma capital position (consolidated with the holding company) will be above the Peer Group's equity-to-assets ratio. Coupled with the Bank's lower pro forma ROA, the pro forma core ROE is anticipated to be below the Peer Group average.

Overall, the Bank's lower core profitability and lower pro forma ROE led to a moderate downward valuation adjustment for profitability, growth and

viability of earnings.

3. Asset Growth

The Bank's asset growth was slightly lower than the Peer Group average although retail balance sheet growth in terms of loans and deposits was above the Peer Group average. On a pro forma basis, the Bank's equity-to-assets ratio will exceed the Peer Group average, resulting in favorable leverage capacity for the Bank. Accordingly, on balance, we believe a slight upward adjustment was warranted for this factor.

4. Primary Market Area

The general condition of a financial institution's market area has an impact on value, as future success is in part dependent upon opportunities for profitable activities in the local market area. Operating in San Diego and Riverside Counties in southern California, the Bank faces significant competition for loans and deposits from larger financial institutions, who provide a broader array of services and have significantly larger branch networks. Demographic and economic trends and characteristics in the Bank's primary market area are relatively favorable to the primary market areas served by the Peer Group companies (see Table 4.1). The deposit market share exhibited by both the Bank was relatively smaller than the Peer Group average 0.6% for the Bank versus 8.6% for the Peer Group) but the substantial majority of the Peer Group companies held relatively limited market shares reflecting the fact that all are community institutions operating primarily in densely populated metropolitan areas.

As shown in Table 4.2, September 2001 unemployment rates for the markets served by the Peer Group companies generally were less favorable in comparison to the unemployment rates in the Bank's market. At the same time, the pending layoffs by Goodrich may have a more pronounced impact of the Bank given its previous corporate affiliation as a credit union and related customer concentration.

RP Financial, L.C.

Page 4.6

(Table 4.1 on this page)

RP Financial, L.C.

Page 4.7

Table 4.2
Market Area Unemployment Rates
Pacific Trust and the Peer Group Companies (1)

	<u>County</u>	<u>December 2001 Unemployment</u>
Pacific Trust Bank- CA	San Diego	3.3%
	Riverside	4.9
<u>Peer Group</u>		
ITLA Capital Corp.	Los Angeles	5.7
Quaker City Bancorp	Los Angeles	5.7
Provident Financial Holdings, Inc.	Riverside	4.9
Horizon Financial Corp.	Whatcom	7.3
First Mutual Bancshares, Inc.	King	5.7
EverTrust Financial Group, Inc.	Snohomish	6.3
Heritage Financial Corp.	Thurston	5.9
Monterey Bay Bancorp, Inc.	Santa Cruz	8.3
Riverview Bancorp, Inc.	Clark	7.6
Timberland Bancorp, Inc.	Grays Harbor	10.8
Broadway Financial Corp, Inc.	Los Angeles	5.7

(1) Not seasonally adjusted.

On balance, we concluded that a no adjustment was warranted for the Bank's primary market area, taking into account the potential with the Goodrich downsizing.

5. Dividends

The Bank has indicated its intention to continue to pay an annual cash dividend. However, the amount and timing of any dividends has not yet been determined. The future declarations of dividends by the Board of Directors will depend upon a number of factors, including investment opportunities, growth objectives, financial condition, profitability, tax considerations, minimum capital requirements, regulatory limitations, stock market characteristics and general economic conditions.

Seven of the eleven Peer Group companies pay regular cash dividends, with implied dividend yields ranging from 1.61% to 3.76%. The average dividend yield on the stocks of the Peer Group institutions was 1.79% as of March 15, 2002, representing an average core earnings

RP Financial, L.C.
Page 4.8

payout ratio of 27.4%. As of March 15, 2002, approximately 88% of all publicly-traded full stock thrifts had adopted cash dividend policies (see Exhibit IV-1), exhibiting an average yield of 2.43% and an average payout ratio of 33.05%. The dividend paying thrifts generally maintain higher than average profitability ratios, facilitating their ability to pay cash dividends.

The Bank's dividend capacity will be comparable to the Peer Group's as the benefit of its stronger pro forma capital ratio, which will be offset by its modestly lower core earnings level. On balance, we concluded no adjustment was warranted for purposes of dividends relative to the Peer Group.

6. Liquidity of the Shares

The Peer Group is by definition composed of companies that are traded in the public markets, and all of the Peer Group members trade on the NASDAQ system. Typically, the number of shares outstanding and market capitalization provides an indication of how much liquidity there will be in a particular stock. The market capitalization of the Peer Group companies ranged from \$11.3 million to \$165.8 million as of March 15, 2002, with an average market value of \$87.7 million. The shares issued and outstanding to the public of the Peer Group members ranged from approximately 911,000 to 8.6 million, with average shares outstanding of approximately 5.0 million. The Bank's pro forma market value is expected to be lower than the Peer Group average and most of the Peer Group companies on an individual basis. Moreover, the Bank's pro forma shares outstanding is expected to be in the lower end of the range exhibited by the Peer Group companies. It is anticipated that the Bank's stock will be quoted on the NASDAQ National Market System.

Overall, based on the above factors, we believe there will be a lower level of liquidity in the Bank's stock in comparison to the Peer Group companies and, therefore, we applied a moderate downward adjustment for this factor.

RP Financial, L.C.
Page 4.9

7. Marketing of the Issue

We believe that four separate markets need to be considered for thrift stocks such as the Bank coming to market: (1) the after-market for public companies, in which trading activity is regular and investment decisions are made based upon financial condition, earnings, capital, ROE, dividends and future prospects; (2) the new issue market in which converting thrifts are evaluated on the basis of the same factors, but on a pro forma basis without the benefit of prior operations as a fully-converted publicly-held company and stock trading history; (3) the thrift acquisition market for thrift franchises in California; and (4) the market for the public stock of the Bank. All of these markets were considered in the valuation of the Bank's to-be-issued stock.

A. The Public Market

The value of publicly-traded thrift stocks is easily measurable, and is tracked by most investment houses and related organizations. Exhibit IV-1 provides pricing and financial data on all publicly-traded thrifts. In general, thrift stock values react to market stimuli such as interest rates, inflation, perceived industry health, projected rates of economic growth, regulatory issues and stock market conditions in general. Exhibit IV-2 displays historical stock market trends for various indices and includes historical stock price index values for thrifts and commercial banks. Exhibit IV-3 displays historical stock price indices for thrifts only.

In terms of assessing general stock market conditions, the performance of the overall stock market has been mixed over the past year. More attractive valuations

provided a boost to stocks in early-March 2001, but the rally stalled on more earnings warnings and a sell-off in the Tokyo stock market. The bleak outlook for first quarter earnings by a number of the bellwether technology stocks spurred a two-day sell-off in the NASDAQ of more than 11% and the S&P 500 fell 4.3% on March 12, 2001 which put that index into "bear-market" territory as well. Disappointment of only a 0.50% rate cut by the Federal Reserve at its March 20, 2001 meeting prompted a new wave of selling, particularly in technology stocks. Signs of a stronger economy supported a late-March rally, which was again cut short by more earnings warnings in the technology sector. The first quarter of 2001 concluded as the worst first quarter ever for the NASDAQ and the worst first quarter for the DJIA in 23 years. On March 30, 2001, the DJIA

RP Financial, L.C.
Page 4.10

closed at 9878.78, a decline of 8.4% since year end 2000. Comparatively, the NADAQ declined 25.5% in the first quarter.

Stocks continued to slide in early-April 2001, amid fears that first quarter earnings would contain more bad surprises and generally fall short of reduced expectations. However, favorable earnings reports by Dell Computer Corporation and Alcoa served as a catalyst to one of the largest one-day gains in stock market history on April 5, 2001 with the DJIA and NASDAQ posting gains of 4.2% and 8.9%, respectively. The upward momentum in stocks was sustained into mid-April, as investors gained confidence that the economy would improve in the second half of the year. Stocks raced higher following a surprise inter-meeting rate cut by the Federal Reserve on April 18, 2001. The Federal Reserve cited slowing business investment and falling profits in its decision to lower rates by 50 basis points a month ahead of its regularly scheduled meeting. Following some profit taking on the heels of the rate cut, stocks moved higher at the end of April. Favorable economic data, including stronger than expected GDP growth for the first quarter, served as the basis for the general increase in stocks.

The positive trend in stocks did not extend into May 2001, as concerns over the business outlook generally pulled stocks lower through mid-May. Implementation of a fifth rate cut by the Federal Reserve at its mid-May meeting served to reverse the downward trend in stocks, as NASDAQ posted a six-day winning streak following the rate cut. However, profit taking and second quarter earnings jitters ended the rally in late-May. In early-June, the performance of the broader market was mixed, reflecting uncertainty over the prospects for a recovery in the economy and stronger corporate earnings. Amid more profit warnings and growing concerns about the corporate earnings outlook, stocks moved lower in mid-June. Technology stocks experienced the most significant selling pressure, as evidenced by a seven-day losing streak in the NASDAQ from June 8 through June 18, 2001. Speculation of another rate cut by the Federal Reserve at its late-June meeting provided for a relatively flat market ahead of the policy meeting. Stocks reacted mildly to the 0.25% rate cut implemented by the Federal Reserve in late-June and continued to trade in a narrow range to close out the second quarter. Generally weak second quarter earnings and growing uncertainty of an economic recovery in the second half of the year combined to pull stocks lower during most of July.

RP Financial, L.C.
Page 4.11

Weak economic data and more bad earnings news from the technology sector continued to pressure stocks lower during the first half of August 2001. The Federal Reserve's 0.25% rate cut at its mid-August meeting did little to lift the sagging stock market, as stocks tumbled sharply on the Federal Reserve's gloomy outlook for the economy. News that consumer confidence declined for the second month in a row in August and second quarter GDP growth of 0.2% was the slowest growth in eight years served to sharpen the sell-off in late August, reflecting growing pessimism about the chances of a near term economic recovery. The stock market continued to slump in early-September, as the sharp increase in August unemployment sparked a broad-based sell-off.

On September 11, 2001, all major financial markets closed in the wake of the terrorist attack on the World Trade Center and remained closed for the balance of the week. Prior to the resumption of trading on September 17, 2001, the Federal Reserve cut short-term rates by 0.50% as an attempt to provide support to the stock market. However, stocks sank sharply in the first day of trading after the terrorist attack, with some of the most significant losses occurring in the airline, travel and insurance stocks. Fears over an extended war on terrorism and further erosion of the nation's weakening economy extended the sell-off through the remainder of the week, as blue chip stocks posted their biggest weekly loss since the Depression. For the week ended September 21, 2001, the DJIA dropped nearly 1,370 points or 14.3%. On September 24, 2001, stocks posted their first gains since the terrorist attack, as the DJIA regained approximately 25% of the prior week's losses with a one-day increase in the average of 368 points or 4.5%. Stocks continued to rebound through the end of September, regaining approximately half of the decline recorded in the first week of trading following the terrorist attack.

The positive trend in the broader stock market generally prevailed through most of October 2001, despite a continuation of bad economic news. Growing confidence about the U.S. military attack in Afghanistan and hopes for a turnaround in the economy were factors that contributed to the stock market recovery. Stocks retreated in late-October, amid uncertainties about the job market and a decline in consumer confidence. Anticipation of another rate cut by the Federal Reserve served to lift stocks in early-November and the rally strengthened following

the Federal Reserve's implementation of another half point rate cut at its regularly scheduled meeting in early-November. The favorable trend in the broader stock market continued through most of November, as the DJIA achieved a technical definition of a bull market in the third week of November and closed just shy of 10000 at month's end.

In early-December 2001, technology stocks surged higher and the DJIA surpassed the 10000 mark, reflecting growing optimism about an economic recovery. However, the stock market rally ended on news of a larger than expected increase in the November unemployment rate. Fresh concerns about the corporate earnings outlook pushed stocks lower in mid-December, despite the Federal Reserve's eleventh interest rate cut of the year. During the second half of December, stocks generally moved higher on year end buying and favorable economic data that showed surprisingly strong new home construction. Notwithstanding the year end rally, the Dow Jones Industrial Average ("DJIA") closed seven% lower for the year and the NASDAQ Composite Index ("NASDAQ") declined 21% in 2001, providing for the worst two-year performance in the stock market in 23 years.

The stock market began 2002 with a New Year rally, as investors bet on a forthcoming economic recovery and an upturn in corporate earnings. The momentum of the advance faded in mid-January, reflecting concerns that the markets were pricing in more of a recovery than the economy was showing. The Federal Reserve's decision to leave interest rates unchanged and indications that the economic downturn may be ending provided for a brief rebound in the broader stock market at the end of January. Stock market activity was mixed throughout most of February, as fears that accounting troubles similar to those impacting Enron could affect more companies weighed against hopes for an economic recovery and improved corporate earnings. The DJIA moved back above 10000 in late-February, as favorable economic news and the Federal Reserve's cautiously optimistic assessment of the economy served to rally the broader market. As an indication of the general trends in the nation's stock markets over the past year, as of March 15, 2002, the DJIA closed at 10607.23, an increase of 8.0% from one year earlier. The NASDAQ Composite Index stood at 1868.3, a decline of 22.6% over the same time period. The Standard & Poors 500 Index closed at 1166.16 on March 15, 2002, an increase of 15.6% from a year ago.

The market for thrift stocks has been mixed during the past twelve months, but, in general, thrift stocks have outperformed the broader market. Thrift stocks moved lower in mid-March 2001, as a sell-off in large U.S. banks rippled through the thrift sector as well. Most of the sell-off was attributable to concerns over U.S. bank exposure to troubled Japanese banks, which would only indirectly impact the thrift sector to the extent such problems would impact the U.S. economy. The Federal Reserve's implementation of a third rate cut at its March meeting had little impact on thrift stocks, as thrift stocks followed the broader market lower following the rate cut. However, aided by the decline in short-term interest rates that provided for a steeper yield curve, thrift stocks moved higher at the end of the first quarter. After following the broader market lower in early-April, thrift stocks recovered slightly in mid-April and generally outperformed bank stocks. The more favorable performance by thrifts was supported by their lower exposure to the downturn in the commercial credit cycle and the more positive effect that the interest rate cuts would have on their net interest margins. While the announced merger between First Union and Wachovia had little impact on the overall market for thrift and bank stocks, financial stocks gained on news of the surprise rate cut by the Federal Reserve in mid-April. The largest gains in the thrift sector tended to be in the large-cap issues. Thrift prices generally stabilized in late-April, as first quarter earnings generally met expectations.

Lower short-term interest rates and a steeper yield curve continued to benefit thrift issues in May 2001, particularly following the 0.50% rate cut implemented by the Federal Reserve in mid-May. Thrift issues traded in a narrow range in late-May, as interest rates stabilized. Expectations of further rate cuts by the Federal Reserve and stronger second quarter earnings translated into slightly higher thrift prices in early-June. Consolidation among thrift stocks, including Washington Mutual's proposed \$5.2 billion acquisition of Dime Bancorp, extended the rally in thrift issues through mid-June. The widely anticipated rate cut by the Federal Reserve at its late-June meeting had little impact on thrift prices, as thrift prices eased lower at the close of the second quarter on profit taking. Generally favorable second quarter earnings realized from strong lending volumes and expansion of the net interest margin served to boost thrift prices during July, in which the strongest gains were again posted by the large-cap issues.

The positive trend in thrift stocks continued to prevail during the first half of August 2001, reflecting a continuation of the favorable interest rate environment and little threat of inflationary pressures. Thrift stocks reacted mildly to the widely anticipated 0.25% rate cut by the Federal Reserve in mid-August, which was followed a decline of more than 5.0% in the SNL Index for all publicly-traded thrifts in late-August. The decline in the market-cap weighted SNL Index was prompted by news that some of the large publicly-traded thrift lenders were experiencing net interest margin compression. Thrift stocks followed the broader market lower in early-September, reflecting the potential negative implications that a slowdown in consumer spending would have on financial stocks.

In a sharp contrast to the broader market, thrift stocks moved higher on the first day of trading following the terrorist attack. The increase in thrift stocks was attributed to the 0.50% rate cut implemented by the Federal Reserve, which provided for a further steepening of the yield curve, and large buyback programs announced by a number of the large-cap thrifts following the Securities and Exchange Commission's decision to waive many of the regulations

governing repurchases. However, thrift stocks experienced selling pressure at the end of the week ended September 21, 2001, as investors became wary that the worsening U.S. economy would negatively impact the housing market and related industries as well. Oversold conditions in the thrift sector provided for a positive correction in thrift stocks at the close of September.

Thrift stocks eased lower through mid-October 2001, reflecting expectations that the series of interest rate cuts implemented by the Federal Reserve would be ending soon and the slowing economy would also begin to negatively impact residential lenders. The SNL Index dropped sharply in mid-October, as third quarter results for two large cap issues (Washington Mutual and Golden West Financial) indicated an increase in problem assets. After trading in a narrow range through the balance of October, thrifts stocks rebounded during most of November. Attractive valuations on some of the large-cap issues that had become oversold and another rate cut by the Federal Reserve in early-November were factors that contributed to the recovery in thrift prices. Thrift stocks eased lower at the close of November and traded in a narrow range in early-December, which was largely attributed to profit taking in some of the large-cap issues following their strong November performance. Expectations that earnings would benefit from

RP Financial, L.C.
Page 4.15

the additional interest rate cuts implemented by the Federal Reserve during the fourth quarter supported an upward trend in thrift issues during mid- and late-December. For the year ended 2001, the SNL Index for all publicly-traded thrifts posted a gain of 5.0%.

Further gains were registered in thrift stocks at the beginning of 2002, with the strongest performances turned in by the largest companies. Expectations of strong fourth quarter earnings and growing sentiment of a slow economic recovery that would support a continuation of the steep yield curve were factors that contributed to the advance in thrift stocks. Thrift issues stabilized in mid-January and then moved higher in late-January, as investors were encouraged by fourth quarter earnings. In early-February, concerns about corporate accounting practices spilled over into the financial services sector, which translated into a general decline in bank and thrift stocks, particularly the large-cap issues. After stabilizing in mid-February, thrift issues advanced in late-February on strong fundamentals and acquisition speculation. On March 15, 2002, the SNL Index for all publicly-traded thrifts closed at 1027.3, an increase of 21.2% from one year ago.

B. The New Issue Market

In addition to thrift stock market conditions in general, the new issue market for converting thrifts is also an important consideration in determining the Bank's pro forma market value. The new issue market is separate and distinct from the market for seasoned stock thrifts in that the pricing ratios for converting issues are computed on a pro forma basis, specifically: (1) the numerator and denominator are both impacted by the conversion offering amount, unlike existing stock issues in which price change affects only the numerator; and (2) the pro forma pricing ratio incorporates assumptions regarding source and use of proceeds, effective tax rates, stock plan purchases, etc. which impact pro forma financials, whereas pricing for existing issues are based on reported financials. The distinction between pricing of converting and existing issues is perhaps no clearer than in the case of the price/tangible book ("P/TB") ratio in that the P/TB ratio of a converting thrift will typically result in a discount to tangible book value whereas in the current market for existing thrifts the P/TB ratio often reflects a premium to tangible book value. Therefore, it is appropriate to also consider the market for new issues, both at the time of the conversion and in the aftermarket.

RP Financial, L.C.
Page 4.16

The market for converting thrifts has continued to strengthen in recent months, although conversion activity has remained somewhat limited. As shown in Table 4.3, four standard conversion offerings have been completed during the past three months. The average pro forma price/tangible book and core price/earnings ratios of the recent standard conversions equaled 59.6% and 30.1 times, respectively. Price appreciation for these four recent conversions has averaged 22% after the first week of trading, but trading activity is rendered somewhat less meaningful by the small size of the recently converted institutions.

There is currently one pending full-stock conversion transaction. Reserve Bancorp, Inc., the proposed holding company for Mt. Troy Savings Bank, FSB, in Pittsburgh, Pennsylvania. Reserve Bancorp is currently in the selling phase of its conversion transaction with midpoint pricing ratios equal to 58.5% of pro forma book value and 14.4 times pro forma earnings.

C. The Acquisition Market

Also considered in the valuation was the potential impact on the Bank's stock price of recently completed and pending acquisitions of other savings institutions operating in California. As shown in Exhibit IV-5, there were nine thrift acquisitions of California-based savings institutions completed or announced between the beginning of 1999 through year-to-date 2002. The recent acquisition activity involving California thrifts may imply a certain degree of acquisition speculation for the Bank's stock. To the extent that acquisition speculation may impact the Bank's offering, we have largely taken this into account in selecting companies which operate in markets that have experienced a comparable level of acquisition activity as the Bank's market and, thus, are subject to the same type of acquisition speculation that may influence the Bank's trading price.

(Table 4.3 on this page)

In determining our valuation adjustment for marketing of the issue, we considered trends in both the overall thrift market, the new issue market including the new issue market for newly-converted issues and the acquisition market. Taking these factors and trends into account, RP Financial concluded that a moderate downward adjustment was appropriate in the valuation analysis for purposes of marketing of the issue.

8. Management

The Bank's management team appears to have experience and expertise in all of the key areas of operations. Exhibit IV-6 provides summary resumes of the Bank's Board of Directors and senior management. The financial characteristics of the Bank suggest that it is effectively managed and there appears to be a well-defined organizational structure. Similarly, the returns, capital positions, and other operating measures of the Peer Group companies are indicative of well-managed financial institutions, which have Boards and management teams that have been effective in implementing competitive operating strategies. Therefore, on balance, we concluded no valuation adjustment relative to the Peer Group was appropriate for this factor.

9. Effect of Government Regulation and Regulatory Reform

In summary, as a fully-converted SAIF-insured institution, Pacific Trust will operate in substantially the same regulatory environment as the Peer Group members -- all of whom are well capitalized institutions and are operating with no apparent restrictions. Exhibit IV-7 reflects the Bank's pro forma regulatory capital ratios. On balance, no adjustment has been applied for the effect of government regulation and regulatory reform.

Summary of Adjustments

Overall, based on the factors discussed above, we concluded that the Bank's pro forma market value should be discounted relative to the Peer Group as follows:

<u>Key Valuation Parameters</u>	<u>Valuation Adjustment</u>
Financial Condition	No Adjustment
Profitability, Growth and Viability of Earnings	Moderate Downward
Asset Growth	Slight Upward
Primary Market Area	No Adjustment
Dividends	No Adjustment
Liquidity of the Shares	Moderate Downward
Marketing of the Issue	Moderate Downward

Valuation Approaches

In applying the accepted valuation methodology promulgated by the OTS and adopted by the FDIC, i.e., the pro forma market value approach, including the fully-converted analysis described above, we considered the three key pricing ratios in valuing the Bank's to-be-issued stock -- price/earnings ("P/E"), price/book ("P/B"), and price/assets ("P/A") approaches -- all performed on a pro forma basis including the effects of the conversion proceeds. In computing the pro forma impact of the conversion and the related pricing ratios, we have incorporated the valuation parameters disclosed in the Bank's prospectus for reinvestment rate, the effective tax rate, offering expenses and stock benefit plan assumptions (summarized in Exhibits IV-8 and IV-9). In our estimate of value, we assessed the relationship of the pro forma pricing ratios relative to the Peer Group and recent conversions.

RP Financial's valuation placed an emphasis on the following:

P/E Approach. The P/E approach is generally the best indicator of long-term value for a stock. Given the similarities between the Bank's and the Peer Group's earnings composition and overall financial condition, the P/E approach was carefully considered in this valuation. At the same time, since reported earnings for both the Bank and the Peer Group included certain non-recurring items, we also made adjustments to earnings to arrive at core earnings estimates for the Bank and the Peer Group and resulting price/core earnings ratios.

RP Financial, L.C.
Page 4.20

P/B Approach. P/B ratios have generally served as a useful benchmark in the valuation of thrift stocks, particularly in the context of conversion offerings, as the earnings approach involves assumptions regarding the use of proceeds. RP Financial considered the P/B approach to be a valuable indicator of pro forma value taking into account the pricing ratios under the P/E and P/A approaches. We have also modified the P/B approach to exclude the impact of intangible assets (i.e., price/tangible book value or "P/TB"), in that the investment community frequently makes this adjustment in its evaluation of this pricing approach.

P/A Approach. P/A ratios are generally a less reliable indicator of market value, as investors typically assign less weight to assets and attribute greater weight to book value and earnings - we have also given less weight to the assets approach. Furthermore, this approach as set forth in the regulatory valuation guidelines does not take into account the amount of stock purchases funded by deposit withdrawals, thus understating the pro forma P/A ratio. At the same time, the P/A ratio is an indicator of franchise value, and, in the case of highly capitalized institutions, high P/A ratios may limit the investment community's willingness to pay market multiples for earnings or book value when ROE is expected to be low.

The Bank has adopted Statement of Position ("SOP") 93-6, which causes earnings per share computations to be based on shares issued and outstanding excluding unreleased ESOP shares. For purposes of preparing the pro forma pricing analyses, we have reflected all shares issued in the offering, including all ESOP shares, to capture the full dilutive impact, particularly since the ESOP shares are economically dilutive, receive dividends and can be voted. However, we did consider the impact of the adoption of SOP 93-6 in the valuation.

Based on the application of the three valuation approaches, taking into consideration the valuation adjustments discussed above, RP Financial concluded that the pro forma market value of the Bank's conversion stock as of March 15, 2002 was \$31,000,000 at the midpoint, equal to 3,100,000 shares issued at a per share value of \$10.00.

1. Price-to-Earnings ("P/E"). The application of the P/E valuation method requires calculating the Bank's pro forma market value by applying a valuation P/E multiple to the pro forma earnings base. In applying this technique, we considered both reported earnings and a recurring earnings base, that is, earnings adjusted to exclude any one-time non-operating items, plus the estimated after-tax earnings benefit of the reinvestment of the net proceeds. The Bank's reported earnings equaled \$2.096 million for fiscal 2001. In deriving the Bank's core earnings,

RP Financial, L.C.
Page 4.21

the adjustments were made to reported earnings to eliminate on a tax effected basis the small losses on the sale of AFS securities of \$55,000. As shown below, on a tax effected basis, assuming an effective marginal tax rate of 42.0%, the Bank's core earnings were determined to equal \$2.128 million for fiscal 2001. (Note:

see Exhibit IV-10 for the adjustments applied to the Peer Group's earnings in the calculation of core earnings).

	<u>Amount</u> (<u>\$000</u>)
Net Income (Trailing 12 Months Ended 12/31/01)	\$2,096
Less: Net Losses on Sale of Investments	(55)
Tax Effect (1)	<u>23</u>
Core Earnings Estimate	\$2,128

(1) Reflects a 42.0% effective tax rate on the adjustments.

Based on the reported and estimated core earnings and incorporating the impact of the pro forma assumptions discussed previously, the Bank's pro forma reported and core P/E multiples at the \$31.0 million midpoint value equaled 14.50 and 14.29 times, respectively. These pro forma multiples for the Bank indicate a premium of 16.7% relative to the Peer Group's median reported earnings multiple of 12.43 times and a slight discount relative to the Peer Group median core earnings multiple of 14.56 times (see Table 4.4). At the supermaximum of the range, the earnings multiple approaches 19 times for both pro forma reported and core earnings. We considered the earnings multiple premiums appropriate in view of the book value discount described below.

2. Price-to-Book ("P/B"). The application of the P/B valuation method requires calculating the Bank's pro forma market value by applying a valuation P/B ratio to the Bank's pro forma book value. Based on the \$31.0 million midpoint valuation, the Bank's pro forma P/B and P/TB ratios equaled 56.48%. In comparison to the median P/B and P/TB ratios for the Peer Group of 106.93% and 108.47%, the Bank's ratios reflected a discount of 47.2% on a P/B basis and a discount of 47.9% on a P/TB basis. RP Financial considered the discounts under the book value approach to be reasonable in light of the valuation adjustments referenced earlier and the resulting premium earnings multiples. At the supermaximum of the valuation range, the Bank's P/B ratio equaled 64.51%, which is discounted from the Peer Group median by 39.7%.

RP Financial, L.C.
Page 4.22

3. Price-to-Assets ("P/A"). The P/A valuation methodology determines market value by applying a valuation P/A ratio to the Bank's pro forma asset base, conservatively assuming no deposit withdrawals are made to fund stock purchases. In all likelihood there will be deposit withdrawals, which results in understating the pro forma P/A ratio which is computed herein. At the midpoint of the valuation range, the Bank's value equaled 9.22% of pro forma assets. Comparatively, the Peer Group companies exhibited a median P/A ratio of 11.85%, which implies an 22.2% discount being applied to the Bank's pro forma P/A ratio.

Comparison to Recent Conversions

As indicated at the beginning of this chapter, RP Financial's analysis of recent standard conversion and second-step offering pricing characteristics at closing and in the aftermarket has been limited to a "technical" analysis and, thus, the pricing characteristics of recent standard conversions are not the primary determinate of value herein. Particular focus was placed on the P/TB approach in this analysis, since the P/E multiples do not reflect the actual impact of reinvestment and the source of the stock proceeds (i.e., external funds vs. deposit withdrawals). The recent standard conversion closed at a price/tangible book ratio of 59.6% (see Table 4.3). The price of the recent standard conversion appreciated by 22.0% during the first week of trading. Relative to the midpoint P/TB of the one pending full conversion transaction, the Bank's midpoint P/TB ratio is discounted by 3.4% from Reserve Bancorp's pro forma P/TB ratio equal to 58.5% at the midpoint of its valuation range.

Valuation Conclusion

Based on the foregoing, it is our opinion that, as of March 15, 2002, the aggregate pro forma market value of the Bank was \$31,000,000 at the midpoint, based on 3,100,000 shares offered at \$10.00 per share. Pursuant to the conversion guidelines, the 15% offering range includes a minimum value of \$26,350,000 and a maximum value of \$35,650,000. Based on the \$10.00 per share offering price, this range equates to an offering of 2,635,000 shares at the minimum to 3,565,000 shares at the maximum. The offering also includes a provision for a super range, which if exercised, would result in an offering size of \$40,997,500, equal to 4,099,750 shares at the \$10.00 per share offering price. The pro forma valuation calculations

RP Financial, L.C.
Page 4.23

relative to the Peer Group are shown in Table 4.4 and are detailed in Exhibit IV-8 and Exhibit IV-9.

(Table 4.4 on this page)

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

We consent to the use in this Registration Statement on Form S-1 filed with the Securities and Exchange Commission and Amendment No 1. to Form AC filed with the Office of Thrift Supervision of our report dated January 12, 2002 on the financial statements of Pacific Trust Bank for the year ended December 31, 2001. We also consent to the references to us under the headings "Pacific Trust Bank's Conversion - Tax Effects of the Conversion", "Experts", and "Legal and Tax Opinions" in this Registration Statement on Form S-1 and Form AC.

/s/ Crowe, Chizek and Company LLP

Crowe, Chizek and Company LLP

Oak Brook, Illinois
April 30, 2002

[LETTERHEAD OF CROWE, CHIZEK AND COMPANY LLP]

March 27, 2002

Board of Directors
 Pacific Trust Bank
 610 Bay Boulevard
 Chula Vista, California 91910

RE: California Income Tax Consequences of the Conversion of Pacific Trust Bank From a Federally-Chartered Mutual Savings Bank to a Federally-Chartered Stock Savings Bank

Members of the Board:

In accordance with your request we render our opinion relating to the California income and franchise tax consequences of the conversion ("Conversion") of Pacific Trust Bank ("Bank") from a federally-chartered mutual savings bank to a federally-chartered stock savings bank in accordance with the Plan of Conversion dated March 1, 2002 ("Plan").

Statements of Facts

The facts and circumstances surrounding the proposed conversion are quite detailed and are described at length in the Plan. However, a brief summary of the proposed conversion is as follows:

Pacific Trust Bank is a federal chartered mutual savings bank. As a mutual savings bank, Pacific Trust Bank has no authorized stock. For what are stated to be valid business reasons, the Bank wishes to amend its charter to permit it to continue operations in the form of a federal stock institution. In connection with the proposed charter conversion, Pacific Trust Bank will become a wholly-owned subsidiary of First Pac Trust Bancorp, Inc. (the "Holding Company"), a newly organized corporation.

Opinion

You have provided us with a copy of the federal income tax opinion of the proposed transaction prepared by Silver, Freedman & Taff, L.L.P. dated March 27, 2002, (the "Federal Tax Opinion") in which they have opined, *inter alia*, that the transaction will be a transaction described in Section 368(a)(1)(F) of the Internal Revenue Code of 1986, as amended.

Pacific Trust Bank
 March 27, 2002
 Page 2

Our opinion regarding the California income and franchise tax consequences is based on the facts and incorporates the capitalized terms contained in the Federal Tax Opinion and the Plan. Our opinion on the California income and franchise tax consequences assumes that the final federal income tax consequences of the proposed transaction will be those outlined in the Federal Tax Opinion.

Should it finally be determined that the facts, assumptions and federal income tax consequences are not as outlined in the Federal Tax Opinion, the California income and franchise tax consequences and our California tax opinion will differ from what is contained herein. Our opinion is based on the current California law, which is subject to change.

Our opinion adopts and relies upon the facts, assumptions, and conclusions as set forth in the Federal Tax Opinion. Based upon that information, we render the following opinion with respect to the California income and franchise tax consequences of the proposed transaction.

- (1) No gain or loss will be recognized by the Bank upon the receipt of money and other property, if any, in the Conversion, in exchange for its shares. (Sec. 24271, Revenue and Taxation Code)
- (2) No gain or loss will be recognized by Holding Company upon the receipt of money for Holding Company Conversion Stock. (Sec. 24271, Revenue and Taxation Code)
- (3) The basis of Bank's assets in the hands of Converted Bank will be the same as the basis of those assets in the hands of Bank immediately prior to the transaction. (Sec. 24271, Revenue and Taxation Code)
- (4) Converted Bank's holding period of the assets of Bank will include the period during which such assets were held by Bank prior to the Conversion. (Sec. 24271, Revenue and Taxation Code)
- (5) The tax year of Bank prior to the Conversion will be includible in the tax year of Bank after the Conversion. Therefore,

Bank will not have to file a separate California income tax return for the portion of the tax year prior to the Conversion. (Sec. 24632, Revenue and Taxation Code)

- (6) Depositors will realize gain, if any, upon the constructive issuance to them of withdrawable deposit accounts of Converted Bank, Subscription Rights and/or interest in the liquidation account of Converted Bank. Any gain resulting therefrom will be recognized, but only in an amount not in excess of the fair market value of the liquidation accounts and/or Subscription Rights received. Based solely on the accuracy of the conclusion reached in the Appraiser's Opinion, and our reliance on such opinion, that the Subscription Rights have no ascertainable fair market value at the time of distribution or exercise, no gain or loss will be required to be recognized by depositors

Pacific Trust Bank
March 27, 2002
Page 3

upon receipt or distribution of Subscription Rights. (Sec. 17073, Revenue and Taxation Code). Likewise, based upon the Federal Tax Opinion, the accuracy of the aforesaid conclusion reached in the Appraiser's Opinion, and our reliance thereon, we are of the opinion that it is more likely than not that: (a) no taxable income will be recognized by depositors, borrowers, directors, officers and employees of Bank upon the distribution to them of Subscription Rights or upon the exercise or lapse of the Subscription Rights to acquire Holding Company Conversion Stock (Sec. 17073, Revenue and Taxation Code); and (b) no taxable income will be realized by Bank, Converted Bank or Holding Company on the issuance or distribution of Subscription Rights to depositors of Bank to purchase shares of Holding Company Conversion Stock. (Sec. 24271, Revenue and Taxation Code)

Notwithstanding the foregoing, if the Subscription Rights are subsequently found to have a fair market value, income may be recognized by various recipients of the Subscription Rights (in certain cases, whether or not the rights are exercised) and Holding Company and/or Converted Bank may be taxable on the distribution of the Subscription Rights. (Sec. 24271, Revenue and Taxation Code; Sec. 17073, Revenue and Taxation Code)

- (7) The creation of the liquidation account on the records of Converted Bank will have no effect on Bank's or Converted Bank's taxable income, deductions, or tax bad debt reserve. (Sec. 24271, Revenue and Taxation Code)
- (8) A depositor's basis in his Deposit Account(s) of Converted Bank will be the same as the basis of his Deposit Account(s) in Bank. The basis of the Subscription Rights will be zero unless they have a taxable value. The basis of the interest in the liquidation account of Converted Bank received by Eligible Account Holders and Supplemental Eligible Account Holders will be equal to the cost of such property, *i.e.*, the fair market value of the proprietary interest in Bank, which in this transaction we assume to be zero. (Sec. 17073, Revenue and Taxation Code)
- (9) The basis of Holding Company Conversion Stock to its shareholders will be the purchase price thereof, plus the basis, if any, of nontransferable subscription rights. (Sec. 17073, Revenue and Taxation Code)
- (10) A shareholder's holding period for Holding Company Conversion Stock acquired through the exercise of the Subscription Rights shall begin on the date on which the Subscription Rights are exercised. The holding period for the Holding Company Conversion Stock purchased pursuant to the Direct Community Offering, Public Offering or under other purchase arrangements will commence on the date following the date on which such stock is purchased. (Sec. 18151, Revenue and Taxation Code)
- (11) Regardless of any book entries that are made for the establishment of the liquidation account, the reorganization will not diminish the accumulated earnings and profits of Bank available for the subsequent distribution of dividends. Converted Bank will

Pacific Trust Bank
March 27, 2002
Page 4

succeed to and take into account the earnings and profits or deficit in earnings and profits of Bank as of the date of Conversion. (Sec. 24271, Revenue and Taxation Code)

The above opinions are effective to the extent that Bank is solvent. No opinion is expressed about the tax treatment of the transaction if Bank is insolvent. Whether or not Bank is solvent will be determined at the end of the taxable year in which the transaction is consummated.

Our opinion is based upon legal authorities currently in effect, which authorities are subject to modification or challenge at any time and perhaps with retroactive effect. Further, no opinion is expressed under the provisions of any of the other sections of the California Code and Income Tax Regulations which may also be

applicable thereto, or to the tax treatments of any conditions existing at the time of, or effects resulting from, the transaction which are not specifically covered by the opinions set forth above.

If any fact contained in this opinion letter or the Federal Tax Opinion changes to alter the federal tax treatment, it is imperative that we be notified in order to determine the effect on the California income tax consequences, if any.

This opinion letter is issued to you in connection with the requirements of the Plan and no other person or entity may rely hereon without our express written consent. A copy of this opinion letter may be attached to required regulatory filings with the Securities and Exchange Commission, the Office of Thrift Supervision and/or other regulatory bodies required to consummate the transaction.

Very truly yours,

/s/ Crowe, Chizek and Company

Crowe, Chizek and Company LLP

FIRST PACTRUST BANCORP, INC.

401(K) EMPLOYEE STOCK OWNERSHIP PLAN

Effective as of January 1, 1997

FIRST PACTRUST BANCORP, INC.

401(K) EMPLOYEE STOCK OWNERSHIP PLAN

TABLE OF CONTENTS

PREAMBLE		1
ARTICLE I	DEFINITION OF TERMS AND CONSTRUCTION	3
	1.1 Definitions	3
	(a) "Account"	3
	(b) "Act"	3
	(c) "Administrator"	3
	(d) "Annual Additions"	3
	(e) "Authorized Leave of Absence"	3
	(f) "Beneficiary"	3

(g)	"Board of Directors"	3
(h)	"Break"	4
(i)	"Code"	4
(j)	"Compensation"	4
(k)	"Date of Hire"	4
(l)	"Disability"	4
(m)	"Disability Retirement Date"	4
(n)	"Early Retirement Date"	4
(o)	"Effective Date"	4
(p)	"Eligibility Period"	4
(q)	"Employee"	4
(r)	"Employee Stock Ownership Account"	4
(s)	"Employee Stock Ownership Contribution"	4
(t)	"Employee Stock Ownership Suspense Account"	5
(u)	"Employer"	5
(v)	"Employer Securities"	5
(w)	"Entry Date"	5
(x)	"Exempt Loan"	5
(y)	"Exempt Loan Suspense Account"	5
(z)	"Financed Shares"	5
(aa)	"Former Participant"	5
(bb)	"401(k) Agreement"	5
(cc)	"401(k) Contribution"	6
(dd)	"401(k) Contributions Account"	6
(ee)	"Fund"	6
(ff)	"Highly Compensated Employee"	6
(gg)	"Hour of Service"	6
(hh)	"Investment Adjustments"	6
(ii)	"Limitation Year"	6
(jj)	"Matching Contribution"	6
(kk)	"Matching Contribution Account"	6
(ll)	"Normal Retirement Date"	7

(mm)	"Participant"	7
(nn)	"Participating Employer"	7
(oo)	"Plan"	7
(pp)	"Plan Year"	7
(qq)	"Predecessor Plan"	7
(rr)	"Profit Sharing Account"	7
(ss)	"Profit Sharing Contribution"	7
(tt)	"Qualified Domestic Relations Order"	7
(uu)	"Qualified Nonelective Contribution"	7
(vv)	"Related Employer"	7
(ww)	"Retirement"	8
(xx)	"Rollover Account"	8
(yy)	"Rollover Contribution"	8
(zz)	"Service"	8

(aaa)	"Sponsor"	8
(bbb)	"Trust Agreement"	8
(ccc)	"Trustee"	8
(ddd)	"Valuation Date"	8
(eee)	"Year of Eligibility Service"	8

1.2	Plurals and Gender	8
1.3	Incorporation of Trust Agreement	8
1.4	Headings	8
1.5	Severability	9
1.6	References to Governmental Regulations	9
1.7	Notices	9
1.8	Evidence	9
1.9	Action by Employer	9

ARTICLE II PARTICIPATION 10

2.1	Commencement of Participation	10
2.2	Termination of Participation	10
2.3	Resumption of Participation	10
2.4	Determination of Eligibility	10
2.5	Restricted Participation	11

ARTICLE III CREDITED SERVICE 12

3.1	Service Counted for Eligibility Purposes	12
3.2	Service Credit During Authorized Leaves	12
3.3	Service Credit During Maternity or Paternity Leave	12
3.4	Ineligible Employees	12

ARTICLE IV CONTRIBUTIONS 13

4.1	401(k) Contributions	13
-----	----------------------	----

4.2	Form and Manner of Elections	13
4.3	Matching Contributions	14
4.4	Profit Sharing Contribution	14
4.5	Employee Stock Ownership Contribution	14
4.6	Time and Manner of Employee Stock Ownership Contribution	14
4.7	Qualified Nonelective Contributions	15
4.8	Rollover Contributions	15
4.9	Records of Contributions	16
4.10	Certain Limits Apply	16
4.11	Erroneous Contributions	22

ARTICLE V ACCOUNTS, ALLOCATIONS AND INVESTMENTS 23

5.1	Establishment of Separate Participant Accounts	23
5.2	Establishment of Suspense Accounts	31
5.3	Allocation of Earnings, Losses and Expenses	24
5.4	Allocation of Forfeitures	24
5.5	Allocation of Contributions	24

5.6	Limitation on Annual Additions	25
5.7	Erroneous Allocations	27
5.8	Value of Participant's Account	27
5.9	Investment of Account Balances	28
5.10	Loans to Participants	28

ARTICLE VI RETIREMENT, DEATH AND DESIGNATION OF BENEFICIARY 31

6.1	Normal Retirement	31
-----	-------------------	----

6.2	Early Retirement	31
6.3	Disability Retirement	31
6.4	Death Benefits	31
6.5	Designation of Beneficiary and Manner of Payment	31
ARTICLE VII	VESTING AND FORFEITURES	33
ARTICLE VIII	EMPLOYEE STOCK OWNERSHIP PROVISIONS	34
8.1	Right to Demand Employer Securities	34
8.2	Voting Rights	34
8.3	Nondiscrimination in Employee Stock Ownership Contribution	34
8.4	Dividends	34
8.5	Exempt Loans	35
8.6	Exempt Loan Payments	36
8.7	Put Option	37
8.8	Diversification Requirements	37
8.9	Independent Appraiser	38
8.10	Nonterminable Rights	38

ARTICLE IX	PAYMENTS AND DISTRIBUTIONS	39
9.1	Payments on Termination of Service - In General	39
9.2	Commencement of Payments	39
9.3	Mandatory Commencement of Benefits	39
9.4	Required Beginning Dates	41
9.5	Form of Payment	42
9.6	Payments Upon Termination of Plan	42

9.7	Distributions Pursuant to Qualified Domestic Relations Orders	42
9.8	Cash-Out Distributions	43
9.9	ESOP Distribution Rules	43
9.10	Withdrawals on Account of Financial Hardship	43
9.11	Direct Rollover	44
9.12	Limitations on Distributions from 401(k) Contributions Account	45
9.13	Waiver of 30-day Notice	45
9.14	Re-employed Veterans	46
9.15	Share Legend	46

ARTICLE X	PROVISIONS RELATING TO TOP-HEAVY PLANS	47
-----------	--	----

10.1	Top-Heavy Rules to Control	47
10.2	Top-Heavy Plan Definitions	47
10.3	Calculation of Accrued Benefits	48
10.4	Determination of Top-Heavy Status	49
10.5	Determination of Super Top-Heavy Status	49
10.6	Minimum Contribution	50
10.7	Vesting	51

10.8	Maximum Benefit Limitation	51
------	----------------------------	----

ARTICLE XI	ADMINISTRATION	52
------------	----------------	----

11.1	Appointment of Administrator	52
11.2	Resignation or Removal of Administrator	52
11.3	Appointment of Successors: Terms of Office, Etc.	52
11.4	Powers and Duties of Administrator	52
11.5	Action by Administrator	53

13.4	Bankruptcy or Insolvency of Employer	59
13.5	Voluntary Termination	59
13.6	Partial Termination of Plan or Permanent Discontinuance of Contributions	59
ARTICLE XIV	MISCELLANEOUS	60
14.1	No Diversion of Funds	60
14.2	Liability Limited	60
14.3	Facility of Payment	60
14.4	Spendthrift Clause	60
14.5	Benefits Limited to Fund	60
14.6	Cooperation of Parties	61
14.7	Payments Due Missing Persons	61
14.8	Governing Law	61
14.9	Nonguarantee of Employment	61
14.10	Counsel	61

FIRST PACTRUST BANCORP, INC.

401(K) EMPLOYEE STOCK OWNERSHIP PLAN

PREAMBLE

Effective as of January 1, 1997, Pacific Trust Federal Credit Union, the predecessor of First PacTrust Bancorp., Inc. a Maryland corporation (the "Sponsor"), adopted the Pacific Trust 401(k) Incentive Savings Plan (the "Predecessor Plan") in order to provide a profit sharing plan with a cash-or-deferred feature for its employees who qualify for participation in such Plan, by accumulating funds contributed by the Sponsor and participating Related Employers, and by Employees pursuant to salary reduction agreements, to provide retirement, death, Disability and termination benefits for such Employees, as well as to provide benefits to insure against financial hardship for any active Participant. The Predecessor Plan was amended from time to time.

The Plan has been further amended and restated as provided for in this document, effective as of January 1, 1997, except where otherwise provided herein. The amended and restated Plan includes changes the necessary to bring the Plan into compliance with recent legislation, the so-called "GUST" amendments, to simplify the Plan regarding distribution options under the Plan, and to make technical and clarifying changes. This Plan also is amended to reflect certain provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001 ("EGTRRA"). The EGTRRA amendments are intended as good faith compliance with the requirements of EGTRRA and are to be construed in accordance with EGTRRA and guidance issued thereunder. Except as otherwise provided, the applicable EGTRRA amendments shall be effective as of January 1, 2002. Finally, the Plan has been amended to include an employee stock ownership plan, effective as of January 1, 2002.

The employee stock ownership portion of this Plan is a stock bonus plan designed to meet the applicable requirements of Section 409 of the Code and of an employee stock ownership plan, as defined in Section 4975(e)(7) of the Code and Section 407(d)(6) of the Act. The employee stock ownership portion of this Plan is intended to invest primarily in "qualifying employer securities" as defined in Section 4975(e)(8) of the Code. The remaining portion of the Plan is

intended to be a profit sharing plan, for purposes of Section 401(a)(27) of the Code. The Sponsor intends that the entire Plan and its related trust will qualify under Sections 401(a) and 501(a) of the Code and will comply with the provisions of the Act.

- 1 -

The rights of any person (including such person's beneficiaries) who terminated employment or who retired on or before any effective date, or the effective date of a particular amendment, shall be determined solely under the terms of this Plan as in effect on the date of his termination of employment or retirement, unless such person is thereafter reemployed and again becomes a participant.

- 2 -

ARTICLE I

DEFINITION OF TERMS AND CONSTRUCTION

1.1 Definitions.

Unless a different meaning is plainly implied by the context, the following terms as used in this Plan shall have the following meanings:

- (a) "Account" shall mean a Participant's or Former Participant's entire accrued benefit under the Plan, including the balance credited to his 401(k) Contributions Account, Matching Contribution Account, Employee Stock Ownership Account and any other account described in Section 5.1.
- (b) "Act" shall mean the Employee Retirement Income Security Act of 1974, as amended from time to time, or any successor statute, together with the applicable regulations promulgated thereunder.
- (c) "Administrator" shall mean the fiduciary provided for in Article XI.
- (d) "Annual Additions" shall mean, with respect to each Participant, the sum of those amounts allocated to the Participant's Account under this Plan and accounts under any other qualified defined contribution plan to which the Employer or a Related Employer contributes for any Limitation Year, consisting of the following:
 - (1) Employer contributions;
 - (2) Forfeitures (if any); and
 - (3) Employee contributions (if any).

Annual Additions shall not include any Rollover Contribution or Investment Adjustment. In addition, Annual Additions shall not include any Employer contributions which are used by the Trustee to pay interest on an Exempt Loan nor any forfeitures of Employer Securities purchased with the proceeds of an Exempt Loan, provided that not more than one-third of the Employee Stock Ownership Contributions for a Plan Year are allocated to Participants who are Highly Compensated Employees.

(e) "Authorized Leave of Absence" shall mean an absence from Service with respect to which the Employee may or may not be entitled to Compensation and which meets any one of the following requirements:

(1) Service in any of the armed forces of the United States for up to 36 months, provided that the Employee resumes Service within 90 days after discharge, or such longer period of time during which such Employee's employment rights are protected by law; or

(2) Any other absence or leave expressly approved and granted by the Employer which does not exceed 24 months, provided that the Employee resumes Service at or before the end of such approved leave period. In approving such leaves of absence, the Employer shall treat all Employees on a uniform and nondiscriminatory basis.

(f) "Beneficiary" shall mean such legal or natural persons, who may be designated contingently or successively, as may be designated by the Participant pursuant to Section 6.5 to receive benefits after the death of the Participant, or in the absence of a valid designation, such persons specified in Section 6.5(b) to receive benefits after the death of the Participant.

(g) "Board of Directors" shall mean the Board of Directors of the Sponsor.

- 3 -

(h) "Break" shall mean a Plan Year during which an Employee fails to complete more than 500 Hours of Service.

(i) "Code" shall mean the Internal Revenue Code of 1986, as amended from time to time, or any successor statute, together with the applicable regulations promulgated thereunder.

(j) "Compensation" shall mean the amount of remuneration paid to an Employee by the Employer for services rendered to the Employer during a Plan Year, after the date on which the Employee becomes a Participant, including base salary, bonuses, overtime pay, commissions, and elective deferrals to a cash or deferred arrangement described in Code Section 401(k), and any amount contributed on a pre-tax salary reduction basis to a plan described in Section 125 or 132(f)(4) of the Code, but excluding amounts paid by the Employer or accrued with respect to this Plan or any other qualified or non-qualified unfunded plan of deferred compensation or other employee welfare plan to which the Employer contributes, payments for group insurance, medical benefits, reimbursement for expenses, and other forms of extraordinary pay, and excluding amounts accrued for a prior Plan Year. Notwithstanding anything herein to the contrary, the annual Compensation of each Participant taken into account under the Plan for any purpose during any Plan Year shall not exceed \$160,000. The annual Compensation of each Participant taken into account in determining allocations for any Plan Year beginning after December 31, 2001, shall not exceed \$200,000. The \$160,000 and \$200,000 dollar amounts shall be adjusted from time to time in accordance with Section 415(d) of the Code.

(k) "Date of Hire" shall mean the date on which an Employee shall perform his first Hour of Service. Notwithstanding the foregoing, in the event that an Employee incurs one or more consecutive Breaks after his initial Date of Hire which results in the forfeiture of his pre-Break Service pursuant to Section 3.3, his "Date of Hire" shall thereafter be the date on which he completes his first Hour of Service after such Break or Breaks.

(l) "Disability" shall mean a physical or mental impairment which prevents a Participant from performing the duties assigned to him by the Employer and which either has caused the Social Security Administration to classify the individual as "disabled" for purposes of Social Security or has been determined by a qualified physician selected by the Administrator.

(m) "Disability Retirement Date" shall mean the first day of the month after which a Participant incurs a Disability.

(n) "Early Retirement Date" shall mean the first day of the month coincident with or next following the later of the date on which a Participant attains age 55 and completes 5 Years of Service.

(o) "Effective Date" shall mean January 1, 1997. The effective date of the employee stock ownership portion of the Plan is January 1, 2002.

(p) "Eligibility Period" shall mean the period of 12 consecutive months commencing on an Employee's Date of Hire. Succeeding Eligibility Periods after the initial Eligibility Period shall be based on Plan Years, the first of which shall include the first anniversary of an Employee's Date of Hire.

(q) "Employee" shall mean any person who is classified as an employee by the Employer or a Related Employer, including officers, but excluding directors in their capacity as such.

(r) "Employee Stock Ownership Account" shall mean the separate bookkeeping account established for each Participant pursuant to Section 5.1(d).

(s) "Employee Stock Ownership Contribution" shall mean the cash, Employer Securities, or both that are contributed to the Plan by the Employer pursuant to Section 4.5.

(t) "Employee Stock Ownership Suspense Account" shall mean the temporary account in which the Trustee may maintain any Employee Stock Ownership Contribution that is made prior to the last day of the Plan Year for which it is made, as described in Section 5.2.

(u) "Employer" shall mean First PacTrust Bancorp, Inc., a Maryland corporation and its subsidiary, Pacific Trust Bank, or any successor thereto by merger, consolidation or otherwise, which may agree to continue this Plan, or any affiliated or subsidiary corporation or business organization of any Employer which, with the consent of the Employer, shall agree to become a party to this Plan. To the extent required by the Code or the Act, references herein to the Employer shall also include all Related Employers, whether or not they are participating in this Plan.

(v) "Employer Securities" shall mean the common stock issued by First PacTrust Bancorp, Inc., a Maryland corporation. Such term shall also mean, in the discretion of the Board of Directors, any other common stock issued by the Employer or any Related Employer having voting power and dividend rights equal to or in excess of:

- (1) that class of common stock of the Employer or a Related Employer having the greatest voting power, and
- (2) that class of common stock of the Employer or a Related Employer having the greatest dividend rights.

Non-callable preferred stock shall be treated as Employer Securities if such stock is convertible at any time into stock which meets the requirements of (1) and (2) next above and if such conversion is at a conversion price which (as of the date of the acquisition by the Plan) is reasonable. For purposes of the last preceding sentence, preferred stock shall be treated as non-callable if, after the call, there will be a reasonable opportunity for a conversion which meets the requirements of the last preceding sentence.

(w) "Entry Date" shall mean the first day of each month; provided, however, that for purposes of being able to share in Employee Stock Ownership Contributions, the Entry Date shall be each January 1 and July 1.

(x) "Exempt Loan" shall mean a loan described at Section 4975(d)(3) of the Code to the Trustee to purchase Employer Securities for the Plan, made or guaranteed by a disqualified person, as defined at Section 4975(e)(2) of the Code, including, but not limited to, a direct loan of cash, a purchase money transaction, an assumption of an obligation of the Trustee, an unsecured guarantee or the use of assets of such disqualified person as collateral for such a loan.

(y) "Exempt Loan Suspense Account" shall mean the account to which Financed Shares are initially credited until they are released in accordance with Section 8.5.

(z) "Financed Shares" shall mean the Employer Securities acquired by the Trustee with the proceeds of an Exempt Loan and which are credited to the Exempt Loan Suspense Account until they are released in accordance with Section 8.5.

(aa) "Former Participant" shall mean any previous Participant whose participation has terminated but who has an Account in the Plan which has not been distributed in full.

(bb) "401(k) Agreement" shall mean an agreement between the Employer and an eligible Employee whereby such Employee authorizes the Employer to reduce his Compensation by a specified percentage or amount for deposit to the Fund on behalf of such Employee.

(cc) "401(k) Contribution" shall mean the contribution made by the Employer to a Participant's 401(k) Contributions Account in accordance with a 401(k) Agreement, as further set forth in Sections 4.1 and 4.2.

(dd) "401(k) Contributions Account" shall mean the separate bookkeeping account maintained for a Participant for whom a 401(k) Contribution has been made.

(ee) "Fund" shall mean the trust fund maintained by the Trustee pursuant to the Trust Agreement in order to provide for the payment of the benefits specified in the Plan.

(ff) "Highly Compensated Employee" shall mean each individual employed by the Employer or a Related Employer who (i) during such Plan Year or the preceding Plan Year, is a "5% owner" within the meaning of Code Section 414(q), or (ii) during the preceding Plan Year received Compensation in excess of \$80,000 (as adjusted under Code Section 414(q)) and was in the "top paid group," as defined therein, for such Plan Year.

(gg) "Hour of Service" shall mean each hour for which an Employee is directly or indirectly paid or entitled to payment by the Employer or a Related Employer for the performance of duties or for reasons other than the performance of duties (such as vacation time, holidays, sickness, disability, paid lay-offs,

jury duty and similar periods of paid nonworking time). To the extent not otherwise included, Hours of Service shall also include each hour for which back pay, irrespective of mitigation of damages, is either awarded or agreed to by the Employer or a Related Employer. Hours of working time shall be credited on the basis of actual hours worked, even though compensated at a premium rate for overtime or other reasons. In computing and crediting Hours of Service for an Employee under this Plan, the rules set forth in Sections 2530.200b-2(b) and (c) of the Department of Labor Regulations shall apply, said sections being herein incorporated by reference. Hours of Service shall be credited to the Plan Year or other relevant period during which the services were performed or the nonworking time occurred, regardless of the time when compensation therefor may be paid. Any Employee for whom no hourly employment records are kept by the Employer or a Related Employer shall be credited with 45 Hours of Service for each calendar week in which he would have been credited with a least one Hour or Service under the foregoing provisions, if hourly records were available. For absences commencing on or after that date, solely for purposes of determining whether a Break has occurred in an Eligibility Period or a Plan Year, an individual who is absent from work for maternity or paternity reasons shall receive credit for the Hours of Service which would otherwise have been credited to such individual but for such absence, or in any case in which such hours cannot be determined, 8 Hours of Service per day of such absence. For purposes of this Section 1.1(dd), an absence from work for maternity or paternity reasons means an absence (1) by reason of the pregnancy of the individual, (2) by reason of the birth of a child of the individual, (3) by reason of the placement of a child with the individual in connection with the adoption of such child by such individual, or (4) for purposes of caring for such child for a period beginning immediately following such birth or placement. The Hours of Service credited under this provision shall be credited (1) in the computation period in which the absence begins if the crediting is necessary to prevent a Break in that period, or (2) in all other cases, in the following computation period.

(hh) "Investment Adjustments" shall mean the increases and/or decreases in the value of a Participant's Account attributable to earnings, gains, losses and expenses of the Fund, as set forth in Section 5.3.

(ii) "Limitation Year" shall mean the Plan Year.

(jj) "Matching Contribution" shall mean a contribution made by the Employer that it designates as a Matching Contribution, and which is allocated to a Participant's Matching Contribution Account as a percentage of the 401(k) Contribution that is made on behalf of such Participant, all in accordance with Section 4.3.

(kk) "Matching Contribution Account" shall mean the separate bookkeeping account maintained for a Participant for whom a Matching Contribution has been made.

- 6 -

(ll) "Normal Retirement Date" shall mean the date on which a Participant attains age 65 or the fifth anniversary of the date he commenced participation in the Plan.

(mm) "Participant" shall mean an Employee who has met all of the eligibility requirements of the Plan and who is currently included in the Plan as provided in Article II hereof; provided, however, that the term "Participant" shall not include (1) leased employees (as defined herein, (2) any Employee who is regularly employed outside the Employer's own offices in connection with the operation and maintenance of buildings or other properties acquired through foreclosure or deed, (3) any individual who is employed by a Related Employer that has not adopted the Plan in accordance with Section 1.1(u) hereof, (4) any Employee who is a non-resident alien individual and who has no earned income from sources within the United States, or (5) any Employee who is included in a unit of Employees covered by a collective-bargaining agreement with the Employer or a Related Employer that does not expressly provide for participation of such Employees in the Plan, where there has been good-faith bargaining between the Employer or a Related Employer and Employees' representatives on the subject of retirement benefits. To the extent required by the Code or the Act, or appropriate based on the context, references herein to Participant shall include Former Participant. The term "leased employee" means any person (other than an employee of the recipient) who pursuant to an agreement between the recipient and any other person ("leasing organization") has performed services for the recipient (or for the recipient and related persons determined in accordance with Code Section 414(n)(6)) on a substantially full time basis for a period of at least one year, and such services are performed under primary direction or control by the recipient.

(nn) "Participating Employer" shall mean the Sponsor and each other Related Employer that adopts the Plan with the consent of the Sponsor, as set forth on Schedule A from time to time.

(oo) "Plan" shall mean the First PacTrust Bancorp, Inc. 401(k) Employee Stock Ownership Plan, as described herein or as hereafter amended from time to time.

(pp) "Plan Year" shall mean any 12 consecutive month period commencing on each January 1 and ending on the next following December 31.

(qq) "Predecessor Plan" shall mean the Pacific Trust Bank 401(k) Incentive Plan, as amended and as in effect on January 1, 1997, as amended from time to time.

(rr) "Profit Sharing Account" shall mean the separate bookkeeping account maintained for a Participant for whom a Profit Sharing Contribution has been made.

(ss) "Profit Sharing Contribution" shall mean a contribution made in the discretion of the Employer that it designates as a Profit Sharing Contribution, and which is allocated to a Participant's Profit Sharing Account in accordance with Sections 4.4 and 5.5(a).

(tt) "Qualified Domestic Relations Order" shall mean any judgment, decree or order that satisfies the requirements to be a "qualified domestic relations order," as defined in Section 414(p) of the Code.

(uu) "Qualified Nonelective Contribution" shall mean a contribution made in the discretion of the Employer which is designated by the Employer as a

(vv) "Related Employer" shall mean any entity that is:

(1) a member of a controlled group of corporations that includes the Employer, while it is a member of such controlled group (within the meaning of Section 414(b) of the Code);

(2) a member of a group of trades or businesses under common control with the Employer, while it is under common control (within the meaning of Section 414(c) of the Code);

- 7 -

(3) a member of an affiliated service group that includes the Employer, while it is a member of such affiliated service group (within the meaning of Section 414(m) of the Code); or

(4) a leasing or other organization that is required to be aggregated with the Employer pursuant to the provisions of Section 414(n) or 414(o) of the Code.

(ww) "Retirement" shall mean termination of employment which qualifies as early, normal or Disability retirement as described in Article VI.

(xx) "Rollover Account" shall mean the separate bookkeeping account maintained for a Participant who has made a Rollover Contribution in accordance with Section 5.1(e).

(yy) "Rollover Contribution" shall mean an eligible rollover distribution made on behalf of a Participant from a eligible retirement plan (as those terms are defined in Section 9.10) to this Plan.

(zz) "Service" shall mean, for purposes of eligibility to participate, employment with the Employer or any Related Employer, and for purposes of allocation of the Employee Stock Ownership Contribution, employment with the Employer.

(aaa) "Sponsor" shall mean First PacTrust Bancorp, a Maryland corporation.

(bbb) "Trust Agreement" shall mean the agreement by and between the Sponsor and the Trustee, as in effect from time to time.

(ccc) "Trustee" shall mean the trustee or trustees by whom the assets of the Plan are held, as provided in the Trust Agreement, or his or their successors.

(ddd) "Valuation Date" shall mean the last day of each Plan Year. The Trustee may make additional valuations, at the direction of the Administrator. Whenever such date falls on a Saturday, Sunday or holiday, the preceding business day shall be the Valuation Date.

(eee) "Year of Eligibility Service" shall mean an Eligibility Period during which an Employee is credited with at least 1,000 Hours of Service, except as otherwise specified in Article III.

1.2 Plurals and Gender.

Where appearing in the Plan and the Trust Agreement, the masculine gender shall include the feminine and neuter genders, and the singular shall include the plural, and vice versa, unless the context clearly indicates a different meaning.

1.3 Incorporation of Trust Agreement.

The Trust Agreement, as the same may be amended from time to time, is intended to be and hereby is incorporated by reference into this Plan. All contributions made under the Plan will be held, managed and controlled by the Trustee pursuant to the terms and conditions of the Trust Agreement.

1.4 Headings.

The headings and sub-headings in this Plan are inserted for the convenience of reference only and are to be ignored in any construction of the provisions hereof.

- 8 -

1.5 Severability.

In case any provision of this Plan shall be held illegal or void, such illegality or invalidity shall not affect the remaining provisions of this Plan, but shall be fully severable, and the Plan shall be construed and enforced as if said illegal or invalid provisions had never been inserted herein.

1.6 References to Governmental Regulations.

References in this Plan to regulations issued by the Internal Revenue Service, the Department of Labor, or other governmental agencies shall include all regulations, rulings, procedures, releases and other position statements issued by any such agency.

1.7 Notices.

Any notice or document required to be filed with the Administrator or Trustee under the Plan will be properly filed if delivered or mailed by registered mail, postage prepaid, to the Administrator in care of the Sponsor or to the Trustee, each at its principal business offices. Any notice required under the Plan may be waived in writing by the person entitled to notice.

1.8 Evidence.

Evidence required of anyone under the Plan may be by certificate, affidavit, document or other information which the person acting on it considers pertinent and reliable, and signed, made or presented by the proper party or parties.

1.9 Action by Employer.

Any action required or permitted to be taken by any entity constituting the Employer under the Plan shall be by resolution of its board of directors or by a person or persons authorized by its board of directors.

- 9 -

ARTICLE II

PARTICIPATION

2.1 Commencement of Participation.

(a) Any Employee who is otherwise eligible to become a Participant shall initially become a Participant on the Entry Date coincident with or next following the later of the following dates, provided he is employed by the Employer on that Entry Date:

(1) The date on which he completes a Year of Eligibility Service; and

(2) The date on which he attains age 21 (age 19, effective January 1, 2000).

(b) Any Employee who had satisfied the requirements set forth in Section 2.1(a) during the 12 consecutive month period prior to the Effective Date shall become a Participant on the Effective Date, provided he is still employed by the Employer on the Effective Date.

2.2 Termination of Participation.

After commencement or resumption of his participation, an Employee shall remain a Participant during each consecutive Plan Year thereafter until the earliest of the following dates:

(a) His actual Retirement date;

(b) His date of death; or

(c) The last day of a Plan Year during which he incurs a Break.

2.3 Resumption of Participation.

(a) Any Participant whose employment terminates and who resumes Service before he incurs a Break shall resume participation immediately on the date he is reemployed.

(b) Except as otherwise provided in Section 2.3(c), any Participant who incurs one or more Breaks and resumes Service shall resume participation retroactively as of the first day of the first Plan Year in which he completes a Year of Eligibility Service after such Break(s).

(c) Any Participant who incurs one or more Breaks and resumes Service, but whose pre-Break Service is not reinstated to his credit pursuant to Section 3.3, shall be treated as a new Employee and shall again be required to satisfy the eligibility requirements contained in Section 2.1(a) before resuming participation on the appropriate Entry Date, as specified in Section 2.1(a).

2.4 Determination of Eligibility.

The Administrator shall determine the eligibility of Employees in accordance with the provisions of this Article II. For each Plan Year, the Employer shall furnish the Administrator a list of all Employees, indicating their Date of Hire, their Hours of Service during their Eligibility Period, their date of birth, the original date of their reemployment with the Employer, if any, and any Breaks they may have incurred.

- 10 -

2.5 Restricted Participation

Subject to the terms and conditions of the Plan, during the period between the Participant's date of termination of participation in the Plan (as described in Section 2.2) and the distribution of his entire Account (as described in Article IX), and during any period that a Participant does not meet the requirements of Section 2.1(a) or is employed by a Related Employer that is not participating in the Plan, the Participant or, in the event of the Participant's death, the Beneficiary of the Participant, will be considered and treated as a Participant for all purposes of the Plan, except as follows:

- (a) the Participant will not share in contributions under this Plan; and
- (b) the Beneficiary of a deceased Participant cannot designate a Beneficiary under Section 6.5.

- 11 -

ARTICLE III

CREDITED SERVICE

3.1 Service Counted for Eligibility Purposes.

All Years of Eligibility Service completed by an Employee shall be counted in determining his eligibility to become a Participant on and after the Effective Date, whether or not such Service was completed before or after the Effective Date.

3.2 Service Credit During Authorized Leaves.

An Employee shall receive no Service credit under Section 3.1 during any Authorized Leave of Absence. However, solely for the purpose of determining whether he has incurred a Break during any Plan Year in which he is absent from Service for one or more Authorized Leaves of Absence, he shall be credited with 45 Hours of Service for each week during any such leave period. Notwithstanding the foregoing, if an Employee fails to return to Service on or before the end of a leave period, he shall be deemed to have terminated Service as of the first day of such leave period and his credit for Hours of Service, determined under this Section 3.2, shall be revoked. Notwithstanding anything contained herein to the contrary, an Employee who is absent by reason of military service as set forth in

Section 1.1(e)(1) shall be given Service credit under this Plan for such military leave period to the extent, and for all purposes, required by Code Section 414(u).

3.3 Service Credit During Maternity or Paternity Leave.

For purposes of determining whether a Break has occurred for participation purposes, an individual who is on maternity or paternity leave as described in Section 1.1(gg), shall be deemed to have completed Hours of Service during such period of absence, all in accordance with Section 1.1(gg). Notwithstanding the foregoing, no credit shall be given for such Hours of Service unless the individual furnishes to the Administrator such timely information as the Administrator may reasonably require to determine:

- (a) that the absence from Service was attributable to one of the maternity or paternity reasons enumerated in Section 1.1(gg); and
- (b) the number of days of such absence.

In no event, however, shall any credit be given for such leave other than for determining whether a Break has occurred.

3.4 Ineligible Employees.

Notwithstanding any provisions of this Plan to the contrary, any Employee who is ineligible to participate in this Plan either because of his failure

- (a) To meet the eligibility requirements contained in Article II; or
- (b) To be a Participant, as defined in Section 1.1(mm),

shall, nevertheless, earn Years of Eligibility Service pursuant to the rules contained in this Article III. However, such Employee shall not be entitled to an allocation of any contributions hereunder unless and until he becomes a Participant in this Plan, and then, only during his period of participation.

- 12 -

ARTICLE IV

CONTRIBUTIONS

4.1 401(k) Contributions.

(a) Each Participant may enter into a 401(k) Agreement with his or her Participating Employer specifying that a whole percentage or amount (not exceeding 15% or its equivalent for Plan Years commencing prior to January 1, 2002, and 50% or its equivalent for Plan Years commencing on or after January 1, 2002) of Compensation will be contributed to the Fund as a 401(k) Contribution. By agreeing to a 401(k) Contribution, the Participant agrees to a reduction in Compensation by the percentage or amount designated, and the Participating Employer agrees in consideration of such reduction to contribute an equivalent amount to the Fund.

(b) All Participants who are eligible to make 401(k) Contributions and who have attained age 50 before the close of the Plan Year shall be eligible to make "Catch-Up 401(k) Contributions" in accordance with, and subject to the limitations of, section 414(v) of the Code. Catch-Up Contributions shall not be taken into account for purposes of the provisions of the Plan implementing the required limitations of Sections 402(g) and 415 of the Code. The Plan shall not be treated as failing to satisfy the provisions of the Plan implementing the requirements of sections 401(k)(3), 401(k)(11), 401(k)(12), 410(b), or 416 of the Code, as applicable, by reason of the making of such Catch-Up Contributions.

4.2 Form and Manner of Elections.

(a) Each 401(k) Agreement shall be in the form prescribed or approved by the Administrator and may be entered into on any Entry Date. A Participant's 401(k) Agreement may be changed or revoked by the Participant, with such prior notice as the Administrator may prescribe, as of the first day of any calendar quarter. A 401(k) Agreement shall be effective with respect to Compensation payable on and after such day (or the first day of any later month as may be specified on such form).

(b) If a Participant terminates his 401(k) Agreement, such Participant shall not be permitted to enter into another 401(k) Agreement until the next following calendar quarter. A Participant may change his designated percentage or amount of 401(k) Contributions only once in any calendar quarter. The Employer may also amend or terminate said 401(k) Agreement on written notice to the Participant in order to satisfy any of the nondiscrimination tests described in Section 4.10 or as part of a uniform and nondiscriminatory policy of terminating 401(k) Agreements of all Participants or of similarly situated Participants.

(c) If a Participant has not authorized the Employer to withhold at the maximum rate and desires to increase the total withheld for a Plan Year, such Participant may authorize the Employer to withhold a supplemental amount up to 100% of his Compensation for one or more pay periods. A Participant may accelerate the rate of his withholding by submitting a written request to the Employer or Administrator prior to the commencement of the Plan Year in which such acceleration shall be effective. In no event may the sum of the amounts withheld under the 401(k) Agreement exceed the maximum percentage of a Participant's Compensation for a Plan Year that may be deferred under Section 4.1. In addition, in no event may the sum of a Participant's 401(k) Contributions exceed the Code Section 402(g) limits, as specified in Section 4.10(b).

- (d) In addition to the foregoing, a Participant's pre-tax contributions shall cease upon the Participant's termination of service as an Employee.

- 13 -

4.3. Matching Contributions.

For each Plan Year, the Sponsor, in its discretion, may determine whether a Matching Contribution shall be made to the Fund for a Plan Year, and if so, the amount or percentage of the Matching Contributions to be contributed. If the Sponsor determines that a Matching Contribution is to be made, each Participating Employer shall contribute its designated portion. The Matching Contribution shall be made on account of each Participant who has had his Compensation reduced during the Plan Year pursuant to a 401(k) Agreement equal to the amount or percentage determined by the Sponsor. Only 401(k) Contributions up to four percent (4%) of a Participant's Compensation for the Plan Year shall be taken into account.

4.4. Profit Sharing Contribution.

The Sponsor, in its discretion, may determine whether a Profit Sharing Contribution shall be made to the Fund for a Plan Year, and if so, the amount to be contributed by each Participating Employer (which amount may vary among Participating Employers). If the Sponsor determines that a Profit Sharing Contribution is to be made, each Participating Employer shall contribute its designated portion. The Profit Sharing Contribution shall be allocated among Participants' Profit Sharing Accounts in accordance with Section 5.5(b).

4.5. Employee Stock Ownership Contribution.

(a) Subject to all of the provisions of this Article IV, for each Plan Year commencing on or after the Effective Date, the Employer shall make an Employee Stock Ownership Contribution to the Fund in such amount as may be determined by resolution of the Board of Directors in its discretion; provided, however, that the Employer shall contribute an amount in cash not less than the amount required to enable the Trustee to discharge any indebtedness incurred with respect to an Exempt Loan in accordance with Section 8.6(c). If any part of the Employee Stock Ownership Contribution under this Section 4.5 for any Plan Year is in cash in an amount exceeding the amount needed to pay the amount due during or prior to such Plan Year with respect to an Exempt Loan, such cash shall be applied by the Trustee, as directed by the Administrator in its sole discretion, either to the purchase of Employer Securities or to repay an Exempt Loan. Contributions hereunder shall be in the form of cash, Employer Securities or any combination thereof. In determining the value of Employer Securities transferred to the Fund as an Employee Stock Ownership Contribution, the Administrator may determine the average of closing prices of such securities for a period of up to 90 consecutive days immediately preceding the date on which the securities are contributed to the Fund. In the event that the Employer Securities are not readily tradable on an established securities market, the value of the Employer Securities transferred to the Fund shall be determined by an independent appraiser in accordance with Section 8.9.

(b) In no event shall the Employee Stock Ownership Contribution exceed for any Plan Year the maximum amount that may be deducted by the Employer under Section 404 of the Code. Each Employee Stock Ownership Contribution by the Employer shall be deemed to be made on the express condition that the Plan, as then in effect, shall be qualified under Sections 401(a) and 501(a) of the Code and that the amount of such contribution shall be deductible from the Employer's income under Section 404 of the Code.

4.6. Time and Manner of Employee Stock Ownership Contribution.

(a) The Matching Contribution, Profit Sharing Contribution, and Employee Stock Ownership Contributions (if any) for each Plan Year shall be paid to the Trustee in one lump sum or installments at any time on or before the expiration of the time prescribed by law (including any extensions) for filing of the Employer's federal income tax return for its fiscal year ending concurrent with or during such Plan Year. The 401(k) Contributions shall be contributed to the Plan no later when required in regulations under the Act. Any portion of the Employee Stock Ownership Contribution for each Plan Year that may be made prior to the last day of the Plan Year shall, if there is an Exempt Loan outstanding at such time, at the election of the Administrator, either (i) be applied immediately to make payments on such Exempt Loan or (ii) be maintained by the Trustee in the Employee Stock Ownership Suspense Account described in Section 5.2 until the last day of such Plan Year.

- 14 -

(b) If an Employee Stock Ownership Contribution for a Plan Year is paid after the close of the Employer's fiscal year which ends concurrent with or during such Plan Year but on or prior to the due date (including any extensions) for filing of the Employer's federal income tax return for such fiscal year, it shall be considered, for allocation purposes, as an Employee Stock Ownership Contribution to the Fund for the Plan Year for which it was computed and accrued, unless such contribution is accompanied by a statement to the Trustee, signed by the Employer, which specifies that the Employee Stock Ownership Contribution is made with respect to the Plan Year in which it is received by the Trustee. Any Employee Stock Ownership Contribution paid by the Employer during any Plan Year but after the due date (including any extensions) for filing of its federal income tax return for the fiscal year of the Employer ending on or before the last day

of the preceding Plan Year shall be treated, for allocation purposes, as an Employee Stock Ownership Contribution to the Fund for the Plan Year in which the contribution is paid to the Trustee.

(c) Notwithstanding anything contained herein to the contrary, no contribution shall be made for any Plan Year during which a limitations account created pursuant to Section 5.6(c)(2) is in existence until the balance of such limitations account has been reallocated in accordance with Section 5.6(c)(2).

4.7 Qualified Nonelective Contributions.

To the extent necessary to satisfy the Section 401(k)(3) limits with respect to 401(k) Contributions or the Section 401(m) limits with respect to Matching Contributions, the Sponsor, in its discretion, may determine whether a Qualified Nonelective Contribution shall be made to the Fund for a Plan Year and, if so, the amount to be contributed by each Participating Employer (which amount may vary among Participating Employers). If the Sponsor determines that a Qualified Nonelective Contribution shall be made, each Participating Employer shall contribute its designated portion. Such Qualified Nonelective Contributions, if any, may, as the Sponsor determines, be made either on behalf of all Employees who have met the eligibility requirements contained in Section 2.1 (regardless of whether such Employees have entered into 401(k) Agreements with the Employer) or on behalf of only those Employees who have met the eligibility requirements contained in Section 2.1 (regardless of whether such Employees have entered into 401(k) Agreements with the Employer) and who are not Highly Compensated Employees. Any optional contributions made pursuant to this Section 4.7 may be allocated to those Employees entitled thereto in the same ratio as each such Employee's Compensation for such Plan Year bears to the total Compensation of all such Employees for the Plan Year, or on a per capita basis, as determined by the Board of Directors. Qualified Nonelective Contributions shall be fully vested and subject to the same distribution rules as 401(k) Contributions as of the time such Qualified Nonelective Contributions are made to the Plan.

4.8 Rollover Contributions.

(a) Notwithstanding the limitations contained in Section 5.6, the Trustee, with the consent of the Administrator, may accept a Rollover Contribution to be held for the benefit of any Employee or Participant, provided that, in the opinion of counsel for the Employer, the acceptance of the Rollover Contribution will not jeopardize the exempt status of the Plan or its related trust or create adverse tax consequences to the Employer. Before accepting a Rollover Contribution, the Trustee may request from the Participant or the Employer any documents which the Trustee, in its discretion, deems necessary to establish that the assets are suitable or appropriate for a Rollover Contribution. The Trustee shall maintain a separate, nonforfeitable Rollover Account in the Fund for each Rollover Contribution accepted on behalf of a Participant and its share of the Investment Adjustments thereafter.

(b) Upon his death, Retirement or other termination of Service, a Participant's Rollover Account shall be combined with his other Accounts and distributed to him or his Beneficiary in the same manner and under the same circumstances and contingencies which are set forth in the Plan for other distributions. A Participant may also request a distribution of his Rollover Account at any time, in which case the Rollover Account will be distributed in accordance with Article IX.

- 15 -

4.9 Records of Contributions.

The Employer shall deliver at least annually to the Trustee, with respect to all contributions made pursuant to this Article IV, a certificate of the Administrator, in such form as the Trustee shall approve, setting forth:

- (a) The aggregate amount of such contribution, if any, to the Fund for such Plan Year;
- (b) The names, Internal Revenue Service identifying numbers and current residential addresses of all Participants in the Plan;
- (c) The amount and category of contributions to be allocated to each such Participant; and
- (d) Any other information reasonably required for the proper operation of the Plan.

4.10 Certain Limits Apply.

All contributions to the Plan are subject to the applicable limits set forth under Code Section 415, as provided in Section 5.6. In addition, certain designated contributions to the Plan are subject to the following limitations:

(a) Code Section 404 Limits.

The sum of the contributions made by each Participating Employer under the Plan for any Plan Year shall not exceed the maximum amount deductible under the applicable provisions of the Code. All contributions under the Plan made by a Participating Employer are expressly conditioned on their deductibility under Code Section 404 for the taxable year when paid (or treated as paid under Code Section 404(a)(6)).

(b) Code Section 402(g) Limits.

(1) In general. The maximum amount of 401(k) Contributions made on behalf of any Participant for any calendar year, when added to the amount of elective deferrals under all other plans, contracts and arrangements of the Employer or a Related Employer with respect to the Participant for the calendar year, shall in no event exceed the maximum applicable limit in effect for the calendar year under Code Section 401(a)(30). For purposes of the Plan, an individual's elective deferrals for a taxable year are the sum of the following:

(i) Any elective contribution under a qualified cash or deferred arrangement (as defined in Code Section 401(k)) to the extent not includible in the individual's gross income for the taxable year on account of Code Section 402(a)(8) (before applying the limits of Code Section 402(g) or this section);

(ii) Any employer contribution to a simplified employee pension (as defined in Code Section 408(k)) to the extent not includible in the individual's gross income for the taxable year on account of Code Section 408(k)(6) (before applying the limits of Code Section 402(g));

(iii) Any employer contribution to a custodial account or annuity contract under Code Section 403(b) under a salary reduction agreement (within the meaning of Code Section 3121(a)(5)(D)), to the extent not includible in the individual's gross income for the taxable year on account of Code Section 403(b) before applying the limits of Code Section 402(g);

(iv) Any elective employee contribution to a simple retirement account under a qualified salary reduction arrangement (as defined in Code Section 408(p)(2)(A)); and

(v) Any employee contribution designated as deductible under a trust described in Code Section 501(c)(19) (before applying the limits of Code Section 402(g)).

- 16 -

A Participant will be considered to have made "excess deferrals" for a taxable year to the extent that the Participant's elective deferrals for the taxable year exceed the applicable limit described above for the year.

(2) Distribution of excess deferrals. In the event that an amount is included in a Participant's gross income for a taxable year as a result of an excess deferral under Code Section 402(g), and the Participant notifies the Administrator on or before the March 1 following the taxable year that all or a specified portion of a 401(k) Contribution made for his or her benefit represents an excess deferral, the Administrator shall make every reasonable effort to cause such excess deferral, adjusted for allocable income, to be distributed to the Participant no later than the April 15 following the calendar year in which such excess deferral was made. The income allocable to excess deferrals is equal to the allocable gain or loss for the taxable year of the individual, but not the allocable gain or loss for the period between the end of the taxable year and the date of distribution. Income allocable to excess deferrals for the taxable year shall be determined by multiplying the gain or loss attributable to the Participant's 401(k) Contributions Account for the taxable year by a fraction, the numerator of which is the Participant's excess deferrals for the taxable year, and the denominator of which is the sum of the Participant's 401(k) Contributions Account balance as of the beginning of the taxable year plus the Participant's 401(k) Contribution for the taxable year. No distribution of an excess deferral shall be made during the taxable year of a Participant in which the excess deferral was made unless the correcting distribution is made after the date on which the Plan received the excess deferral and both the Participant and the Plan designate the distribution as a distribution of an excess deferral. The amount of any excess deferrals that may be distributed to a Participant for a taxable year shall be reduced by the amounts of 401(k) Contributions that were excess contributions and were previously distributed to the Participant for the Plan Year beginning with or within such taxable year.

(3) Treatment of excess deferrals. For other purposes of the Code, including Code Sections 401(a)(4), 401(k)(3), 404, 409, 411, 412, and 416, excess deferrals shall be treated as employer contributions even if they are distributed in accordance with paragraph (2) above. However, excess deferrals of a Participant who is not a Highly Compensated Employee will not be taken into account for purposes of Code Section 401(k)(3) (the actual deferral percentage test) to the extent the excess deferrals are prohibited under Code Section 401(a)(30). Excess deferrals will also be treated as employer contributions for purposes of Code Section 415 unless distributed under paragraph (2) above.

(4) This Section 4.10(b) shall not apply to Catch-Up Contributions described in Section 4.1(b).

(c) Code Section 401(k)(3) Limits.

(1) In general. 401(k) Contributions made under the Plan are subject to the limits of Code Section 401(k)(3), as more fully described below. The Plan provisions relating to the Code Section 401(k)(3) limits are to be interpreted and applied in accordance with Code Sections 401(k)(3) and 401(a)(4), which are hereby incorporated by reference, and in such manner as to satisfy such other requirements relating to Code Section 401(k) as may be prescribed by the Secretary of the Treasury from time to time.

(2) Actual deferral ratios. For each Plan Year, the Administrator will determine the "actual deferral ratio" for each Participant who is eligible for 401(k) Contributions. The actual deferral ratio shall be the ratio, calculated to the nearest one-hundredth of one percent, of the 401(k) Contributions (plus any Qualified Nonelective Contributions treated as 401(k) Contributions) made on behalf of the Participant for the Plan Year to the Participant's Compensation for the applicable period. For purposes of determining a Participant's actual deferral ratio:

(i) 401(k) Contributions will be taken into account only if both of the following requirements are satisfied:

(A) the 401(k) Contribution is allocated to the Participant's 401(k) Contributions Account as of a date within the Plan Year, is not contingent upon participation in the Plan or performance of services on any date subsequent to that date, and is actually paid to the Fund no later than the end of the 12-month period immediately following the Plan Year to which the contribution relates; and

- 17 -

(B) the 401(k) Contribution relates to Compensation that either would have been received by the Participant in the Plan Year but for the Participant's election to defer under the Plan or is attributable to services performed in the Plan Year and, but for the Participant's election to defer, would have been received by the Participant within 2 1/2 months after the close of the Plan Year.

To the extent 401(k) Contributions which meet the requirements of (A) and (B) above constitute excess deferrals described in Section 4.10(b), they will be taken into account for each Highly Compensated Employee, but will not be taken into account for any Participant who is not a Highly Compensated Employee.

(ii) In the case of a Participant who is a Highly Compensated Employee for the Plan Year and is eligible to have elective contributions (and qualified nonelective or qualified matching contributions, to the extent treated as elective contributions) allocated to his or her accounts under two or more cash or deferred arrangements described in Code Section 401(k) maintained by a Related Employer, the Participant's actual deferral ratio shall be determined as if such elective contributions (as well as qualified nonelective or qualified matching contributions) are made under a single arrangement, and if two or more of the cash or deferred arrangements have different Plan Years, all cash or deferred arrangements ending with or within the same calendar year shall be treated as a single arrangement.

(iii) The applicable period for determining Compensation for each Participant for a Plan Year shall be the 12 consecutive month period ending on the last day of such Plan Year; provided that, to the extent permitted under Regulations, the Administrator may choose, on a uniform basis, to treat as the applicable period only that portion of the Plan Year during which the individual was a Participant.

(iv) Qualified Nonelective Contributions made on behalf of Participants who are eligible to receive 401(k) Contributions shall be treated as 401(k) Contributions to the extent permitted by Regs. Section 1.401(k)-1(b)(5).

(v) In the event that the Plan satisfies the requirements of Code Sections 401(k), 401(a)(4), or 410(b) only if aggregated with one or more other plans with the same Plan Year, or if one or more other plans with the same Plan Year satisfy such Code sections only if aggregated with this Plan, then this section shall be applied by determining the actual deferral ratios as if all such plans were a single plan.

(vi) An Employee who would be a Participant but for the failure to make 401(k) Contributions shall be treated as a Participant on whose behalf no 401(k) Contributions are made.

(vii) 401(k) Contributions made on behalf of Participants who are not Highly Compensated Employees which could be used to satisfy the Code Section 401(k)(3) limits but are not necessary to be taken into account in order to satisfy such limits, may instead be taken into account for purposes of the Code Section 401(m) limits to the extent permitted by Regs. Section 1.401(m)-1(b)(5).

(3) Actual deferral percentages. The actual deferral ratios for all Highly Compensated Employees who are eligible for 401(k) Contributions for a Plan Year shall be averaged to determine the actual deferral percentage for the highly compensated group, and the actual deferral ratios for all Employees who are not Highly Compensated Employees but are eligible for 401(k) Contributions for the Plan Year shall be averaged to determine the actual deferral percentage for the nonhighly compensated group. The actual deferral percentages must satisfy at least one of the following tests:

(i) the actual deferral percentage for the highly compensated group does not exceed 125% of the actual deferral percentage for the nonhighly compensated group; or

(ii) the excess of the actual deferral percentage for the highly compensated group over the actual deferral percentage for the nonhighly compensated group does not exceed two percentage points, and the actual deferral percentage for the highly compensated group does not exceed twice the actual deferral percentage of the nonhighly compensated group.

The tests in (i) and (ii) above shall be applied using the actual deferral percentage for the highly compensated group and the nonhighly compensated group for the current Plan Year.

(4) Adjustments by Administrator. If, prior to the time all 401(k) Contributions for a Plan Year have been contributed to the Fund, the Administrator determines that 401(k) Contributions are being made at a rate which will cause the Code Section 401(k)(3) limits to be exceeded for the Plan Year, the Administrator may, in its sole discretion, limit the amount of 401(k) Contributions to be made with respect to one or more Highly Compensated Employees for the balance of the Plan Year by suspending or reducing 401(k) Contribution elections to the extent the Administrator deems appropriate. Any 401(k) Contributions which would otherwise be made to the Fund shall instead be paid to the affected Participant in cash.

(5) Excess contributions. If the Code Section 401(k)(3) limits have not been met for a Plan Year after all contributions for the Plan Year have been made, the Administrator will determine the amount of excess contributions with respect to Participants who are Highly Compensated Employees. To do so, the Administrator will perform the following computation (which shall be used solely to determine the aggregate amount to be distributed under paragraph (6) below and not the amount to be distributed to any individual): first, the actual deferral ratio of the Highly Compensated Employee with the highest actual deferral ratio shall be reduced to the extent necessary to (i) enable the Plan to satisfy the Code Section 401(k)(3) limits or (ii) cause such Employee's actual deferral ratio to equal the actual deferral ratio of the Highly Compensated Employee with the next highest actual deferral ratio, and then this process will be repeated until the

Plan satisfies the Code Section 401(k)(3) limits.

(6) Distribution of excess contributions. The aggregate amount of reductions determined under paragraph (5) above shall be distributed, first, to the Highly Compensated Employees with the highest dollar amounts of 401(k) Contributions, pro rata, in an amount equal to the lesser of (i) the total amount of excess contributions for the Plan Year determined under paragraph (5) above or (ii) the amount necessary to cause the amount of such Employees' 401(k) Contributions to equal the amount of the 401(k) Contributions of the Highly Compensated Employees with the next highest dollar amount of 401(k) Contributions. This process is repeated until the aggregate amount distributed under this paragraph (6) equals the amount of excess contributions determined under paragraph (5) above. Income on excess contributions shall be distributed in accordance with applicable Regulations.

(7) Special rule. For purposes of distributing excess contributions, the amount of excess contributions that may be distributed with respect to a Highly Compensated Employee for a Plan Year shall be reduced by the amount of excess deferrals previously distributed to the Highly Compensated Employee for his or her taxable year ending with or within such Plan Year.

(8) Recordkeeping requirement. The Administrator, on behalf of the Participating Employers, shall maintain such records as are necessary to demonstrate compliance with the Code Section 401(k)(3) limits including the extent to which Qualified Nonelective Contributions are taken into account in determining the actual deferral ratios.

(9) Effect on Matching Contributions. A Participant's 401(k) Contributions which are returned as a result of the Code Section 401(k)(3) limits for a Plan Year shall not be taken into account in determining the amount of Matching Contributions to be made for the Participant's benefit for the Plan Year. To the extent Matching Contributions have already been made with respect to the 401(k) Contributions at the time the 401(k) Contributions are determined to be excess contributions, such Matching Contributions shall be distributed to the Participant at the same time as the 401(k) Contributions are returned.

(10) Excise tax where failure to correct. If the excess contributions are not corrected within 2 1/2 months after the close of the Plan Year to which they relate, the Participating Employers will be liable for a 10% tax on the amount of excess contributions attributable to them, to the extent provided by Code Section 4979. Qualified Nonelective Contributions properly taken into account under this section for the Plan Year may enable the Plan to avoid having excess contributions, even if the contributions are made after the close of the 2 1/2 month period.

(11) This Section 4.10(c) shall not apply to Catch-Up Contributions described in Section 4.1(b).

- 19 -

(d) Code Section 401(m) Limits.

(1) In general. Matching Contributions made under the Plan are subject to the limits of Code Section 401(m), as more fully described below. The Plan provisions relating to the Code Section 401(m) limits are to be interpreted and applied in accordance with Code Section 401(m) and 401(a)(4), which are hereby incorporated by reference, and in such manner as to satisfy such other requirements relating to Code Section 401(m) as may be prescribed by the Secretary of the Treasury from time to time.

(2) Actual contribution ratios. For each Plan Year, the Administrator will determine the "actual contribution ratio" for each Participant who is eligible for Matching Contributions. The actual contribution ratio shall be the ratio, calculated to the nearest one-hundredth of one percent, of the sum of the Matching Contributions and Qualified Nonelective Contributions which are not treated as 401(k) Contributions made on behalf of the Participant for the Plan Year, to the Participant's Compensation for the applicable period. For purposes of determining a Participant's actual contribution ratio:

(i) A Matching Contribution will be taken into account only if the Contribution is allocated to a Participant's Account as of a date within the Plan Year, is actually paid to the Fund no later than 12 months after the close of the Plan Year, and is made on behalf of a Participant on account of the Participant's 401(k) Contributions for the Plan Year.

(ii) In the case of a Participant who is a Highly Compensated Employee for the Plan Year and is eligible to have matching contributions or employee contributions (including amounts treated as matching contributions) allocated to his or her accounts under two or more plans maintained by a Related Employer which may be aggregated for purposes of Code Sections 410(b) and 401(a)(4), the Participant's actual contribution ratio shall be determined as if such contributions are made under a single plan, and if two or more of the plans have different Plan Years, all plans ending with or within the same calendar year shall be treated as a single plan.

(iii) The applicable period for determining Compensation for each Participant for a Plan Year shall be the 12 consecutive month period ending on the last day of such Plan Year; provided that, to the extent permitted under Regulations, the Administrator may choose, on a uniform basis, to treat as the applicable period only that portion of the Plan Year during which the individual was a Participant.

(iv) 401(k) Contributions not applied to satisfy the Code Section 401(k)(3) limits and Qualified Nonelective Contributions not treated as 401(k) Contributions may be treated as Matching Contributions to the extent permitted by Regs. Section 401(m)-1(b)(5).

(v) In the event that the Plan satisfies the requirements of Code Sections 401(k), 410(a)(4), or 410(b) only if aggregated with one or more other plans with the same Plan Year, or if one or more other plans with the same Plan Year satisfy such Code sections only if aggregated with this Plan, then this section shall be applied by determining the actual contribution ratios as if all such plans were a single plan.

(3) Actual contribution percentages. The actual contribution ratios for all Highly Compensated Employees who are eligible for Matching Contributions for a Plan Year shall be averaged to determine the actual contribution percentage for the highly compensated group for the Plan Year, and the actual contribution ratios for all Employees who are not Highly Compensated Employees but are eligible for Matching Contributions for the Plan Year shall be averaged

to determine the actual contribution percentage for the nonhighly compensated group for the Plan Year. The actual contribution percentages must satisfy at least one of the following tests:

(i) The actual contribution percentage for the highly compensated group does not 125% of the actual contribution percentage for the nonhighly compensated group; or

- 20 -

(ii) The excess of the actual contribution percentage for the highly compensated group over the actual contribution percentage for the nonhighly compensated group does not exceed two percentage points, and the actual contribution percentage for the highly compensated group does not exceed twice the actual contribution percentage of the nonhighly compensated group.

The tests in (i) and (ii) above shall be applied using the actual contribution percentage for the highly compensated group and the nonhighly compensated group for the current Plan Year.

(4) Multiple use test. In the event that (i) the actual deferral percentage and actual contribution percentage for the highly compensated group each exceeds 125% of the respective actual deferral percentage or actual contribution percentage for the nonhighly compensated group, and (ii) the sum of the actual deferral percentage and the actual contribution percentage for highly compensated group exceeds the "aggregate limit" within the meaning of Regs. Section 1.401(m)-2(b)(3), the Administrator shall reduce the actual contribution ratios of Highly Compensated Employees who had both an actual deferral ratio and an actual contribution ratio for the Plan Year to the extent required by such section and in the same manner as described in paragraphs (6) and (7) below. This Section 4.10(d) (4) shall not apply to Plan Years commencing on or after January 1, 2002.

(5) Adjustments by Administrator. If, prior to the time all Matching Contributions for a Plan Year have been contributed to the Fund, the Administrator determines that such contributions are being made at a rate which will cause the Code Section 401(m) limits to be exceeded for the Plan Year, the Administrator may, in its sole discretion, limit the amount of such contributions to be made with respect to one or more Highly Compensated Employees for the balance of the Plan Year by limiting the amount of such contributions to the extent the Administrator deems appropriate.

(6) Excess aggregate contributions. If the Code Section 401(m) limits have not been satisfied for a Plan Year after all contributions for the Plan Year have been made, the excess of the aggregate amount of the Matching Contributions (and any Qualified Nonelective Contributions or 401(k) Contributions taken into account in computing the actual contribution percentages) actually made on behalf of Highly Compensated Employees for the Plan Year over the maximum amount of such contributions permitted under Code Section 401(m)(2)(A) shall be considered to be "excess aggregate contributions." The Administrator shall determine the amount of excess aggregate contributions. To do so, the Administrator will perform the following computation (which shall be used solely to determine the aggregate amount to be distributed under paragraph (7) below and not the amount to be distributed to any individual): first, the actual contribution ratio of the Highly Compensated Employee with the highest actual contribution ratio shall be reduced to the extent necessary to (i) enable the Plan to satisfy the Code Section 401(m) limits or (ii) cause such Employee's actual contribution ratio to equal the actual contribution ratio of the Highly Compensated Employee with the next highest actual contribution ratio, and then this process will be repeated until the Plan satisfies the Code Section 401(m) limits. In no event will excess aggregate contributions remain unallocated or be allocated to a suspense account for allocation in a future Plan Year.

(7) Distribution of excess aggregate contributions. The aggregate amount of reductions determined under paragraph (6) above shall be distributed, first, to the Highly Compensated Employees with the highest dollar amounts of Matching Contributions (and any Qualified Nonelective Contributions or 401(k) Contributions taken into account in computing actual contribution percentages), pro rata, in an amount equal to the lesser of (i) the total amount of excess aggregate contributions for the Plan Year determined under paragraph (6) above or (ii) the amount necessary to cause the amount of such Employees' Matching Contributions (and any Qualified Nonelective Contributions or 401(k) Contributions taken into account in computing actual contribution percentages) to equal the amount of the Matching Contributions (and any Qualified Nonelective Contributions or 401(k) Contributions taken into account in computing actual contribution percentages) of the Highly Compensated Employees with the next highest dollar amount of Matching Contributions (and any Qualified Nonelective Contributions or 401(k) Contributions taken into account in computing actual contribution percentages). This process is repeated until the aggregate amount distributed under this paragraph (7) equals the amount of excess aggregate contributions determined under paragraph (6) above. Income on excess aggregate contributions shall be distributed in accordance with applicable Regulations. Distribution of excess aggregate contributions will be made after the close of the Plan Year to which the contributions relate, but within 12

- 21 -

months after the close of such Plan Year. Excess aggregate contributions shall be treated as employer contributions for purposes of Code Sections 401(a)(4), 404 and 415 even if distributed from the Plan.

(8) Recordkeeping requirement. The Administrator, on behalf of the Participating Employers, shall maintain such records as are necessary to demonstrate compliance with the Code Section 401(m) limits, including the extent to which 401(k) Contributions and Qualified Nonelective Contributions are

taken into account in determining the actual contribution ratios.

(9) Excise tax where failure to correct. If the excess aggregate contributions are not corrected within 2 1/2 months after the close of the Plan Year to which they relate, the Participating Employers will be liable for a 10% excise tax on the amount of excess aggregate contributions attributions to them, to the extent provided by Code Section 4979. Qualified Nonelective Contributions properly taken into account under this Section for the Plan Year may enable the Plan to avoid having excess aggregate contributions, even if the contributions are made after the close of the 2 1/2 month period.

(e) Code Section 410(b) Limits.

(1) Notwithstanding anything to the contrary, if the number of Participants who are eligible to share in any contribution for a Plan Year is such that the Plan would fail to meet the requirements of Code Section 410(b)(1) or Code Section 410(b)(2)(A)(i), then the group of Participants eligible to share in the contribution for the Plan Year will be increased to include such minimum number of Participants who are not in the Service of the Participating Employers on the last day of the Plan Year, as may be necessary to satisfy the applicable tests under the above Code sections. The Participants who will become eligible to share in the contribution will be those Participants who, when compared to Participants who are similarly situated, completed the greatest number of Hours of Service in the Plan Year before the termination of their Service.

(2) The preceding paragraph will not be construed to permit the reduction of any Participant's Account balance, and any amounts which were allocated to Participants whose eligibility to share in the contribution did not result from the application of the preceding paragraph will not be reallocated to satisfy such requirements. Instead, the Participating Employer will make an additional contribution equal to the amount which the affected Participants would have received had they been included initially in the allocation of the Participating Employer's contribution, even if it would cause the contributions of the Participating Employer for the Plan Year to exceed the amount which is deductible by the Participating Employer for such Plan Year under Code Section 404. Any adjustments pursuant to this paragraph will be considered to be a retroactive amendment of the Plan which was adopted by the last day of the Plan Year.

4.11 Erroneous Contributions.

(a) Notwithstanding anything herein to the contrary, upon the Employer's request, a contribution which was made by a mistake of fact, or conditioned upon the initial qualification of the Plan, under Code Section 401(a), or upon the deductibility of the contribution under Section 404 of the Code, shall be returned to the Employer by the Trustee within one year after the payment of the contribution, the denial of the qualification or the disallowance of the deduction (to the extent disallowed), whichever is applicable; provided, however, that in the case of denial of the initial qualification of the Plan, a contribution shall not be returned unless an Application for Determination has been timely filed with the Internal Revenue Service. Any portion of a contribution returned pursuant to this Section 4.11 shall be adjusted to reflect its proportionate share of the losses of the Fund, but shall not be adjusted to reflect any earnings or gains. Notwithstanding any provisions of this Plan to the contrary, the right or claim of any Participant or Beneficiary to any asset of the Fund or any benefit under this Plan shall be subject to and limited by this Section 4.11.

(b) In no event shall Employee contributions be accepted. Any such Employee contributions (and any earnings attributable thereto) mistakenly received by the Trustee shall promptly be returned to the Participant.

- 22 -

ARTICLE V

ACCOUNTS, ALLOCATIONS AND INVESTMENTS

5.1 Establishment of Separate Participant Accounts.

The Administrator shall establish and maintain a separate Account for each Participant in the Plan and for each Former Participant in accordance with the provisions of this Article V. Such separate Account shall be for bookkeeping purposes only and shall not require a segregation of the Fund, and no Participant, Former Participant or Beneficiary shall acquire any right to or interest in any specific assets of the Fund as a result of the allocations provided for under this Plan.

(a) 401(k) Contributions Accounts.

The Trustee shall establish a separate 401(k) Contributions Account in the Fund for each Participant who requests the Employer to make 401(k) Contributions pursuant to Section 4.1, to which all such 401(k) Contributions are to be credited. Any Qualified Nonelective Contributions made on behalf of a Participant shall also be credited to this Account.

(b) Profit Sharing Accounts.

The Trustee shall establish a separate Profit Sharing Account in the Fund for each Participant. The Account shall be credited as of the last day of each Plan Year with the amounts allocated to the Participants under Section 5.5(a).

(c) Matching Contribution Accounts.

The Trustee shall establish a separate Matching Contribution Account in the Fund for each Participant who receives a Matching Contribution pursuant to Section 4.3, to which all such Matching Contributions are to be credited.

(d) Employee Stock Ownership Accounts.

The Administrator shall establish a separate Employee Stock Ownership Account in the Fund for each Participant. The Administrator may establish subaccounts hereunder, an Employer Stock Account reflecting a Participant's interest in Employer Securities held by the Trust, and an Other Investments Account reflecting the Participant's interest in his Employee Stock Ownership Account other than Employer Securities. Each Participant's Employer Stock Account shall reflect his share of any Employee Stock Ownership Contribution made in Employer Securities and any Employer Securities attributable to earnings on such stock. Each Participant's Other Investments Account shall reflect any Employee Stock Ownership Contribution made in cash, any cash dividends on Employer Securities allocated and credited to his Employee Stock Ownership Account (other than currently distributable dividends), and any income, gains, losses, appreciation, or depreciation attributable thereto.

(e) Rollover Accounts.

The Trustee shall establish a separate, nonforfeitable Rollover Account in the Fund for each Employee on whose behalf a Rollover Contribution is accepted by the Trustee pursuant to Section 4.8. The account shall be credited with all such Rollover Contributions accepted on behalf of the Employee. In the case of a direct transfer of assets by the trustee (or other fiduciary) of another qualified retirement plan to this Plan, which transfer includes contributions made by the Participant under such other qualified plan, the Trustee shall establish such

- 23 -

separate nonforfeitable rollover sub-accounts as may be necessary for the Trustee to account separately for the portion of such Rollover Contribution attributable to the Employee's contributions under such other qualified plan.

(f) Distribution Accounts.

In any case where distribution of a terminated Participant's Account is to be deferred, the Administrator shall establish a separate, nonforfeitable account in the Fund to which the balance in his Account in the Plan shall be transferred after such Participant incurs a Break. Unless the Former Participant's distribution accounts are segregated for investment purposes, they shall share in Investment Adjustments.

(g) Other Accounts.

The Administrator shall establish such other separate accounts for each Participant as may be necessary or desirable for the convenient administration of the Fund.

5.2 Establishment of Suspense Accounts.

The Administrator shall establish a separate Employee Stock Ownership Suspense Account. There shall be credited to such account any Employee Stock Ownership Contribution that may be made prior to the last day of the Plan Year and which is allocable to such account pursuant to Section 4.6. The Employee Stock Ownership Suspense Account shall share proportionately as to time and amount in any Investment Adjustments. As of the last day of each Plan Year, the balance of the Employee Stock Ownership Suspense Account shall be added to the Employee Stock Ownership Contribution and allocated to the Employee Stock Ownership Accounts of Participants as provided in Section 5.5(b), except as provided herein. In the event that the Plan takes an Exempt Loan, the Employer Securities purchased thereby shall be allocated as Financed Shares to a separate Exempt Loan Suspense Account, from which allocations shall be made in accordance with Section 8.5.

5.3 Allocation of Earnings, Losses and Expenses.

Except as provided in Section 5.9, as of each Valuation Date, any increase or decrease in the net worth of the aggregate Employee Stock Ownership Accounts held in the Fund attributable to earnings, losses, expenses and unrealized appreciation or depreciation in each such aggregate account, as determined by the Trustee pursuant to the Trust Agreement, shall be credited to or deducted from the appropriate suspense accounts and all Participants' Accounts (except segregated distribution accounts described in Section 5.1(f) and the "limitations account" described in Section 5.6(c)(2)) in the proportion that the value of each such account (determined immediately prior to such allocation and before crediting any contributions or forfeitures for the current Plan Year but after adjustment for any transfer to or from such accounts and for the time such funds were in such accounts) bears to the value of all Accounts.

5.4 Application of Forfeitures.

Forfeitures under this Plan shall be used to reduce the Employer's contribution obligations under this Plan, as provided for in Section 7.3.

5.5 Allocation of Contributions.

(a) Matching Contribution.

As of the last day of each Plan Year for which the Employer shall make a Matching Contribution, the Administrator shall allocate the Matching Contribution for such Plan Year to the Matching Contribution Account of each Participant who has completed at least 1,000 Hours of Service during that Plan Year, provided that he is still employed by the Employer on the last day of the Plan Year. (Notwithstanding the foregoing, in the event that the

- 24 -

last-day-of-the-Plan-Year requirement shall cause the Plan to fail to meet the minimum coverage requirements of Section 410(b) of the Code, such requirement shall be disregarded for such Plan Year.) Matching Contributions shall be allocated as provided for in Section 4.3, subject to Section 5.6. Notwithstanding the foregoing, if a Participant attains his Normal Retirement Date and terminates Service prior to the last day of the Plan Year but after completing at least 1,000 Hours of Service, he shall be entitled to a Matching Contribution, as provided for herein. Furthermore, if a Participant completes at least 1,000 Hours of Service and is on a Leave of Absence on the last day of the Plan Year because of pregnancy or other medical reason, such a Participant shall be entitled to a Matching Contribution, as provided for herein.

(b) Profit Sharing Contribution.

As of the last day of each Plan Year for which the Employer shall make a Profit Sharing Contribution, the Administrator shall allocate the Profit Sharing Contribution for such Plan Year to the Profit Sharing Account of each Participant who has completed at least 1,000 Hours of Service during that Plan Year, provided that he is still employed by the Employer on the last day of the Plan Year. (Notwithstanding the foregoing, in the event that the last-day-of-the-Plan-Year requirement shall cause the Plan to fail to meet the minimum coverage requirements of Section 410(b) of the Code, such requirement shall be disregarded for such Plan Year.) Such allocation shall be made in the same proportion that each such Participant's Compensation for such Plan Year bears to the total Compensation of all such Participants for such Plan Year, subject to Section 5.6. Notwithstanding the foregoing, if a Participant attains his Normal Retirement Date and terminates Service prior to the last day of the Plan Year but after completing at least 1,000 Hours of Service, he shall be entitled to an allocation based on his Compensation earned prior to his termination and during the Plan Year. Furthermore, if a Participant completes at least 1,000 Hours of Service and is on a Leave of Absence on the last day of the Plan Year because of pregnancy or other medical reason, such a Participant shall be entitled to an allocation based on his Compensation earned during such Plan Year.

(c) Employee Stock Ownership Contribution.

As of the last day of each Plan Year for which the Employer shall make an Employee Stock Ownership Contribution, the Administrator shall allocate the Employee Stock Ownership Contribution for such Plan Year to the Employee Stock Ownership Account of each Participant who completed at least 1,000 Hours of Service during that Plan Year, provided that he is still employed by the Employer on the last day of the Plan Year. Such allocation shall be made in the same proportion that each such Participant's Compensation for such Plan Year bears to the total Compensation of all such Participants for such Plan Year, subject to Section 5.6. Notwithstanding the foregoing, if a Participant attains his Normal Retirement Date and terminates Service prior to the last day of the Plan Year but after completing at least 1,000 Hours of Service, he shall be entitled to an allocation based on his Compensation earned prior to his termination and during the Plan Year. Furthermore, if a Participant completes at least 1,000 Hours of Service and is on a Leave of Absence on the last day of the Plan Year because of pregnancy or other medical reason, such a Participant shall be entitled to an allocation based on his Compensation earned during such Plan Year.

5.6 Limitation on Annual Additions.

(a) Notwithstanding any provisions of this Plan to the contrary, the total Annual Additions credited to a Participant's Account under this Plan (and accounts under any other defined contribution plan maintained by the Employer or a Related Employer) for any Limitation Year shall not exceed the lesser of:

(1) 25% of the Participant's Compensation for such Limitation Year; or

(2) \$30,000. Whenever otherwise allowed by law, the maximum amount of \$30,000 shall be automatically adjusted annually for cost-of-living increases in accordance with Section 415(d) of the Code, and the highest such increase effective at any time during the Limitation Year shall be effective for the entire Limitation Year, without any amendment to this Plan.

For Limitation Years commencing on or after January 1, 2002, the total Annual Additions credited to a Participant's Account under this Plan (and accounts under any other defined contribution plan maintained by the Employer or a Related Employer) shall not exceed the lesser of:

(x) \$40,000, as adjusted for increases in the cost-of-living under section 415(d) of the Code, or

(y) 100 percent of the Participant's Compensation for the Limitation Year. The Compensation limit referred to in (y) shall not apply to any contribution for medical benefits after separation from service (within the meaning of section 401(h) or section 419(f)(2) of the Code) which is otherwise treated as an Annual Addition.

(b) In the event that the limitations on Annual Additions described in Section 5.6(a) above are exceeded with respect to any Participant in any Limitation Year as a result of the allocation of forfeitures, a reasonable error in estimating a Participant's Compensation, a reasonable error in determining the amount of 401(k) Contributions that may be made with respect to any Participant under Section 415 of the Code, or other facts and circumstances to which Regulation Section 1.415-6(b)(6) shall be applicable, then the contributions allocable to the Participant for such Limitation Year shall be reduced to the minimum

extent required by such limitations, in the following order of priority:

(1) The Profit Sharing Contributions allocated during such Limitation Year to the Participant's Profit Sharing Account shall be reduced. The amount of any such reductions in the Profit Sharing Contributions shall be reallocated to all other Participants in the same manner as set forth under Section 5.5(a). If any further reductions in Annual Additions are necessary, then the Employee Stock Ownership Contribution allocated during such Limitation Year to the Participant's Employee Stock Ownership Account shall be reduced. If any further reductions in Annual Additions are necessary, then the Matching Contribution allocated during such Limitation Year to the Participant's Matching Contribution Account shall be reduced. The amount of any such reductions in the Employee Stock Ownership Contribution shall be reallocated to all other Participants in the same manner as set forth under Section 5.5(b).

(2) Any amounts which cannot be reallocated to other Participants in a current Limitation Year in accordance with Section 5.6(b)(1) above because of the limitations contained in Sections 5.6(a) and (d) shall be credited to an account designated as the "limitations account" and carried forward to the next and subsequent Limitation Years until it can be reallocated to all Participants as set forth in Section 5.5. No Investment Adjustments shall be allocated to this limitations account. In the next and subsequent Limitation Years, all amounts in the limitations account must be allocated in the manner described in Section 5.5 before any Profit Sharing Contribution or Employee Stock Ownership Contribution may be made to this Plan for that Limitation Year.

(3) The Administrator shall determine to what extent the Annual Additions to any Participant's Profit Sharing Account and Employee Stock Ownership Account must be reduced in each Limitation Year. The Administrator shall reduce the Annual Additions to all other qualified, tax-exempt retirement plans maintained by the Employer in accordance with the terms contained therein for required reductions or reallocations mandated by Section 415 of the Code before reducing any Annual Additions in this Plan.

(4) In the event this Plan is voluntarily terminated by the Employer under Section 13.5, any amounts credited to the limitations account described in Section 5.6(b)(3) above which have not been reallocated as set forth herein shall be distributed to the Participants who are still employed by the Employer on the date of termination, in the proportion that each Participant's Compensation bears to the Compensation of all Participants.

- 26 -

(c) The Annual Additions credited to a Participant's accounts for each Limitation Year are further limited so that in the case of an Employee who is a Participant in both this Plan and any qualified defined benefit plan (hereinafter referred to as a "pension plan") of the Employer or Related Employer, the sum of (1) and (2) below will not exceed 1.0:

(1) (A) The projected annual normal retirement benefit of a Participant under the pension plan, divided by

(B) The lesser of:

(i) The product of 1.25 multiplied by the dollar limitation in effect under Section 415(b)(1)(A) of the Code for such Limitation Year, or

(ii) The product of 1.4 multiplied by the amount of compensation which may be taken into account under Section 415(b)(1)(B) of the Code for the Participant for such Limitation Year; plus

(2) (A) The sum of Annual Additions credited to the Participant under this Plan for all Limitation Years, divided by:

(B) The sum of the lesser of the following amounts determined for such Limitation Year and for each prior year of service with the Employer or a Related Employer:

(i) The product of 1.25 multiplied by the dollar limitation in effect under Section 415(b)(1)(A) of the Code for such Limitation Year, or

(ii) The product of 1.4 multiplied by the amount of compensation which may be taken into account under Section 415(b)(1)(B) of the Code for the Participant for such Limitation Year.

If, even after the reductions provided for in Section 5.6(c), the sum of the fractions still exceeds 1.0, then the benefits of the Participant provided under the pension plan shall be reduced to the extent necessary, in accordance with Treasury Regulations issued under the Code. Solely for the purposes of this Section 5.6(d), the term "years of service" shall mean all years of service defined by Treasury Regulations issued under Section 415 of the Code. Notwithstanding the foregoing, the provisions of this Section 5.6(d) shall expire with respect to all Limitation Years beginning after December 31, 1999.

5.7 Erroneous Allocations.

No Participant shall be entitled to any Annual Additions or other allocations to his Account in excess of those permitted under Sections 5.3, 5.4, 5.5, and 5.6. If it is determined at anytime that the Administrator and/or Trustee have erred in accepting and allocating any contributions under this Plan, or in allocating Investment Adjustments, or in excluding or including any person as a Participant, then the Administrator, in a uniform and nondiscriminatory manner, shall determine the manner in which such error shall be corrected and shall promptly advise the Trustee in writing of such error and of the method for correcting such error. The accounts of any or all Participants may be revised, if necessary, in order to correct such error. To the extent applicable, such correction shall be made in accordance with the provisions of IRS Revenue Procedure 2001-17 (or any amendment or successor thereto).

5.8 Value of Participant's Account.

At any time, the value of a Participant's Account shall consist of the aggregate value of the amounts credited to the accounts described in Section 5.1, determined as of the next-preceding Valuation Date. The

Administrator shall maintain adequate records of the cost basis of Employer Securities allocated to each Participant's Employee Stock Ownership Account.

5.9 Investment of Account Balances.

(a) The Employee Stock Ownership Accounts shall be invested primarily in Employer Securities. All sales of Employer Securities by the Trustee attributable to the Employee Stock Ownership Accounts of all Participants shall be charged pro rata to the Employee Stock Ownership Accounts of all Participants.

(b) All Accounts under the Plan (other than the Employee Stock Ownership Account) shall be invested in one or more investment options made available from time to time by the Sponsor for this purpose (which may include Employer Securities). The Plan is intended to be an "ERISA Section 404(c) plan" within the meaning of regulations issued pursuant to such section. Participants shall have the opportunity, at least once in any 3-month period, to give investment instructions to the Administrator (with an opportunity to obtain written confirmation of such instructions) as to the investment of contributions made on his or her behalf among the investment options. The Administrator shall be obligated to comply with such instructions except as otherwise provided in the ERISA Section 404(c) regulations or in any applicable securities laws. The Administrator shall prescribe the form and manner in which such directions shall be made, as well as the frequency with which such directions may be made or changed, and the dates as of which they shall be effective, in a manner consistent with the foregoing. The Administrator shall be the fiduciary identified to furnish the information contemplated by ERISA Section 404(c), but may designate on its behalf another person or entity to provide such information or to perform any of the obligations of the Administrator under this Section 5.9(b).

(c) Participants who direct the investment of all or a portion of the balances in their Accounts in Employer Securities shall be entitled to direct the Trustee as to manner in which the Employer Securities in such Account are to be voted. To the extent that no instructions are given, the Trustee shall vote such shares in the manner designated by the Administrator.

(d) In the event that the Trustee may, at the direction of the Administrator and upon any written consent of any Participant, apply for and purchase insurance policies on the life of any insurable Participant for the benefit of such Participant, out of a Participant-directed investment, the aggregate premiums for such policies shall not exceed, for ordinary life insurance, 49% of the aggregate Employer contributions allocated to the Participant's Accounts, and for term insurance, 25% of such aggregate Employer contributions.

(e) In the event that a Participant has designated that all or a portion of his Accounts shall be invested in Employer Securities, dividends paid with respect to such shares, if any, shall be applied as provided for in Section 8.4. In addition, the Administrator may, in its sole, uniform and nondiscriminatory discretion, require that payments and distributions made pursuant to Article IX shall be made in the form of Employer Securities with respect to the portion of such Account balances that the Participant had directed to have been thus invested.

5.10 Loans to Participants.

(a) In General.

Upon the written request of an "eligible borrower" (as defined in Section 5.10(l)) on a form acceptable to the Administrator, and subject to the conditions of this Section 5.10, the Administrator shall direct the Trustee to make a loan from the Fund to the eligible borrower.

(b) Rules and Procedures.

The Administrator shall promulgate such rules and procedures, not inconsistent with the express provisions of this Section 5.10, as it deems necessary to carry out the purposes of this Section 5.10. All such rules and procedures shall be deemed a part of the Plan for purposes of the Department of Labor Regs. Section 2550.408b-1(d). Loans shall not be made available to eligible borrowers who are Highly Compensated Employees in an amount (determined under Department of Labor Regs. Section 2550.408b-1(b)) greater than the amount made available to other eligible borrowers.

(c) Maximum Amount of Loan.

The following limitations shall apply in determining the amount of any loan to an eligible borrower hereunder:

(1) The amount of the loan, together with any other outstanding indebtedness of the eligible borrower under the Plan or any other qualified retirement plans of the Employer and all Related Employers, shall not exceed \$50,000 reduced by the excess of (i) the highest outstanding aggregate loan balance of the eligible borrower from such plans during the one-year period ending on the day prior to the date on which the loan is made, over (ii) the

eligible borrower's outstanding loan balance from such plans immediately prior to the loan.

(2) The amount of the loan shall not exceed 50% of the eligible borrower's vested interest in his or her Accounts, determined as of the Valuation Date immediately preceding the date of the loan.

(d) Minimum Amount of Loan; Maximum Number of Loans.

The Administrator may establish a minimum amount for any single loan under the Plan, not to exceed \$1,000. An eligible borrower may have only two loans under the Plan outstanding at any one time.

(e) Note; Security; Interest.

Each loan shall be evidenced by a note signed by the eligible borrower and shall be secured by 50% of the eligible borrower's vested interest in his or her Accounts, including in such security the note evidencing the loan. The loan shall bear interest at a reasonable annual percentage interest rate to be determined by the Administrator. In determining the interest rate, the Administrator shall take into consideration interest rates currently being charged by persons in the business of lending money with respect to loans made in similar circumstances. The Administrator shall make such determination through consultation with one or more lending institutions, as the Administrator deems appropriate.

(f) Repayment.

Each loan made to an eligible borrower who is receiving regular payments of compensation from a Participating Employer shall be repayable by payroll deduction. Loans made to other eligible borrowers (and, in all events, where payroll deduction is no longer practicable) shall be repayable in such manner as the Administrator may from time to time determine. The documents evidencing a loan shall provide that payments shall be made not less frequently than quarterly and over a specified term as determined by the Administrator (but not to exceed five years unless the loan is being applied toward the purchase of a principal residence for the eligible borrower). Such documents shall also require that the loan be amortized with level payments of principal and interest.

(g) Repayment upon Distribution.

If, at the time benefits are to be distributed (or to commence being distributed) to an eligible borrower with respect to a separation from Service, there remains any unpaid balance of a loan hereunder, such unpaid balance

- 29 -

shall, to the extent consistent with Department of Labor regulations, become immediately due and payable in full. Such unpaid balance, together with any accrued but unpaid interest on the loan, shall be deducted from the eligible borrower's Accounts, subject to the default provisions below, before any distribution of benefits is made. Except as may be required in order to comply (in a manner consistent with continued qualification of the Plan under Code Section 401(a)) with Department of Labor regulations, no loan shall be made or remain outstanding with respect to a Participant under this Section 5.10 after the time distributions to the Participant with respect to a separation from Service are to be paid or commence.

(h) Default.

In the event of a default in making any payment of principal or interest when due under the note evidencing any loan under this Section 5.10, if such default continues for more than 14 days after written notice of the default by the Trustee, the unpaid principal balance of the note shall immediately become due and payable in full. Such unpaid principal, together with any accrued but unpaid interest, shall thereupon be deducted from the eligible borrower's Accounts, subject to the further provisions of this paragraph (h). The amount so deducted shall be treated as distributed to the eligible borrower and applied by the eligible borrower as a payment of the unpaid interest and principal (in that order) under the note evidencing such loan. In no event shall the Administrator apply the eligible borrower's Accounts to satisfy the eligible borrower's repayment obligation, whether or not he or she is in default, unless the amount so applied otherwise could be distributed in accordance with the Plan.

(i) Note as Fund Asset.

The note evidencing a loan to an eligible borrower under this Section 5.10 shall be an asset of the Fund which is allocated to the Account of such eligible borrower, and shall for purposes of the Plan be deemed to have a value at any given time equal to the unpaid principal balance of the note plus the amount of any accrued but unpaid interest.

(j) Nondiscrimination.

Loans shall be made available under this Section 5.10 to all eligible borrowers on a reasonably equivalent basis.

(k) Designation of Accounts; Designation of Investment Funds.

Loans shall be made from the eligible borrower's Accounts in the following order: (1) from his or her Rollover Account, (2) from his or her Matching Contribution Account, (3) from his or her Profit Sharing Account, and (4) from his or her 401(k) Contributions Account. Loans may not be made from a Participant's Employee Stock Ownership Account. The crediting of loan repayments shall be made to the foregoing Accounts in the reverse order. The eligible borrower may designate the investment fund or funds from which his or her loan is to be made. In the absence of such a designation, the loan shall be made proportionately from all investment funds to which the eligible borrower's Accounts are allocated.

(l) Eligible Borrower.

For purposes of this Section 5.10, "eligible borrower" means

(a) a Participant who is an Employee or is otherwise a "party in interest" within the meaning of Section 3(14) of the Act; or

(b) a deceased Participant's Beneficiary who has not yet received the entire vested portion of the Participant's Accounts and who is a "party in interest" as described above.

- 30 -

ARTICLE VI

RETIREMENT, DEATH AND DESIGNATION OF BENEFICIARY

6.1 Normal Retirement.

A Participant who reaches his Normal Retirement Date and who shall retire at that time shall thereupon be entitled to retirement benefits based on the value of his Account, payable pursuant to the provisions of Section 9.1. A Participant who remains in Service after his Normal Retirement Date shall not be entitled to any retirement benefits until his actual termination of Service thereafter (except as provided in Section 9.4), and he shall meanwhile continue to participate in this Plan.

6.2 Early Retirement.

A Participant who reaches his Early Retirement Date may retire at such time (or, at his election, as of the first day of any month thereafter prior to his Normal Retirement Date) and shall thereupon be entitled to retirement benefits based on the value of his Account, payable pursuant to the provisions of Section 9.1.

6.3 Disability Retirement.

In the event a Participant incurs a Disability, he may retire on his Disability Retirement Date and shall thereupon be entitled to retirement benefits based on the value of his Account, payable pursuant to the provisions of Section 9.1.

6.4 Death Benefits.

(a) Upon the death of a Participant before his Retirement or other termination of Service, the value of his Account shall be payable pursuant to the provisions of Section 9.1. The Administrator shall direct the Trustee to distribute his Account to any surviving Beneficiary designated by the Participant or, if none, to such persons specified in Section 6.5(b).

(b) Upon the death of a Former Participant, the Administrator shall direct the Trustee to distribute any undistributed balance of his Account to any surviving Beneficiary designated by him or, if none, to such persons specified in Section 6.5(b).

(c) The Administrator may require such proper proof of death and such evidence of the right of any person to receive the balance credited to the Account of a deceased Participant or Former Participant as the Administrator may deem desirable. The Administrator's determination of death and of the right of any person to receive payment shall be conclusive.

6.5 Designation of Beneficiary and Manner of Payment.

(a) Each Participant shall have the right to designate a Beneficiary to receive the sum or sums to which he may be entitled upon his death. The Participant may also designate the manner in which any death benefits under this Plan shall be payable to his Beneficiary, provided that such designation is in accordance with Section 9.5. Such designation of Beneficiary and manner of payment shall be in writing and delivered to the Administrator, and shall be effective when received by the Administrator while the Participant is alive. The Participant shall have the right to change such designation by notice in writing to the Administrator while the Participant is alive. Such change of Beneficiary or the manner of payment shall become effective upon its receipt by the Administrator while the Participant is alive. Any such change shall be deemed to revoke all prior designations.

- 31 -

(b) If a Participant shall fail to designate validly a Beneficiary, or if no designated Beneficiary survives the Participant, the balance credited to his Account shall be paid to the person or persons in the first of the following classes of successive preference Beneficiaries surviving at the death of the Participant: the Participant's (1) widow or widower, (2) natural-born or adopted children, (3) natural-born or adoptive parents, and (4) estate. The Administrator shall determine which Beneficiary, if any, shall have been validly designated or entitled to receive the balance credited to the Participant's Account in accordance with the foregoing order of preference, and its decision shall be binding and conclusive on all persons.

(c) Notwithstanding the foregoing, if a Participant is married on the date of his death, the sum or sums to which he may be entitled under this Plan upon his death shall be paid to his spouse, unless the Participant's spouse shall have consented to the election of another Beneficiary. Such a spousal consent shall be in writing and shall be witnessed either by a representative of the Administrator or by a notary public. Any designation by an unmarried Participant shall be rendered ineffective by any subsequent marriage, and any consent of a spouse shall be effective only as to that spouse. If it is established to the satisfaction of the Administrator that spousal consent cannot be obtained because there is no spouse, because the spouse cannot be located, or other reasons prescribed by governmental regulations, the consent of the spouse may be waived, and the Participant may designate a Beneficiary or Beneficiaries other than his spouse.

- 32 -

ARTICLE VII

VESTING AND FORFEITURES

7.1 Vesting on Death, Disability and Normal Retirement.

Unless his participation in this Plan shall have terminated prior thereto, upon a Participant's death, Disability, Early Retirement Date or Normal Retirement Date (whether or not he actually retires at that time) while he is still employed by the Employer, the Participant's entire Account shall be fully vested and nonforfeitable.

7.2 Vesting on Termination of Participation.

A Participant shall always have a 100% vested and nonforfeitable interest in his Accounts other than his Employer Stock Ownership Account. Upon termination of his participation in this Plan for any reason other than death, Disability, Early Retirement or Normal Retirement, a Participant shall be vested in a percentage of his Employee Stock Ownership Account, such vested percentage to be determined under the following table, based on the Years of Vesting Service (including Years of Vesting Service prior to the Effective Date) credited to him at the time of his termination of participation:

<u>Years of Vesting Service</u>	<u>Percentage Vested</u>
Less than 5	0%
5 or more	100%

Notwithstanding the foregoing, a Participant shall all times have a nonforfeitable interest in Employer Securities acquired with dividends pursuant to Section 8.4(c).

Any portion of the Participant's Employee Stock Ownership Account which is not vested at the time he incurs a Break shall thereupon be forfeited and disposed of pursuant to Section 7.3. In such event, Employer Securities shall be forfeited only after other assets. Distribution of the vested portion of a terminated Participant's interest in the Plan shall be payable in any manner permitted under Section 9.1.

7.3 Disposition of Forfeitures.

(a) In the event a Participant incurs a Break and subsequently resumes both his Service and his participation in the Plan prior to incurring at least 5 Breaks, the forfeitable portion of his Employee Stock Ownership Account shall be reinstated to the credit of the Participant as of the date he resumes participation.

(b) In the event a Participant terminates Service and subsequently incurs a Break and receives a distribution, or in the event a Participant does not terminate Service, but incurs at least 5 Breaks, or in the event that a Participant terminates Service and incurs at least 5 Breaks but has not received a distribution, then the forfeitable portion of his Employee Stock Ownership Account, including Investment Adjustments shall, as of the last day of the Plan Year in which the forfeiture occurs, be used to reduce the future contribution obligations of the Employers.

(c) In the event a former Participant who had received a distribution from the Plan is rehired, he shall repay the amount of his distribution before the earlier of 5 years after the date of his rehire by the Employer, or the close of the first period of 5 consecutive Breaks commencing after the withdrawal, in order for any forfeited amounts to be restored to him.

- 33 -

ARTICLE VIII

EMPLOYEE STOCK OWNERSHIP PROVISIONS

8.1 Right to Demand Employer Securities.

A Participant entitled to a distribution from his Employee Stock Ownership Account shall be entitled to demand that his interest in the Employee Stock Ownership Account be distributed to him in the form of Employer Securities, all subject to Section 9.9. The Administrator shall notify the Participant of his right to demand distribution of his Account balance entirely in whole shares of Employer Securities (with the value of any fractional share paid in cash). However, if the charter or by-laws of the Employer restrict ownership of substantially all of the outstanding Employer Securities to Employees and the Fund, then the distribution of a Participant's Account shall be made entirely in the form of cash or other property, and the Participant is not entitled to a distribution in the form of Employer Securities.

8.2 Voting Rights.

Each Participant with an Employee Stock Ownership Account shall be entitled to direct the Trustee as to the manner in which the Employer Securities in such account are to be voted. Employer Securities held in the Employee Stock Ownership Suspense Account or the Exempt Loan Suspense Account shall be voted by the Trustee on each issue with respect to which shareholders are entitled to vote in the manner directed by the majority of the Participants who directed the Trustee as to the manner of voting their shares in the Employee Stock Ownership Accounts with respect to such issue. Prior to the initial allocation of shares, the Trustee shall be entitled to vote the shares in the Exempt Loan Suspense Account without prior direction from the Participants or the Administrator. In the event that a Participant fails to give timely voting instructions to the Trustee with respect to the voting of Employer Securities that are allocated to his Employee Stock Ownership Account, the Trustee shall vote such shares in such manner as directed by the Administrator.

8.3 Nondiscrimination in Employee Stock Ownership Contribution.

In the event that the amount of the Employee Stock Ownership Contribution that would be required in any Plan Year to make the scheduled payments on an Exempt Loan would exceed the amount that would otherwise be deductible by the Employer for such Plan Year under Code Section 404, then no more than one-third of the Employee Stock Ownership Contribution for the Plan Year, which is also the Employer's taxable year, shall be allocated to Highly Compensated Employees.

8.4 Dividends.

(a) Dividends paid with respect to Employer Securities credited to a Participant's Employee Stock Ownership Account as of the record date for the dividend payment may be allocated to the Participant's Employee Stock Ownership Account, paid in cash to the Participant, or used by the Trustee to make payments on an Exempt Loan, pursuant to the direction of the Administrator.

(b) If the Administrator shall direct that the aforesaid dividends shall be paid directly to Participants, the dividends paid with respect to such Employer Securities shall be paid to the Plan, from which dividend distributions in cash shall be made to the Participants with respect to the Employer Securities in their Employee Stock Ownership Accounts within 90 days of the close of the Plan Year in which the dividends were paid.

(c) If the Administrator permits, then Participants shall be able to elect, in accordance with regulations or other guidance, to have the dividends paid and allocable to the Participant's Account either (i) distributed to the Participant (or his Beneficiary) no later than 90 days after close of the Plan Year in which the

- 34 -

dividend is paid (reduced by any investment losses occurring from when the dividend is paid to the Plan to when it is distributed to the Participant), or (ii) retained in the Participant's Employee Stock Ownership Account under the Plan to be invested in Employer Securities.

(d) If dividends on Employer Securities already allocated to Participants' Employee Stock Ownership Accounts are used to make payments on an Exempt Loan, the Employer Securities which are released from the Exempt Loan Suspense Account shall first be allocated to each Employee Stock Ownership Account in an amount equal to the amount of dividends that would have been allocated to such Employee Stock Ownership Account if the dividends had not been used to make payments on an Exempt Loan, and the remaining Employer Securities (if any) which are released shall be allocated in the proportion that the value of each Employee Stock Ownership Account bears to the value of all such Accounts, all in accordance with Section 404(k) of the Code.

(e) Dividends on Employer Securities obtained pursuant to an Exempt Loan and still held in the Exempt Loan Suspense Account may be used to make payments on an Exempt Loan, as described in Section 8.6.

8.5 Exempt Loans.

(a) The Sponsor may direct the Trustee to obtain Exempt Loans. The Exempt Loan may take the form of (i) a loan from a bank or other commercial lender to purchase Employer Securities (ii) a loan from the Employer to the Plan; or (iii) an installment sale of Employer Securities to the Plan. The proceeds of any such Exempt Loan shall be used, within a reasonable time after the Exempt Loan is obtained, only to purchase Employer Securities, repay the Exempt Loan, or repay any prior Exempt Loan. Any such Exempt Loan shall provide for no more than a reasonable rate of interest and shall be without recourse against the Plan. The number of years to maturity under the Exempt Loan must be definitely ascertainable at all times. The only assets of the Plan that may be given as collateral for an Exempt Loan are Financed Shares acquired with the proceeds of the Exempt Loan and Financed Shares that were used as collateral for a prior Exempt Loan repaid with the proceeds of the current Exempt Loan. Such Financed Shares so pledged shall be placed in an Exempt Loan Suspense Account. No person or institution entitled to payment under an Exempt Loan shall have recourse against Trust assets other than the Financed Shares, the Employer Stock Ownership Contribution (other than contributions of Employer Securities) that is available under the Plan to meet obligations under the Exempt Loan, and earnings attributable to such Financed Shares and the investment of such contribution. Any Employee Stock Ownership Contribution paid during the Plan Year in which an Exempt Loan is made (whether before or after the date the proceeds of the Exempt Loan are received), any Employee Stock Ownership Contribution paid thereafter until the Exempt Loan has been repaid in full, and all earnings from investment of such Employee Stock Ownership Contribution, without regard to whether any such Employee Stock Ownership Contribution and earnings have been allocated to Participants' Employee Stock Ownership Accounts, shall be available to meet obligations under the Exempt Loan as such obligations accrue, or prior to the time such obligations accrue, unless otherwise provided by the Employer at the time any such contribution is made. Any pledge of Employer Securities shall provide for the release of Financed Shares upon the payment of any portion of the Exempt Loan.

(b) For each Plan Year during the duration of the Exempt Loan, the number of Financed Shares released from such pledge shall equal the number of Financed Shares held immediately before release for the current Plan Year multiplied by a fraction. The numerator of the fraction is the sum of principal and interest paid in such Plan Year. The denominator of the fraction is the sum of the numerator plus the principal and interest to be paid for all future years. Such years will be determined without taking into account any possible extension or

renewal periods. If interest on any Exempt Loan is variable, the interest to be paid in future years under the Exempt Loan shall be computed by using the interest rate applicable as of the end of the Plan Year.

(c) Notwithstanding the foregoing, the Trustee may obtain an Exempt Loan pursuant to the terms of which the number of Financed Shares to be released from encumbrance shall be determined with reference to principal payments only. In the event that such an Exempt Loan is obtained, annual payments of principal and interest shall be at a cumulative rate that is not less rapid at any time than level payments of such amounts for not more than 10 years. The amount of interest in any such annual loan repayment shall be disregarded only to the extent that it would be determined to be interest under standard loan amortization tables. The requirement set forth in the preceding sentence shall not be applicable from the time that, by reason of a renewal, extension, or refinancing, the sum of the expired duration of the Exempt Loan, the renewal period, the extension period, and the duration of a new Exempt Loan exceeds 10 years.

8.6 Exempt Loan Payments.

(a) Payments of principal and interest on any Exempt Loan during a Plan Year shall be made by the Trustee (as directed by the Administrator) only from (1) the Employee Stock Ownership Contribution to the Fund made to meet the Plan's obligation under an Exempt Loan (other than contributions of Employer Securities) and from any earnings attributable to Financed Shares and investments of such contributions (both received during or prior to the Plan Year); (2) the proceeds of a subsequent Exempt Loan made to repay a prior Exempt Loan; and (3) the proceeds of the sale of any Financed Shares. Such contribution and earnings shall be accounted for separately by the Plan until the Exempt Loan is repaid.

(b) Employer Securities released from the Exempt Loan Suspense Account by reason of the payment of principal or interest on an Exempt Loan from amounts allocated to Participants' Employee Stock Ownership Accounts shall immediately upon payment be allocated as set forth in Section 5.5(c).

(c) The Employer shall contribute to the Fund sufficient amounts to enable the Trustee to pay principal and interest on any such Exempt Loans as they are due, provided, however, that no such contribution shall exceed the limitations in Section 5.6. In the event that such contributions by reason of the limitations in Section 5.6 are insufficient to enable the Trustee to pay principal and interest on such Exempt Loan as it is due, then upon the Trustee's request the Employer

shall:

- (1) Make an Exempt Loan to the Fund in sufficient amounts to meet such principal and interest payments. Such new Exempt Loan shall be subordinated to the prior Exempt Loan. Employer Securities released from the pledge of the prior Exempt Loan shall be pledged as collateral to secure the new Exempt Loan. Such Employer Securities will be released from this new pledge and allocated to the Employee Stock Ownership Accounts of the Participants in accordance with the applicable provisions of the Plan;
- (2) Purchase any Financed Shares in an amount necessary to provide the Trustee with sufficient funds to meet the principal and interest repayments. Any such sale by the Plan shall meet the requirements of Section 408(e) of the Act; or
- (3) Any combination of the foregoing.

However, the Employer shall not, pursuant to the provisions of this subsection, do, fail to do or cause to be done any act or thing which would result in a disqualification of the Plan as an employee stock ownership plan under Section 4975(e)(7) of the Code.

- 36 -

(d) Except as provided in Section 8.1 above and notwithstanding any amendment to or termination of the Plan which causes it to cease to qualify as an employee stock ownership plan within the meaning of Section 4975(e)(7) of the Code, or any repayment of an Exempt Loan, no shares of Employer Securities acquired with the proceeds of an Exempt Loan obtained by the Trust to purchase Employer Securities may be subject to a put, call or other option, or buy-sell or similar arrangement, while such shares are held by the Plan or when such shares are distributed from the Plan.

8.7 Put Option.

In the event that the Employer Securities distributed to a Participant are not readily tradable on an established market, the Participant shall be entitled to require that the Employer repurchase the Employer Securities under a fair valuation formula, as provided by governmental regulations. The Participant or Beneficiary shall be entitled to exercise the put option described in the preceding sentence for a period of not more than 60 days following the date of distribution of Employer Securities to him. If the put option is not exercised within such 60-day period, the Participant or Beneficiary may exercise the put option during an additional period of not more than 60 days after the beginning of the first day of the first Plan Year following the Plan Year in which the first put option period occurred, all as provided in regulations promulgated by the Secretary of the Treasury.

If a Participant exercises the foregoing put option with respect to Employer Securities that were distributed as part of a total distribution pursuant to which a Participant's Employee Stock Ownership Account is distributed to him in a single taxable year, the Employer or the Plan may elect to pay the purchase price of the Employer Securities over a period not to exceed 5 years. Such payments shall be made in substantially equal installments not less frequently than annually over a period beginning not later than 30 days after the exercise of the put option. Reasonable interest shall be paid to the Participant with respect to the unpaid balance of the purchase price, and adequate security shall be provided with respect thereto. In the event that a Participant exercises a put option with respect to Employer Securities that are distributed as part of an installment distribution, if permissible under Section 9.5, the amount to be paid for such securities shall be paid not later than 30 days after the exercise of the put option.

8.8 Diversification Requirements.

Each Participant who has completed at least 10 years of participation in the employee stock ownership portion of the Plan and has attained age 55 may elect within 90 days after the close of each Plan Year during his "qualified election period" to direct the Plan as to the investment of at least 25 percent of his Employee Stock Ownership Account (to the extent such percentage exceeds the amount to which a prior election under this Section 8.8 had been made). For purposes of this Section 8.8, the term "qualified election period" shall mean the 5-Plan-Year period beginning with the Plan Year after the Plan Year in which the Participant attains age 55 (or, if later, beginning with the Plan Year after the first Plan Year in which the Employee first completes at least 10 years of participation in the employee stock ownership portion of the Plan). In the case of an Employee who has attained age 60 and completed 10 years of participation in the prior Plan Year and in the case of the election year in which any other Participant who has met the minimum age and service requirements for diversification can make his last election hereunder, he shall be entitled to direct the Plan as to the investment of at least 50 percent of his Employee Stock Ownership Account (to the extent such percentage exceeds the amount to which a prior election under this Section 8.8 had been made). The Plan shall make available at least 3 investment options (chosen by the Administrator in accordance with regulations prescribed by the Department of Treasury) to each Participant making an election hereunder. The Plan shall be deemed to have met the requirements of this Section if the portion of the Participant's Employee Stock Ownership Account covered by the election hereunder is distributed to the Participant or his designated Beneficiary within 90 days after the period during which the election may be made. In the absence of such a distribution, the Trustee shall implement the Participant's election within 90 days following the expiration of the qualified election period. Notwithstanding the foregoing, if the fair market value of the Employer Securities

- 37 -

allocated to the Employee Stock Ownership Account of a Participant otherwise entitled to diversify hereunder is \$500 or less as of the Valuation Date immediately preceding the first day of any election period, then such Participant shall not be entitled to an election under this Section 8.8 for that qualified election period.

8.9 Independent Appraiser.

An independent appraiser meeting the requirements of the regulations promulgated under Code Section 170(a)(1) shall value the Employer Securities in those Plan Years when such securities are not readily tradable on an established securities market.

8.10 Nonterminable Rights.

The provisions of this Article VIII shall continue to be applicable to Employer Securities held by the Trustee, whether or not allocated to Participants' and Former Participants' Accounts, even if the Plan ceases to be an employee stock ownership plan, as defined in Section 4975(e)(7) of the Code.

- 38 -

ARTICLE IX

PAYMENTS AND DISTRIBUTIONS

9.1 Payments on Termination of Service - In General.

All benefits provided under this Plan shall be funded by the value of a Participant's Account in the Plan. As soon as practicable after a Participant's Retirement, Disability, death or other termination of Service, the Administrator shall ascertain the value of his vested Account, as provided in Article V, and the Administrator shall hold or dispose of the same in accordance with the following provisions of this Article IX.

9.2 Commencement of Payments.

(a) Distributions upon Retirement, Disability or Death. Upon a Participant's Retirement, Disability or death, payment of benefits under this Plan shall, unless the Participant otherwise elects (in accordance with Section 9.3), commence as soon as practicable after the Valuation Date next following the date of the Participant's Retirement, Disability or death.

(b) Distribution following Termination of Service. Unless a Participant elects otherwise, if a Participant terminates Service prior to Retirement, Disability or death, he shall be accorded an opportunity to commence receipt of benefits as soon as practicable after the Valuation Date next following the date of his termination of Service. A Participant who terminates Service with an Account balance shall be entitled to receive from the Administrator a statement of his benefits. In the event that a Participant elects not to commence receipt of distribution in accordance with this Section 9.2(b) after the Participant incurs a Break, the Administrator may transfer his vested Account balance to a distribution account. If a Participant's vested Account balance does not exceed \$5,000 (\$3,500 prior to May 20, 1999), the Plan Administrator shall distribute his Account balance as soon as administratively feasible without the consent of the Participant or his spouse. For distributions occurring on or after January 1, 2002, the preceding sentence shall be applied without regard to the value of a Participant's Rollover Account.

(c) Distribution of Accounts Greater Than \$5,000. If the value of a Participant's vested Account balance exceeds \$5,000 (\$3,500 prior to May 20, 1999), and the vested Account balance is immediately distributable, the Participant must consent to any distribution of such vested Account balance. For distributions occurring on or after January 1, 2002, the preceding sentence shall be applied without regard to the value of a Participant's Rollover Account. The Plan Administrator shall notify the Participant of the right to defer any distribution until the Participant's vested Account balance is no longer immediately distributable. The consent of the Participant shall not be required to the extent that a distribution is required to satisfy Code Section 401(a)(9) or Code Section 415.

9.3 Mandatory Commencement of Benefits.

(a) Unless a Participant elects otherwise, in writing, distribution of benefits will begin no later than the 60th day after the latest to occur of the close of the Plan Year in which (i) the Participant attains age 65, (ii) the tenth anniversary of the Plan Year in which the Participant commenced participation, or (iii) the Participant terminates Service with the Employer and all Related Employers.

(b) As of the first distribution calendar year, distributions, if not made in a lump sum, may be made only over one of the following periods (or a combination thereof):

- (i) the life of the Participant,
- (ii) the life of the Participant and the designated Beneficiary,

- 39 -

-
- (iii) a period certain not extending beyond the life expectancy of the Participant, or
 - (iv) a period certain not extending beyond the joint and last survivor expectancy of the Participant and a designated Beneficiary.

(c) If the Participant's interest is to be distributed in other than a lump sum, the following minimum distribution rules shall apply on or after the required beginning date:

(i) If a Participant's benefit is to be distributed over (1) a period not extending beyond the life expectancy of the Participant or the joint life and last survivor expectancy of the Participant and the Participant's designated Beneficiary or (2) a period not extending beyond the life expectancy of the designated Beneficiary, the amount required to be distributed for each calendar year, beginning with distributions for the first distribution calendar year, must at least equal the quotient obtained by dividing the Participant's benefit by the applicable life expectancy.

(ii) For calendar years beginning after December 31, 1988, the amount to be distributed each year, beginning with distributions for the first distribution calendar year, shall not be less than the quotient obtained by dividing the Participant's Account balance by the lesser of (1) the applicable life expectancy, or (2) if the Participant's spouse is not the designated Beneficiary, the applicable divisor determined from the table set forth in Q&A-4 of section 1.401(a)(9)-2 of the Proposed Regulations. Distributions after the death of the Participant shall be distributed using the applicable life expectancy in subsection (iii) of Section 9.3(b) above as the relevant divisor without regard to Proposed Regulations section 1.401(a)(9)-2.

(iii) The minimum distribution required for the Participant's first distribution calendar year must be made on or before the Participant's required beginning date. The minimum distribution for other calendar years, including the minimum distribution for the distribution calendar year in which the Participant's required beginning date occurs, must be made on or before December 31 of the distribution calendar year.

(d) If a Participant dies after a distribution has commenced in accordance with Section 9.3(b) but before his entire interest has been distributed to him, the remaining portion of such interest shall be distributed to his Beneficiary at least as rapidly as under the method of distribution in effect as of the date of his death.

(e) If a Participant shall die before the distribution of his Account balance has begun, the entire Account balance shall be distributed by December 31 of the calendar year containing the fifth anniversary of the death of the Participant, except in the following events:

(i) If any portion of the Participant's Account balance is payable to (or for the benefit of) a designated Beneficiary over a period not extending beyond the life expectancy of such Beneficiary and such distributions begin not later than December 31 of the calendar year immediately following the calendar year in which the Participant died; or

(ii) If any portion of the Participant's Account balance is payable to (or for the benefit of) the Participant's spouse over a period not extending beyond the life expectancy of such spouse and such distributions begin no later than December 31 of the calendar year in which the Participant would have attained age 70-1/2.

If the Participant has not made a distribution election by the time of his death, the Participant's designated Beneficiary shall elect the method of distribution no later than the earlier of (1) December 31 of the calendar year in which distributions would be required to begin under this Article or (2) December 31 of the calendar year which contains the fifth anniversary of the date of death of the Participant. If the Participant has no designated Beneficiary, or if the designated Beneficiary does not elect a method of distribution, distribution of the Participant's

- 40 -

entire interest shall be completed by December 31 of the calendar year containing the fifth anniversary of the Participant's death.

(f) For purposes of this Article, the life expectancy of a Participant and his spouse may be redetermined but not more frequently than annually. The

life expectancy (or joint and last survivor expectancy) shall be calculated using the attained age of the Participant (or designated Beneficiary) as of the Participant's (or designated Beneficiary's) birthday in the applicable calendar year reduced by one for each calendar year which has elapsed since the date life expectancy was first calculated. If life expectancy is being recalculated, the applicable life expectancy shall be the life expectancy as so recalculated. The applicable calendar year shall be the first distribution calendar year, and if life expectancy is being recalculated, such succeeding calendar year. Unless otherwise elected by the Participant (or his spouse, if applicable) by the time distributions are required to begin, life expectancies shall be recalculated annually. Any election not to recalculate shall be irrevocable and shall apply to all subsequent years. The life expectancy of a nonspouse Beneficiary may not be recalculated.

(g) For purposes of Section 9.3(b) and 9.3(e), any amount paid to a child shall be treated as if it had been paid to a surviving spouse if such amount will become payable to the surviving spouse upon such child reaching majority (or other designated event permitted under regulations).

(h) For distributions beginning before the Participant's death, the first distribution calendar year is the calendar year immediately preceding the calendar year which contains the Participant's required beginning date. For distributions beginning after the Participant's death, the first distribution calendar year is the calendar year in which distributions are required to begin pursuant to this Article.

(i) The Plan will apply the minimum distribution requirements of Section 401(a)(9) of the Internal Revenue Code in accordance with the regulations under Section 401(a)(9) of the Code that were proposed in January, 2001, notwithstanding any provision of the Plan to the contrary. This amendment shall continue in effect until the end of the last calendar year beginning before the effective date of the final regulations under section 401(a)(9) or such other date specified in guidance published by the Internal Revenue Service.

(j) If a Participant's benefits have commenced to be paid under this Section 9.3, but are no longer required to be distributed on account of the change in the definition of the Required Beginning Date pursuant to Section 9.4, then such distributions may be ceased. The manner and timing of the cessation of such mandatory distributions shall be determined under the final regulations under Section 401(a)(9) of the Code or as specified in guidance published by the Internal Revenue Service.

9.4 Required Beginning Dates.

(a) General Rule. The required beginning date of a Participant is the first day of April of the calendar year following the calendar year in which the Participant attains age 70-1/2. Effective May 19, 1999, the required beginning date of a Participant who is not a 5-percent owner shall be April 1 of the calendar year following the later of either: (i) the calendar year in which the Participant attains age 70-1/2, or (ii) the calendar year in which the Participant retires.

(b) 5-percent Owner. A Participant is treated as a 5-percent owner for purposes of this section if such Participant is a 5-percent owner as defined in section 416(i) of the Code (determined in accordance with section 416 but without regard to whether the plan is top-heavy) at any time during the Plan Year ending with or within the calendar year in which such owner attains age 66-1/2 or any subsequent Plan Year. Once distributions have begun to a 5-percent owner under this section, they must continue to be distributed, even if the Participant ceases to be a 5-percent owner in a subsequent year.

- 41 -

9.5 Form of Payment.

(a) Each Participant's Account balance shall be distributed in one of the following methods, as the Participant shall designate on a form provided by the Administrator:

(1) A lump sum payment; provided, however, that the Administrator may not distribute a lump sum when the present value of a Participant's total Account balance is in excess of \$5,000 without the Participant's consent. This form of payment shall be the normal form of distribution.

(2) Substantially equal monthly, quarterly, semi-annual or annual installments for a term certain but not to exceed, in any event, the life expectancy of the Participant or the joint life expectancies of the Participant and his spouse, if any, determined as of the date that payment of benefits commences. Notwithstanding the foregoing, in the event that a Participant elects to receive installment payments, the Participant must receive at least a minimum distribution for each year during the installment period starting with the year that required distributions must commence pursuant to Section 9.4, calculated according to Sections 1.409-2(b)(6)(iii)-(vi) of the Treasury Regulations (as the same may be amended, or any successor regulation). In determining the quotient described in Section 1.409-2(b)(6)(v) of the Treasury Regulations for purposes of distributions that must commence not later than the close of the taxable year in which the Participant retires, the taxable year in which the Participant retires shall be substituted for the taxable year in which the Participant attains age 70-1/2 and the age the Participant has attained (counted in whole years) on the date the Participant retires shall be substituted for age 70.

If distribution is made in the form of installments, the Participant's Accounts may be transferred to separate distribution accounts in his name, and the Trustee may, but shall not be required to, segregate the Participant's distribution account that is not invested in Employer Securities and invest and reinvest any such amount so segregated in federally insured savings accounts, subject to Section 9.9.

Effective June 1, 2002, except as required to satisfy the requirements of Section 9.3, all distributions under the Plan shall be in the form of a lump sum.

9.6 Payments Upon Termination of Plan.

Upon termination of this Plan pursuant to Sections 13.2, 13.4, 13.5 or 13.6, the Administrator shall continue to perform its duties and the Trustee shall make all payments upon the following terms, conditions and provisions: The Account balance of each affected Participant and Former Participant shall continue to be fully vested and nonforfeitable; the Account balance of all Participants and Former Participants shall be determined within 60 days after such termination, and the Administrator shall have the same powers to direct the Trustee in making payments as contained in Sections 9.1 and 13.5.

9.7 Distributions Pursuant to Qualified Domestic Relations Orders.

Upon receipt of a domestic relations order, the Administrator shall promptly notify the Participant and any alternate payee of receipt of the order and the Plan's procedure for determining whether the order is a Qualified Domestic Relations Order. While the issue of whether a domestic relations order is a Qualified Domestic Relations Order is being determined, if the benefits would otherwise be paid, the Administrator shall segregate in a separate account in the Plan the amounts that would be payable to the alternate payee during such period if the order were a Qualified Domestic Relations Order. If within 18 months the order is determined to be a Qualified Domestic Relations Order, the amounts so segregated, along with the interest or investment earnings attributable thereto, shall

- 42 -

be paid to the alternate payee. Alternatively, if within 18 months, it is determined that the order is not a Qualified Domestic Relations Order or if the issue is still unresolved, the amounts segregated under this Section 9.7, with the earnings attributable thereto, shall be paid to the Participant or Beneficiary who would have been entitled to such amounts if there had been no order. The determination as to whether the order is qualified shall be applied prospectively. Thus, if the Administrator determines that the order is a Qualified Domestic Relations Order after the 18-month period, the Plan shall not be liable for payments to the alternative payee for the period before the order is determined to be a Qualified Domestic Relations Order. As soon as the order is determined to be a Qualified Domestic Relations Order, and if the order provides for the distribution of assets prior to the termination of the employment of the Participant or attainment by the Participant of his Early Retirement Date, the Administrator shall, as soon as administratively feasible, make distribution to the alternate payee in accordance with the terms of such order. Such a distribution is a form of benefit explicitly provided for under this Plan and shall not violate Section 414(p)(3) of the Code and shall be deemed consistent with Section 414(p)(10) of the Code.

9.8 Cash-Out Distributions.

If a Participant receives a distribution of his entire Account balance because of the termination of his participation in the Plan, the Plan shall disregard a Participant's Service with respect to which such cash-out distribution shall have been made, in computing his Account balance in the event that a Former Participant shall again become an Employee and become eligible to participate in the Plan. Such a distribution shall be deemed to be made on termination of participation in the Plan if it is made not later than the close of the second Plan Year following the Plan Year in which such termination occurs.

9.9 ESOP Distribution Rules.

Notwithstanding any provision of this Article IX to the contrary, the distribution of a Participant's Employee Stock Ownership Account (unless the Participant elects otherwise in writing) shall commence as soon as administratively feasible as of the first Valuation Date coincident with or next following his death, Disability or termination of Service, but not later than 1 year after the close of the Plan Year in which the Participant separates from Service by reason of the attainment of his Normal Retirement Date, Disability, death or separation from Service. As of the close of the Plan Year in which a Participant separates from Service, the Employer Securities allocated to such Participant's Employee Stock Ownership Account shall be segregated for investment purposes and on the books and records of the Plan. Such a Participant shall be credited with the Employer Securities allocated to his Employee Stock Ownership Account as of the aforesaid date and shall remain so credited until the commencement of distributions to him. In addition, all distributions hereunder shall, to the extent that the Participant's Account is invested in Employer Securities, be made in the form of Employer Securities or cash, or a combination of Employer Securities and cash, in the discretion of the Administrator, subject to the Participant's right to demand Employer Securities in accordance with Section 8.1. Fractional shares, however, may be distributed in the form of cash.

9.10 Withdrawals on Account of Financial Hardship

(a) Immediate and Heavy Financial Need. A Participant may make a withdrawal from his or her 401(k) Contributions Account (other than that portion of his 401(k) Contributions Account attributable to income) in the event of an immediate and heavy financial need arising from:

(1) expenses for medical care described in Section 213(d) previously incurred by the Participant, his or her spouse or any of his or her dependents (as defined in Code Section 152) or necessary for these persons to obtain such medical care;

- 43 -

(2) costs directly related to the purchase of a principal residence of the Participant (excluding mortgage payments);

(3) the payment of tuition and related educational fees and room and board expenses for the next 12 consecutive months of post-secondary education for the Participant or his or her spouse, children or dependents (as defined in Code Section 152); or

(4) payments necessary to prevent the eviction of the Participant from his or her principal residence or foreclosure on the mortgage on

that principal residence.

The Administrator's determination of whether there is an immediate and heavy financial need as defined above shall be made solely on the basis of written evidence furnished by the Participant. Such evidence must also indicate the amount of such need.

(b) Distribution of Amount Necessary to Meet Need. As soon as practicable after the Administrator's determination that an immediate and heavy financial need exists with respect to the Participant and that the Participant has obtained all other distributions (other than hardship distributions) and all nontaxable loans currently available under the Plan and all other plans maintained by the Employer and all Related Employers, the Administrator will direct the Trustee to pay to the Participant the amount necessary to meet the need created by the hardship (but not in excess of the value of the Participant's Account, determined as of the Valuation Date immediately preceding the Administrator's determination). The amount necessary to meet the need may include any amounts necessary to pay any federal, state, or local income taxes or penalties reasonably anticipated to result from the distribution.

(c) Effect of Hardship Distribution. If a Participant receives a hardship distribution from his or her 401(k) Contributions Account, then any 401(k) Contribution election, or any other cash-or-deferred or employee contribution election in effect with respect to the Participant under the Plan or any other plan maintained by the Employer or any Related Employer (including a stock purchase plan and any other plan set forth in Regs. Section 1.401(k)-1(d)(2)(iv)(B)(4)) shall be suspended for the 12 consecutive month period (6 consecutive month period, for hardship distributions occurring on or after January 1, 2002) beginning with the date the Participant receives the distribution, and the amount of the 401(k) Contribution made for the benefit of the Participant, together with any elective deferrals made on behalf of the Participant under any other plan maintained by the Employer or any Related Employer for the calendar year immediately following the calendar year of the hardship distribution shall not exceed the applicable limit under Section 402(g) for such next calendar year, less the amount of such contributions made on behalf of the Participant for the calendar year of the hardship distribution.

(d) Limitation of Withdrawable Amount. In the event that there is allocated to a Participant's Account a promissory note with respect to a loan made from the Plan, the maximum amount of cash that may be withdrawn from the Account prior to the Participant's separation from Service shall be determined without regard to the value of such note. In the event that a hardship distribution is made, a Participant's 401(k) Contribution shall be suspended for at least 12 consecutive months. At the election of such Participant, after such 12 consecutive month period shall have elapsed, such Participant shall be permitted to recommence 401(k) Contributions prospectively as of the first day of any following calendar month.

9.11 Direct Rollover.

(a) Notwithstanding any provision of the Plan to the contrary that would otherwise limit a distributee's election under this Article IX, a distributee may elect, at the time and in the manner prescribed by the Administrator, to have any portion of an "eligible rollover distribution" paid directly to an "eligible retirement plan" specified by the distributee in a "direct rollover."

- 44 -

(b) For purposes of this Section 9.11, an "eligible rollover distribution" is any distribution of all or any portion of the balance to the credit of the distributee, except that an "eligible rollover distribution" does not include: (1) any distribution that is one of a series of substantially equal periodic payments (not less frequently than annually) made for the life (or life expectancy) of the distributee or the joint lives (or joint life expectancies) of the distributee and the distributee's designated Beneficiary, or for a specified period of ten years or more; (2) any distribution to the extent such distribution is required under section 401(a)(9) of the Code; and (3) the portion of any distribution that is not includible in gross income (determined without regard to the exclusion for net unrealized appreciation with respect to Employer Securities). Effective January 1, 2000, the term "eligible rollover distribution" shall not include hardship distributions as defined in Section 401(k)(2)(B)(i)(IV) of the Code which are attributable to the Participant's 401(k) Contributions under Regulation Section 1.401(k)-1(d)(2)(iii).

(c) For purposes of this Section 9.11, an "eligible retirement plan" is an individual retirement account described in section 408(a) of the Code, an individual retirement annuity described in section 408(b) of the Code, an annuity plan described in section 403(a) of the Code, or a qualified trust described in section 401(a) of the Code, that accepts the distributee's eligible rollover distribution. However, in the case of an "eligible rollover distribution" to the surviving spouse of a Participant, an "eligible retirement plan" is an individual retirement account or individual retirement annuity. Effective for distributions occurring on or after January 1, 2002, an eligible retirement plan shall also mean an annuity contract described in section 403(b) of the Code and an eligible plan under section 457(b) of the Code which is maintained by a state, political subdivision of a state, or any agency or instrumentality of a state or political subdivision of a state and which agrees to separately account for amounts transferred into such plan from this plan. The definition of eligible retirement plan shall also apply in the case of a distribution to a surviving spouse, or to a spouse or former spouse who is the alternate payee under a qualified domestic relation order, as defined in section 414(p) of the Code.

(d) For purposes of this Section 9.11, a distributee includes a Participant or Former Participant. In addition, the Participant's or Former Participant's surviving spouse and the Participant's or Former Participant's spouse or former spouse who is the alternate payee under a Qualified Domestic Relations Order are "distributees" with regard to the Participant's or Former Participant's Account balance.

(e) For purposes of this Section 9.11, a "direct rollover" is a payment by the Plan to the "eligible retirement plan" specified by the distributee.

9.12 Limitations on Distributions from 401(k) Contributions Account.

Any amount credited to a Participant's 401(k) Contributions Account shall not be distributed before the occurrence of any one of the following events:

(a) The Employee's Retirement, death, Disability, or separation from Service (severance from employment, for distributions occurring on or after January 1, 2002);

(b) The Employee's attainment of age 59-1/2 or the Employee's financial hardship, as set forth in Section 9.10; or

(c) The termination of the Plan.

9.13 Waiver of 30-day Notice.

If a distribution is one to which Sections 401(a)(11) and 417 of the Code do not apply, such distribution may commence less than 30 days after the notice required under Section 1.411(a)-11(c) of the Income Tax Regulations is given, provided that: (1) the Administrator clearly informs the Participant that the Participant has a right to a period of at least 30 days after receiving the notice to consider the decision of whether or not to elect a

- 45 -

distribution (and, if applicable, a particular distribution option), and (2) the Participant, after receiving the notice, affirmatively elects a distribution.

9.14 Re-employed Veterans.

Notwithstanding any provision of the Plan to the contrary, contributions, benefits, Plan loan repayment suspensions and Service credit with respect to qualified military service will be provided in accordance with Code Section 414(u).

9.15 Share Legend.

Employer Securities held or distributed by the Trustee may include such legend restrictions on transferability as the Employer may reasonably require in order to assure compliance with applicable Federal and State securities and other laws.

- 46 -

ARTICLE X

PROVISIONS RELATING TO TOP-HEAVY PLANS

10.1 Top-Heavy Rules to Control.

Anything contained in this Plan to the contrary notwithstanding, if for any Plan Year the Plan is a top-heavy plan, as determined pursuant to Section 416 of the Code, then the Plan shall meet the requirements of this Article X for such Plan Year.

10.2 Top-Heavy Plan Definitions.

Unless a different meaning is plainly implied by the context, the following terms as used in this Article X shall have the following meanings:

(a) "Accrued Benefit" shall mean the account balances or accrued benefits of an Employee, calculated pursuant to Section 10.3.

(b) "Determination Date" shall mean, with respect to any particular Plan Year of this Plan, the last day of the preceding Plan Year (or, in the case of the first Plan Year of the Plan, the last day of the first Plan Year). In addition, the term "Determination Date" shall mean, with respect to any particular plan year

of any plan (other than this Plan) in a Required Aggregation Group or a Permissive Aggregation Group, the last day of the plan year of such plan which falls within the same calendar year as the Determination Date for this Plan.

(c) "Employer" shall mean the Employer (as defined in Section 1.1(u)) and any entity which is (1) a member of a controlled group including such Employer, while it is a member of such controlled group (within the meaning of Section 414(b) of the Code), (2) in a group of trades or businesses under common control with such Employer, while it is under common control (within the meaning of Section 414(c) of the Code), and (3) a member of an affiliated service group including such Employer, while it is a member of such affiliated service group (within the meaning of Section 414(m) of the Code).

(d) "Key Employee" shall mean any Employee or former Employee (or any Beneficiary of such Employee or former Employee, as the case may be) who, at any time during the Plan Year or during the 4 immediately preceding Plan Years, is one of the following:

(1) An officer of the Employer who has compensation greater than 50% of the amount in effect under Code 415(b)(1)(A) for the Plan Year; provided, however, that no more than 50 Employees (or, if lesser, the greater of 3 or 10% of the Employees) shall be deemed officers;

(2) One of the 10 Employees having annual compensation (as defined in Section 415 of the Code) in excess of the limitation in effect under Section 415(c)(1)(A) of the Code, and owning (or considered as owning, within the meaning of Section 318 of the Code) the largest interests in the Employer;

(3) Any Employee owning (or considered as owning, within the meaning of Section 318 of the Code) more than 5% of the outstanding stock of the Employer or stock possessing more than 5% of the total combined voting power of all stock of the Employer; or

(4) Any Employee having annual compensation (as defined in Section 415 of the Code) of more than \$150,000 and who would be described in Section 10.2(d)(3) if "1%" were substituted for "5%" wherever the latter percentage appears.

- 47 -

For purposes of applying Section 318 of the Code to the provisions of this Section 10.2(d), Section 318(a)(2)(C) of the Code shall be applied by substituting "5%" for "50%" wherever the latter percentage appears. In addition, for purposes of this Section 10.2(d), the provisions of Section 414(b), (c) and (m) shall not apply in determining ownership interests in the Employer. However, for purposes of determining whether an individual has compensation in excess of \$150,000, or whether an individual is a Key Employee under Section 10.2(d)(1) and (2), compensation from each entity required to be aggregated under Sections 414(b), (c) and (m) of the Code shall be taken into account. Notwithstanding anything contained herein to the contrary, all determinations as to whether a person is or is not a Key Employee shall be resolved by reference to Section 416 of the Code and any rules and regulations promulgated thereunder.

Effective for Plan Years commencing on or after January 1, 2002, the term "Key Employee" shall mean any Employee or former Employee (including any deceased Employee) who at any time during the Plan Year that includes the Determination Date was an officer of the Employer having annual compensation greater than \$130,000 (as adjusted under section 416(i)(1) of the Code for plan years beginning after December 31, 2002), a 5-percent owner of the Employer, or a 1-percent owner of the Employer having annual compensation of more than \$150,000. For this purpose, annual compensation means compensation within the meaning of section 415(c)(3) of the Code. The determination of who is a key employee will be made in accordance with section 416(i)(1) of the Code and the applicable regulations and other guidance of general applicability issued thereunder.

(e) "Non-Key Employee" shall mean any Employee or former Employee (or any Beneficiary of such Employee or former Employee, as the case may be) who is not considered to be a Key Employee with respect to this Plan.

(f) "Permissive Aggregation Group" shall mean all plans in the Required Aggregation Group and any other plans maintained by the Employer which satisfy Sections 401(a)(4) and 410 of the Code when considered together with the Required Aggregation Group.

(g) "Required Aggregation Group" shall mean each plan (including any terminated plan) of the Employer in which a Key Employee is (or in the case of a terminated plan, had been) a Participant in the Plan Year containing the Determination Date or any of the 4 preceding Plan Years, and each other plan of the Employer which enables any plan of the Employer in which a Key Employee is a Participant to meet the requirements of Sections 401(a)(4) and 410 of the Code.

10.3 Calculation of Accrued Benefits.

(a) An Employee's Accrued Benefit shall be equal to:

(1) With respect to this Plan or any other defined contribution plan (other than a defined contribution pension plan) in a Required Aggregation Group or a Permissive Aggregation Group, the Employee's account balances under the respective plan, determined as of the most recent plan valuation date within a 12-month period ending on the Determination Date, including contributions actually made after the valuation date but before the Determination Date (and, in the first plan year of a plan, also including any contributions made after the Determination Date which are allocated as of a date in the first plan year).

(2) With respect to any defined contribution pension plan in a Required Aggregation Group or a Permissive Aggregation Group, the Employee's account balances under the plan, determined as of the most recent plan valuation date within a 12-month period ending on the Determination Date, including contributions which have not actually been made, but which are due to be made as of the Determination Date.

- 48 -

(3) With respect to any defined benefit plan in a Required Aggregation Group or a Permissive Aggregation Group, the present value of the Employee's accrued benefits under the plan, determined as of the most recent plan valuation date within a 12-month period ending on the Determination Date, pursuant to the actuarial assumptions used by such plan, and calculated as if the Employee terminated Service under such plan as of the valuation date (except that, in the first plan year of a plan, a current Participant's estimated Accrued Benefit as of the Determination Date shall be taken into account).

(4) If any individual has not performed services for the Employer maintaining the Plan at any time during the 5-year period ending on the Determination Date, any Accrued Benefit for such individual shall not be taken into account. Effective for Plan Years commencing on or after January 1, 2002, the Accrued Benefits of an Employee as of the Determination Date shall be increased by the distributions made with respect to the Employee under the Plan and any plan aggregated with the Plan under section 416(g)(2) of the Code during the 1-year period ending on the Determination Date. The preceding sentence shall also apply to distributions under a terminated plan which, had it not been terminated, would have been aggregated with the Plan under section 416(g)(2)(A)(i) of the Code. In the case of a distribution made for a reason other than separation from service, death, or disability, this provision shall be applied by substituting "5-year period" for "1-year period".

(b) The Accrued Benefit of any Employee shall be further adjusted as follows:

(1) The Accrued Benefit shall be calculated to include all amounts attributable to both Employer and Employee contributions, but shall exclude amounts attributable to voluntary deductible Employee contributions, if any.

(2) The Accrued Benefit shall be increased by the aggregate distributions made with respect to an Employee under the plan or plans, as the case may be, during the 5-year period ending on the Determination Date.

(3) Rollover and direct plan-to-plan transfers shall be taken into account as follows:

(A) If the transfer is initiated by the Employee and made from a plan maintained by one employer to a plan maintained by another unrelated employer, the transferring plan shall continue to count the amount transferred;

(B) If the transfer is not initiated by the Employee or is made between plans maintained by related employers, the transferring plan shall no longer count the amount transferred; the receiving plan shall count the amount transferred.

(c) If any individual has not performed services for the Employer at any time during the 5-year period ending on the Determination Date, any Accrued Benefit for such individual (and the account of such individual) shall not be taken into account.

10.4 Determination of Top-Heavy Status.

This Plan shall be considered to be a top-heavy plan for any Plan Year if, as of the Determination Date, the value of the Accrued Benefits of Key Employees exceeds 60% of the value of the Accrued Benefits of all eligible Employees under the Plan. Notwithstanding the foregoing, if the Employer maintains any other qualified plan, the determination of whether this Plan is top-heavy shall be made after aggregating all other plans of the Employer in the Required Aggregation Group and, if desired by the Employer as a means of avoiding top-heavy status, after aggregating any other plan of the Employer in the Permissive Aggregation Group. If the required Aggregation

- 49 -

Group is top-heavy, then each plan contained in such group shall be deemed to be top-heavy, notwithstanding that any particular plan in such group would not otherwise be deemed to be top-heavy. Conversely, if the Permissive Aggregation Group is not top-heavy, then no plan contained in such group shall be deemed to be top-heavy, notwithstanding that any particular plan in such group would otherwise be deemed to be top-heavy. In no event shall a plan included in a top-heavy Permissive Aggregation Group be deemed a top-heavy plan unless such plan is also included in a top-heavy Required Aggregation Group.

10.5 Determination of Super Top-Heavy Status.

The Plan shall be considered to be a super top-heavy plan if, as of the Determination Date, the Plan would meet the test specified in Section 10.4 above for classification as a top-heavy plan, except that "90%" shall be substituted for "60%" whenever the latter percentage appears.

10.6 Minimum Contribution.

(a) For any Plan Year in which the Plan is top-heavy, each Non-Key Employee who has met the age and service requirements, if any, contained in the Plan, shall be entitled to a minimum contribution (which may include forfeitures otherwise allocable) equal to a percentage of such Non-Key Employee's compensation (as defined in Section 415 of the Code) as follows:

(1) If the Non-Key Employee is not covered by a defined benefit plan maintained by the Employer, then the minimum contribution under this Plan shall be 3% of such Non-Key Employee's compensation.

(2) If the Non-Key Employee is covered by a defined benefit plan maintained by the Employer, then the minimum contribution under this Plan shall be 5% of such Non-Key Employee's compensation.

(b) Notwithstanding the foregoing, the minimum contribution otherwise allocable to a Non-Key Employee under this Plan shall be reduced in the following circumstances:

(1) The percentage minimum contribution required under this Plan shall in no event exceed the percentage contribution made for the Key Employee for whom such percentage is the highest for the Plan Year after taking into account contributions under other defined contribution plans in this Plan's Required Aggregation Group; provided, however, that this Section 10.7(b)(1) shall not apply if this Plan is included in a Required Aggregation Group and this Plan enables a defined benefit plan in such Required Aggregation Group to meet the requirements of Section 401(a)(4) or 410 of the Code.

(2) No minimum contribution shall be required (or the minimum contribution shall be reduced, as the case may be) for a Non-Key Employee under this Plan for any Plan Year if the Employer maintains another qualified plan under which a minimum benefit or contribution is being accrued or made on account of such Plan Year, in whole or in part, on behalf of the Non-Key Employee, in accordance with Section 416(c) of the Code.

(c) For purposes of this Section 10.6, there shall be disregarded (1) any Employer contributions attributable to a salary reduction or similar arrangement, or (2) any Employer contributions to or any benefits under Chapter 21 of the Code (relating to the Federal Insurance Contributions Act), Title II of the Social Security Act, or any other federal or state law.

(d) For purposes of this Section 10.6, minimum contributions shall be required to be made on behalf of only those Non-Key Employees, as described in Section 10.7(a), who have not terminated Service as of the last day of the Plan Year. If a Non-Key Employee is otherwise entitled to receive a minimum contribution pursuant to

- 50 -

this Section 10.6(d), the fact that such Non-Key Employee failed to complete 1,000 Hours of Service or failed to make any mandatory or elective contributions under this Plan, if any are so required, shall not preclude him from receiving such minimum contribution.

(e) Matching contributions shall be taken into account for purposes of satisfying the minimum contribution requirements of section 416(c)(2) of the Code and the Plan. The preceding sentence shall apply with respect to matching contributions under the Plan or, if the plan provides that the minimum contribution requirement shall be met in another plan, such other plan. Matching contributions that are used to satisfy the minimum contribution requirements shall be treated as matching contributions for purposes of the actual contribution percentage test and other requirements of section 401(m) of the Code.

10.7 Vesting.

(a) For any Plan Year in which the Plan is a top-heavy plan, a Participant's Account Balance (except for his 401(k) Contributions Account or any other Account that is subject to more rapid vesting) shall continue to vest according to the following schedule:

Years of Service Completed Percentage Vested

Less than 3	0%
3 or more	100%

(b) For purposes of Section 10.6(a), the term "year of service" shall have the same meaning as Year of Vesting Service, and as modified by Section 3.2.

(c) If for any Plan Year the Plan becomes top-heavy and the vesting schedule set forth in Section 10.6(a) becomes effective, then, even if the Plan ceases to be top-heavy in any subsequent Plan Year, the vesting schedule set forth in Section 10.6(a) shall remain applicable with respect to any Participant who has completed 3 or more Years of Service.

10.8 Maximum Benefit Limitation.

For any Plan Year in which the Plan is a top-heavy plan, Section 5.6(d)(1)(B)(i) and Section 5.6(d)(2)(B)(i) shall be read by substituting "1.0" for "1.25" wherever the latter figure appears. This Section 10.8 shall not apply for Limitation Years commencing on or after January 1, 2000.

- 51 -

ARTICLE XI

ADMINISTRATION

11.1 Appointment of Administrator.

This Plan shall be administered by a committee consisting of up to 5 persons, whether or not Employees or Participants, who shall be appointed from time to time by the Board of Directors to serve at its pleasure. The Sponsor may require that each person appointed as an Administrator shall signify his acceptance by filing an acceptance with the Sponsor. The term "Administrator" as used in this Plan shall refer to the members of the committee, either individually or collectively, as appropriate. The authority to control and manage the operation and administration of the Plan is vested in the Administrator appointed by the Board of Directors. The Administrator shall have the rights, duties and obligations of an "administrator," as that term is defined in section 3(16)(A) of the Act, and of a "plan administrator," as that term is defined in Section 414(g) of the Code. In the event that the Sponsor shall elect not to appoint any individuals to constitute a committee to administer the Plan, the Sponsor shall serve as the Administrator hereunder.

11.2 Resignation or Removal of Administrator.

An Administrator shall have the right to resign at any time by giving notice in writing, mailed or delivered to the Sponsor and to the Trustee. Any Administrator who was an employee of the Employer at the time of his appointment shall be deemed to have resigned as an Administrator upon his termination of Service. The Board of Directors may, in its discretion, remove any Administrator with or without cause, by giving notice in writing, mailed or delivered to the Administrator and to the Trustee.

11.3 Appointment of Successors: Terms of Office, Etc.

Upon the death, resignation or removal of an Administrator, the Sponsor may appoint, by Board of Directors' resolution, a successor or successors. Notice of termination of an Administrator and notice of appointment of a successor shall be made by the Sponsor in writing, with copies mailed or delivered to the Trustee, and the successor shall have all the rights and privileges and all of the duties and obligations of the predecessor.

11.4 Powers and Duties of Administrator.

The Administrator shall have the following duties and responsibilities in connection with the administration of this Plan:

- (a) To promulgate and enforce such rules, regulations and procedures as shall be proper for the efficient administration of the Plan, such rules, regulations and procedures to apply uniformly to all Employees, Participants and Beneficiaries;
- (b) To exercise discretion in determining all questions arising in the administration, interpretation and application of the Plan, including questions of eligibility and of the status and rights of Participants, Beneficiaries and any other persons hereunder;
- (c) To decide any dispute arising hereunder strictly in accordance with the terms of the Plan; provided, however, that no Administrator shall participate in any matter involving any questions relating solely to his own participation or benefits under this Plan;
- (d) To advise the Employer and the Trustee regarding the known future needs for funds to be available for distribution in order that the Trustee may establish investments accordingly;

- (e) To correct defects, supply omissions and reconcile inconsistencies to the extent necessary to effectuate the Plan;
- (f) To advise the Employer of the maximum deductible contribution to the Plan for each fiscal year;
- (g) To direct the Trustee concerning all payments which shall be made out of the Fund pursuant to the provisions of this Plan;
- (h) To advise the Trustee on all terminations of Service by Participants, unless the Employer has so notified the Trustee;
- (i) To confer with the Trustee on the settling of any claims against the Fund;
- (j) To make recommendations to the Board of Directors with respect to proposed amendments to the Plan and the Trust Agreement;
- (k) To file all reports with government agencies, Employees and other parties as may be required by law, whether such reports are initially the obligation of the Employer, the Plan or the Trustee; and

(l) To have all such other powers as may be necessary to discharge its duties hereunder.

Reasonable discretion is granted to the Administrator to interpret the Plan and to determine the benefits, rights and privileges of Participants, Beneficiaries or other persons affected by this Plan. The Administrator shall exercise reasonable discretion under the terms of this Plan and shall administer the Plan strictly in accordance with its terms, such administration to be exercised uniformly so that all persons similarly situated shall be similarly treated.

11.5 Action by Administrator.

The Administrator may elect a Chairman and Secretary from among its members and may adopt rules for the conduct of its business. A majority of the members then serving shall constitute a quorum for the transaction of business. All resolutions or other action taken by the Administrator shall be by vote of a majority of those present at such meeting and entitled to vote. Resolutions may be adopted or other action taken without a meeting upon written consent signed by at least a majority of the members. All documents, instruments, orders, requests, directions, instructions and other papers shall be executed on behalf of the Administrator by either the Chairman or the Secretary of the Administrator, if any, or by any member or agent of the Administrator duly authorized to act on the Administrator's behalf.

11.6 Participation by Administrator.

No member of the committee constituting the Administrator shall be precluded from becoming a Participant in the Plan if he would be otherwise eligible, but he shall not be entitled to vote or act upon matters or to sign any documents relating specifically to his own participation under the Plan, except when such matters or documents relate to benefits generally. If this disqualification results in the lack of a quorum, then the Board of Directors shall appoint a sufficient number of temporary members of the committee constituting the Administrator who shall serve for the sole purpose of determining such a question.

11.7 Agents.

The Administrator may employ agents and provide for such clerical, legal, actuarial, accounting, medical, advisory or other services as it deems necessary to perform its duties under this Plan. The cost of such services and

- 53 -

all other expenses incurred by the Administrator in connection with the administration of the Plan shall be paid from the Fund, unless paid by the Employer.

11.8 Allocation of Duties.

The duties, powers and responsibilities reserved to the Administrator may be allocated among its members so long as such allocation is pursuant to written procedures adopted by the Administrator, in which case, except as may be required by the Act, no Administrator shall have any liability, with respect to any duties, powers or responsibilities not allocated to him, for the acts of omissions of any other Administrator.

11.9 Delegation of Duties.

The Administrator may delegate any of its duties to any Employees of the Employer, to the Trustee with its consent, or to any other person or firm, provided that the Administrator shall prudently choose such agents and rely in good faith on their actions.

11.10 Administrator's Action Conclusive.

Any action on matters within the authority of the Administrator shall be final and conclusive except as provided in Article XII.

11.11 Compensation and Expenses of Administrator.

No Administrator who is receiving compensation from the Employer as a full-time employee, as a director or agent, shall be entitled to receive any compensation or fee for his services hereunder. Any other Administrator shall be entitled to receive such reasonable compensation for his services as an Administrator hereunder as may be mutually agreed upon between the Employer and such Administrator. Any such compensation shall be paid from the Fund, unless paid by the Employer. Each Administrator shall be entitled to reimbursement by the Employer for any reasonable and necessary expenditures incurred in the discharge of his duties.

11.12 Records and Reports.

The Administrator shall maintain adequate records of its actions and proceedings in administering this Plan and shall file all reports and take all other actions as it deems appropriate in order to comply with the Act, the Code and governmental regulations issued thereunder.

11.13 Reports of Fund Open to Participants.

The Administrator shall keep on file, in such form as it shall deem convenient and proper, all annual reports of the Fund received by the Administrator from the Trustee, and a statement of each Participant's interest in the Fund as from time to time determined. The annual reports of the Fund and the statement of his Account balance, as well as a complete copy of the Plan and the Trust Agreement and copies of annual reports to the Internal Revenue Service, shall be made available by the Administrator to the Employer for examination by each Participant during reasonable hours at the office of the Employer, provided, however, that the statement of a Participant's Account balance shall not be made available for examination by any other Participant.

11.14 Named Fiduciary.

The Administrator is the named fiduciary for purposes of Section 402 of the Act and shall be the designated agent for receipt of service of process on behalf of the Plan. It shall use the care and diligence in the performance of its duties under this Plan that are required of fiduciaries under the Act. Nothing in this Plan shall

- 54 -

preclude the Employer from purchasing liability insurance to protect the Administrator with respect to its duties under this Plan.

11.15 Information from Employer.

The Employer shall promptly furnish all necessary information to the Administrator to permit it to perform its duties under this Plan. The Administrator shall be entitled to rely upon the accuracy and completeness of all information furnished to it by the Employer, unless it knows or should have known that such information is erroneous.

11.16 Reservation of Rights by Employer.

Where rights are reserved in this Plan to the Employer, such rights shall be exercised only by action of the Board of Directors, except where the Board of Directors, by written resolution, delegates any such rights to one or more officers of the Employer or to the Administrator. Subject to the rights reserved to the Board of Directors acting on behalf of the Employer as set forth in this Plan, no member of the Board of Directors shall have any duties or responsibilities under this Plan, except to the extent he shall be acting in the capacity of an Administrator or Trustee.

11.17 Liability and Indemnification.

(a) To the extent not prohibited by the Act, the Administrator shall not be responsible in any way for any action or omission of the Employer, the Trustee or any other person in the performance of their duties and obligations set forth in this Plan and in the Trust Agreement. To the extent not prohibited by the Act, the Administrator shall also not be responsible for any act or omission of any of its agents, or with respect to reliance upon advice of its counsel (whether or not such counsel is also counsel to the Employer or the Trustee), provided that such agents or counsel were prudently chosen by the Administrator and that the Administrator relied in good faith upon the action of such agent or the advice of such counsel.

(b) The Administrator shall not be relieved from responsibility or liability for any responsibility, obligation or duty imposed upon it under this Plan or under the Act. Except for its own gross negligence, willful misconduct or willful breach of the terms of this Plan, the Administrator shall be indemnified and held harmless by the Employer against liability or losses occurring by reason of any act or omission of the Administrator to the extent that such indemnification does not violate the Act or any other federal or state laws.

11.18 Service as Trustee and Administrator.

Nothing in this Plan shall prevent one or more Trustees from serving as Administrator under this Plan.

- 55 -

ARTICLE XII

CLAIMS PROCEDURE

12.1 Notice of Denial.

If a Participant or his Beneficiary is denied any benefits under this Plan, either in whole or in part, the Administrator shall advise the claimant in writing of the amount of his benefit, if any, and the specific reasons for the denial. The Administrator shall also furnish the claimant at that time with a written notice containing:

- (a) A specific reference to pertinent Plan provisions;
- (b) A description of any additional material or information necessary for the claimant to perfect his claim, if possible, and an explanation of why such material or information is needed; and
- (c) An explanation of the Plan's claim review procedure.

12.2 Right to Reconsideration.

Within 60 days of receipt of the information described in 12.1 above, the claimant shall, if he desires further review, file a written request for reconsideration with the Administrator.

12.3 Review of Documents.

So long as the claimant's request for review is pending (including the 60-day period described in Section 12.2 above), the claimant or his duly authorized representative may review pertinent Plan documents and the Trust Agreement (and any pertinent related documents) and may submit issues and comments in writing to the Administrator.

12.4 Decision by Administrator.

A final and binding decision shall be made by the Administrator within 60 days of the filing by the claimant of his request for reconsideration; provided, however, that if the Administrator feels that a hearing with the claimant or his representative present is necessary or desirable, this period shall be extended an additional 60 days.

12.5 Notice by Administrator.

The Administrator's decision shall be conveyed to the claimant in writing and shall include specific reasons for the decision, written in a manner calculated to be understood by the claimant, with specific references to the pertinent Plan provisions on which the decision is based. The Administrator's decision shall be binding and conclusive with respect to all persons interested therein unless the Administrator has no reasonable basis for its decision.

- 56 -

ARTICLE XIII

AMENDMENTS, TERMINATION AND MERGER

13.1 Amendments.

The Sponsor, by action of the Board of Directors, reserves the right at any time and from time to time, for any reason and retroactively if deemed necessary or appropriate by it, to the extent permissible under law, to conform with governmental regulations or other policies, to amend in whole or in part any or all of the provisions of this Plan, provided that:

- (a) No amendment shall make it possible for any part of the Fund to be used for, or diverted to, purposes other than for the exclusive benefit of Participants or their Beneficiaries under the Trust Agreement, except to the extent provided in Section 4.11;
- (b) No amendment may, directly or indirectly, reduce the vested portion of any Participant's Account balance as of the effective date of the amendment or change the vesting schedule with respect to the future accrual of Employer contributions for any Participants unless each Participant with 3 or more years of service is permitted to elect to have the vesting schedule in effect before the amendment used to determine his vested benefit;
- (c) No amendment may eliminate an optional form of benefit; and.
- (d) No amendment may increase the duties of the Trustee without its consent.

Amendments may be made in the form of Board of Directors' resolutions or separate written document. Copies of all amendments shall be delivered to the Trustee.

13.2 Effect of Change In Control

(a) In the event of a "change in control" of the Sponsor, as defined in paragraph (d) below, this Plan shall terminate at the effective time of such change in control. Nothing in this Plan shall prevent the Sponsor from becoming a party to such a change in control.

(b) Upon the effective time of a change in control, the Account balances of all affected Participants and Former Participants shall become fully vested and nonforfeitable, and the Trustee shall make payments to each Participant and Beneficiary in accordance with Section 9.5, to the extent permitted by law.

(c) Notwithstanding any provision of the Plan to the contrary, at and after the effective time of a change in control, each of the following provisions shall become applicable; provided, however, that any such provision shall not apply if the Board of Directors determines that such provision would adversely affect the tax-qualified status of the Plan pursuant to Code Section 401(a), or should not apply for any other reason:

(1) The Plan shall be interpreted, maintained and operated exclusively for the benefit of those individuals who are participating in the Plan as of the effective time of the change in control and their Beneficiaries. Notwithstanding the provisions of Section 2.1(a), no Employee shall become a Participant for the first time at or after the effective time of a change in control.

(2) After a Participant's Retirement, Disability or other termination of Service, such Participant's Account, regardless of its value, shall not be distributed and shall share in the allocation of the Employee Stock Ownership Contribution and Investment Adjustments until such time as either (A) the Fund is liquidated in connection with the termination of the Plan, or (B) the Participant (or his Beneficiary) receives a full

- 57 -

distribution of his Account either upon his election in accordance with Section 9.2(c) or as required in accordance with Section 8.8, 9.3 or 9.4.

(3) Upon the termination of the Plan, Employer Securities that are allocated to the Exempt Loan Suspense Account and that are not used to repay an Exempt Loan shall be allocated as Investment Adjustments in accordance with Section 5.3.

(4) Employer Securities that are released from the Exempt Loan Suspense Account in accordance with Section 8.5 shall be allocated to the Employee Stock Ownership Account of each Participant regardless of whether he completed a Year of Vesting Service during the Plan Year or was an Employee on the last day of such Plan Year.

(5) The Administrator shall consist of a committee selected by the Board of Directors, and such committee shall have the exclusive authority (i) to remove the Trustee and to appoint a successor trustee, (ii) to adopt amendments to the Plan or the Trust Agreement to effectuate the provisions and intent of this Section 13.2, and (iii) to perform any or all of the functions and to exercise all of the discretion that are delegated to the Administrator pursuant to Article XI.

(6) Any application for a favorable determination letter with respect to the tax-qualified status of the Plan under Code Section 401(a) with respect to its termination shall be subject to the prior review, comment and approval (which approval shall not be unreasonably withheld) of the Administrator, as defined in paragraph (5) above.

(d) For purposes of this Section 13.2, the term "change in control" means the occurrence of any one or more of the events specified in the following clauses (i) through (iii): (i) any third person, including a "group" as defined in Section 13(d)(3) of the Securities Exchange Act of 1934, shall become the beneficial owner of shares of the Sponsor with respect to which 25% or more of the total number of votes for the election of the Board of Directors may be cast, (ii) as a result of, or in connection with, any cash tender offer, merger or other business combination, sale of assets or contested election, or combination of the foregoing, the persons who were directors of the Sponsor shall cease to constitute a majority of the Board of Directors, or (iii) the effective time of a transaction that is approved by the stockholders of the Sponsor and that provides either for the Sponsor to cease to be an independent publicly-owned corporation or for a sale or other disposition of all or substantially all of the assets of the Sponsor.

13.3 Consolidation or Merger of Trust.

In the event of any merger or consolidation of the Fund with, or transfer in whole or in part of the assets and liabilities of the Fund to, another trust fund held under any other plan of deferred compensation maintained or to be established for the benefit of all or some of the Participants of this Plan, the assets of the Fund applicable to such Participants shall be transferred to the other trust fund only if:

(a) Each Participant would receive a benefit under such successor trust fund immediately after the merger, consolidation or transfer which is equal to or greater than the benefit he would have been entitled to receive immediately before the merger, consolidation or transfer (determined as if this Plan and such transferee trust fund had then terminated);

(b) Resolutions of the Board of Directors, or of any new or successor employer of the affected Participants, shall authorize such transfer of assets, and, in the case of the new or successor employer of the affected Participants, its resolutions shall include an assumption of liabilities imposed under this Plan with respect to such Participants' inclusion in the new employer's plan; and

(c) Such other plan and trust are qualified under Sections 401(a) and 501(a) of the Code.

- 58 -

13.4 Bankruptcy or Insolvency of Employer.

In the event of (a) the Employer's legal dissolution or liquidation by any procedure other than a consolidation or merger, (b) the Employer's receivership, insolvency, or cessation of its business as a going concern, or (c) the commencement of any proceeding by or against the Employer under the federal bankruptcy laws, or similar federal or state statute, or any federal or state statute or rule providing for the relief of debtors, compensation of creditors, arrangement, receivership, liquidation or any similar event which is not dismissed within 30 days, this Plan shall terminate automatically with respect to such entity on such date (provided, however, that if a proceeding is brought against the Employer for reorganization under Chapter 11 of the United States Bankruptcy Code or any similar federal or state statute, then this Plan shall terminate automatically if and when said proceeding results in a liquidation of the Employer, or the approval of any Plan providing therefor, or the proceeding is converted to a case under Chapter 7 of the Bankruptcy Code or any similar conversion to a liquidation proceeding under federal or state law including, but not limited to, a receivership proceeding). In the event of any such termination as provided in the foregoing sentence, the Trustee shall make payments to the persons entitled thereto in accordance with Section 9.6 hereof.

13.5 Voluntary Termination.

The Board of Directors reserves the right to terminate this Plan at any time by giving to the Trustee and the Administrator notice in writing of such desire to terminate. The Plan shall terminate upon the date of receipt of such notice, the Account balances of all affected Participants and Former Participants shall become fully vested and nonforfeitable, and the Trustee shall make payments to each Participant or Beneficiary in accordance with Section 9.6. Alternatively, the Sponsor, in its discretion, may determine to continue the Trust Agreement and to continue the maintenance of the Fund, in which event distributions shall be made upon the contingencies and in all the circumstances under which such distributions would have been made, on a fully vested basis, had there been no termination of the Plan. In addition, an entity other than the Sponsor that is participating in this Plan may terminate its participation in the Plan on a prospective basis by action of its board of directors. Upon such termination of participation, Participants who are employees of such entity shall be entitled to distributions from this Plan in accordance with Article IX and this Article XIII.

13.6 Partial Termination of Plan or Permanent Discontinuance of Contributions.

In the event that a partial termination of the Plan shall be deemed to have occurred, or if the Employer shall discontinue permanently its contributions hereunder, the right of each affected Participant and Former Participant in his Account balance shall be fully vested and nonforfeitable. The Sponsor, in its discretion, shall decide whether to direct the Trustee to make immediate distribution of such portion of the Fund assets to the persons entitled thereto or to make distribution in the circumstances and contingencies which would have controlled such distributions if there had been no partial termination or permanent discontinuance of contributions.

ARTICLE XIV

MISCELLANEOUS

14.1 No Diversion of Funds.

It is the intention of the Employer that it shall be impossible for any part of the corpus or income of the Fund to be used for, or diverted to, purposes other than for the exclusive benefit of the Participants or their Beneficiaries, except to the extent that a return of the Employer's contribution is permitted under Section 4.11.

14.2 Liability Limited.

Neither the Employer nor the Administrator, nor any agents, employees, officers, directors or shareholders of any of them, nor the Trustee, nor any other person, shall have any liability or responsibility with respect to this Plan, except as expressly provided herein.

14.3 Facility of Payment.

If the Administrator shall receive evidence satisfactory to it that a Participant or Beneficiary entitled to receive any benefit under the Plan is, at the time when such benefit becomes payable, a minor, or is physically or mentally incompetent to receive such benefit and to give a valid release therefor, and that another person or an institution is then maintaining or has custody of such Participant or Beneficiary and that no guardian, committee or other representative of the estate of such Participant or Beneficiary shall have been duly appointed, the Administrator may direct the Trustee to make payment of such benefit otherwise payable to

such Participant or Beneficiary, to such other person or institution, including a custodian under a Uniform Gifts to Minors Act, or corresponding legislation (who shall be an adult, a guardian of the minor or a trust company), and the release of such other person or institution shall be a valid and complete discharge for the payment of such benefit.

14.4 Spendthrift Clause.

Except as permitted by the Act or the Code, including in the case of certain judgments and settlements described in subparagraph (C) of Section 401(a)(13) of the Code, no benefits or other amounts payable under the Plan shall be subject in any manner to anticipation, sale, transfer, assignment, pledge, encumbrance, charge or alienation. If the Administrator determines that any person entitled to any payments under the Plan has become insolvent or bankrupt or has attempted to anticipate, sell, transfer, assign, pledge, encumber, charge or otherwise in any manner alienate any benefit or other amount payable to him under the Plan or that there is any danger of any levy or attachment or other court process or encumbrance on the part of any creditor of such person entitled to payments under the Plan against any benefit or other accounts payable to such person, the Administrator may, at any time, in its discretion, and in accordance with applicable law, direct the Trustee to withhold any or all payments to such person under the Plan and apply the same for the benefit of such person, in such manner and in such proportion as the Administrator may deem proper.

14.5 Benefits Limited to Fund.

All contributions by the Employer to the Fund shall be voluntary, and the Employer shall be under no legal liability to make any such contributions, except as otherwise provided herein. The benefits of this Plan shall be provided solely by the assets of the Fund, and no liability for the payment of benefits under the Plan or for any loss of assets due to any action or inaction of the Trustee shall be imposed upon the Employer.

-60 -

14.6 Cooperation of Parties.

All parties to this Plan and any party claiming interest hereunder agree to perform any and all acts and execute any and all documents and papers which are necessary and desirable for carrying out this Plan or any of its provisions.

14.7 Payments Due Missing Persons.

The Administrator shall direct the Trustee to make a reasonable effort to locate all persons entitled to benefits under the Plan; however, notwithstanding any provision in the Plan to the contrary, if, after a period of 5 years from the date such benefit shall be due, any such persons entitled to benefits have not been located, their rights under the Plan shall stand suspended. Before this provision becomes operative, the Trustee shall send a certified letter to all such persons at their last known address advising them that their interest in benefits under the Plan shall be suspended. Any such suspended amounts shall be held by the Trustee for a period of 3 additional years (or a total of 8 years from the time the benefits first became payable), and thereafter such amounts shall be reallocated among current Participants in the same manner that a current contribution would be allocated. However, if a person subsequently makes a valid claim with respect to such reallocated amounts and any earnings thereon, the Plan earnings or the Employer's contribution to be allocated for the year in which the claim shall be paid shall be reduced by the amount of such payment. Any such suspended amounts shall be handled in a manner not inconsistent with regulations issued by the Internal Revenue Service and Department of Labor.

14.8 Governing Law.

This Plan has been executed in the State of California, and all questions pertaining to its validity, construction and administration shall be determined in accordance with the laws of the State of California, except to the extent superseded by the Act.

14.9 Nonguarantee of Employment.

Nothing contained in this Plan shall be construed as a contract of employment between the Employer and any Employee, or as a right of any Employee to be continued in the employment of the Employer, or as a limitation of the right of the Employer to discharge any of its Employees, with or without cause.

14.10 Counsel.

The Trustee and the Administrator may consult with legal counsel, who may be counsel for the Employer and for the Administrator or the Trustee (as the case may be), with respect to the meaning or construction of this Plan and the Trust Agreement, their respective obligations or duties hereunder, or with respect to any action or proceeding or any question of law, and they shall be fully protected to the extent allowable by law with respect to any action taken or omitted by them in good faith pursuant to the advice of legal counsel.

IN WITNESS WHEREOF, the Sponsor has caused these presents to be executed by its duly authorized officers and its corporate seal to be affixed on this ____ day of _____, 2002.

FIRST PACTRUST BANCORP, INC.

ATTEST:

Secretary

By: _____
Hans Ganz, President

[Corporate Seal]

FOR THE

FIRST PACIFIC BANCORP, INC.

401(K) EMPLOYEE STOCK OWNERSHIP PLAN

TABLE OF CONTENTS

ARTICLE I	2
DEFINITIONS AND CONSTRUCTION	2
1.1 Definitions	2
1.2 Plurals and Gender	2
1.3 Headings and Subheadings	2
ARTICLE II	3
CONTRIBUTIONS	3
2.1 Contributions by the Employer	3
2.1 Discontinuance of Contributions	3
ARTICLE III	4
DUTIES OF THE EMPLOYER AND THE ADMINISTRATOR	4
3.1 Information and Data to be Furnished the Trustee	4
3.2 Limitation of Duties	4
3.3 Limitation of Liability	4
ARTICLE IV	5
ESTABLISHMENT OF TRUST FUND AND ACCOUNTS	5
4.1 Establishment of Trust Fund	5
4.2 Establishment of Accounts	5
4.3 Receipt of Contributions	5
4.4 Disbursements from Trust Fund	5
4.5 Charges Against Accounts	6
4.6 Disputes as to Payments	6
4.7 Valuation of the Trust Fund	6
ARTICLE V	7
DUTIES AND POWERS OF THE TRUSTEE	7
5.1 Accounting, Records and Certificates	7
5.2 Agents	8
5.3 Sponsor's Power to Appoint Investment Manager	8
5.4 General Powers of the Trustee	8
5.5 Investment of Fund Assets	8
5.6 Additional Powers of the Trustee	9

5.7	Power to Invest in Employer Securities and Real Property	10
5.8	Liability of the Trustee	11
<hr/>		
5.9	Fees and Expenses	11
5.10	Indemnification of Trustee	11
5.11	Freedom from Liability as to Validity of Agreement	12
ARTICLE VI		13
RESIGNATION OR REMOVAL OF THE TRUSTEE		13
ARTICLE VII		14
CONTINUANCE AND TERMINATION OF THIS AGREEMENT		14
7.1	Term of this Agreement	14
7.2	Effect of Termination	14
7.3	Irrevocability of Contributions	14
ARTICLE VIII		15
AMENDMENTS		15
8.1	Amendments Suggested by the Treasury Department	15
8.2	Other Amendments	15
ARTICLE IX		16
MISCELLANEOUS		16
9.1	Reliance	16
9.2	Persons Dealing with the Trustee	16
9.3	Advice of Administrator, Counsel, Etc.	16
9.4	Notices	17
9.5	Judicial Accounting	17
9.6	No Bond or Security Required	17
9.7	Governing Law	17
9.8	Invalidity	18
9.9	Copies	18
<hr/>		

TRUST AGREEMENT

FOR THE

FIRST PACIFIC BANCORP, INC.

THIS AGREEMENT, made this _____ day of _____, 2002, by and between FIRST PACIFIC BANCORP, INC., a Maryland corporation (hereinafter referred to as the "Sponsor"), and _____, of _____ (hereinafter referred to as the "Trustee").

WITNESSETH:

WHEREAS, the Sponsor has amended and restated the Pacific Trust 401(k) Incentive Savings Plan into the First Pacific Bancorp, Inc. 401(k) Employee Stock Ownership Plan (the "Plan") effective as of January 1, 2002, in order to provide a 401(k) profit sharing plan with employee stock ownership features for the employees, of the Sponsor and its wholly owned subsidiary, Pacific Trust Bank (hereinafter sometimes collectively and individually, as the case may be, referred to as the "Employer"), which fund will help in the future security of their employees who are eligible to participate in the Plan; and

WHEREAS, the Sponsor and the Trustee desire to adopt this Trust Agreement ("Agreement") for the Plan and to provide for the accumulation of assets under the Plan in the form of a trust ("Trust"), which shall sometimes be referred to as the First Pacific Bancorp, Inc. 401(k) Employee Stock Ownership Trust; and

WHEREAS, the Sponsor intends that the Plan and this Trust shall qualify under Sections 401(a), 401(k), 409, 501(a) and 4975(e)(7) of the Internal Revenue Code of 1986, as amended (the "Code"), as well as the applicable provisions of the Employee Retirement Income Security Act of 1974, as amended (the "Act");

NOW, THEREFORE, in consideration of the mutual promises, covenants and agreements herein contained, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Sponsor and the Trustee agree, effective as of the date first above written, as follows:

ARTICLE I
DEFINITIONS AND CONSTRUCTION

1.1 Definitions.

Unless the context of this Agreement clearly indicates otherwise, the terms defined in Article I of the Plan shall, when used herein, have the same meaning as in the Plan.

1.2 Plurals and Gender.

Where appearing in this Agreement, the masculine gender shall include the feminine and neuter genders, and the singular shall include the plural, and vice versa, unless the context clearly indicates a different meaning.

1.3 Headings and Subheadings

The headings and subheadings in this Agreement are inserted for the convenience of reference only and are to be ignored in any construction of the provisions hereof.

ARTICLE II
CONTRIBUTIONS

2.1 Contributions by the Employer.

The Employer shall contribute and pay over to the Trustee, annually or more often, as the Employer shall decide, such amounts as shall be determined under the Plan. Notwithstanding the foregoing, however, the Employer shall contribute sufficient amounts to make the principal and interest payments on any Exempt Loan as they become due; provided, however, that no such contribution shall exceed the limitations under Sections 404 and 415 of the Code. Contributions may be made by the Employer to the Trustee in the form of cash, Employer Securities or any other property permissible under the Code and acceptable to the Trustee.

2.2 Discontinuance of Contributions.

As set forth in the Plan, and except as provided in Section 2.1 hereof, the Employer assumes no contractual obligation to continue contributions to the Plan but has specifically reserved therein the right at any time and for any reason to discontinue the Plan and the contributions provided to be made thereunder. Failure by the Employer to continue the Plan or make contributions provided to be made thereunder shall not give rise to any liability on its part whatsoever other than for contributions provided to be made prior to the effective date of the termination.

ARTICLE III
DUTIES OF THE EMPLOYER AND THE ADMINISTRATOR

3.1 Information and Data to be Furnished the Trustee.

In addition to making the contributions called for in Article II hereof, the Employer agrees to furnish the Trustee, through the Administrator, with such information and data relative to the Plan as is necessary for the proper administration of the Fund established hereunder. The Employer also agrees that the Administrator or an investment manager appointed pursuant to Section 5.3 hereof ("Investment Manager") shall direct the Trustee with respect to all matters contemplated by the Plan and this Agreement. The Employer shall promptly notify the Trustee in writing in the event that the Internal Revenue Service proposes to disallow the qualified status of the Plan or Trust.

3.2 Limitation of Duties.

Except as otherwise provided by law or as otherwise provided in the Plan or in this Agreement, neither the Employer nor any of its shareholders or directors, nor the Administrator, shall have any duties or obligations with respect to this Agreement.

3.3 Limitation of Liability.

Except as otherwise provided by law, neither the Employer, nor any of its officers, directors, employees, or partners (as the case may be), nor the Administrator, shall in any way be liable or responsible to any Participant, Beneficiary, Trustee or any other person, firm or corporation whatsoever for any acts of omission or commission in connection with his or its duties, as specified in Articles II and III hereof, unless such act of omission or commission is due to his or its own individual, willful and intentional nonfeasance, malfeasance or misfeasance.

ARTICLE IV
ESTABLISHMENT OF TRUST FUND AND ACCOUNTS

4.1 Establishment of Trust Fund.

The Trustee shall establish and maintain a trust fund into which shall be paid the contributions made by the Employer under the terms of the Plan, which contributions, together with any income, gains or profits, less distributions, expenses and losses, shall comprise the Fund held by the Trustee. The Trustee shall hold, invest, reinvest, manage, administer and distribute the assets of the Fund, as hereinafter set forth, in accordance with the directions of the Administrator or an Investment Manager and for the exclusive benefit of the Employees participating in the Plan or their Beneficiaries.

4.2 Establishment of Accounts.

As a part of the Fund, the Administrator shall establish and maintain any individual Participants' Accounts required under the provisions of the Plan for such individuals who become Participants from time to time, including any separate accounts as may be provided for in the Plan from time to time to aid in the administration of the Plan. In addition, the Trustee shall establish and maintain suspense accounts as a part of the Fund for the purposes specified in the Plan. The establishment of separate accounts hereunder shall not require a segregation of any part of the assets of the Fund, and no Participant shall acquire any right to or interest in any specific asset of the Fund as a result of the allocations to such accounts provided for under the Plan, except where segregation is specifically provided.

4.3 Receipt of Contributions.

The Trustee shall accept and hold in the Fund contributions made by the Employer under the Plan. If the amount of the contribution is less than any minimum established for any investment medium, then the contribution may be held by the Trustee in cash, without interest, until such time as the required amount has been contributed so that an investment may be properly made. The Trustee shall not be responsible in any way for the administration of the Plan and shall be under no duty to determine whether the amount of any contribution is in accordance with the Plan or to collect or enforce payment of any contribution.

4.4 Disbursements from Trust Fund.

The Trustee shall make payment from the Fund to such persons (who may include the Administrator) in such manner, at such times, and in such amounts as the Administrator may from time to time direct in writing. Each such direction shall be in the form of a certificate setting forth the names and addresses of, and the amount payable to, the persons named therein and verifying that such persons are entitled to receive benefits under the Plan in the

amounts and at the times stated in such certificate. All such payments shall be made by the Trustee in kind or, if in cash, by checks mailed postage prepaid to the persons or companies named in such certificate at their addresses therein set forth.

4.5 Charges Against Accounts.

Upon receipt of written instructions from the Administrator, the Trustee shall charge the appropriate account of the Participant for any withdrawals or distributions made under the Plan.

4.6 Disputes as to Payments.

In the event that any dispute shall arise as to the persons to whom payments and the delivery of any fund or property shall be made by the Trustee, or the amounts thereof, the Trustee may retain such payments and/or postpone such delivery until actual adjudication of such dispute shall have been made in a court of competent jurisdiction as provided herein, or it shall be indemnified against loss to its satisfaction.

4.7 Valuation of the Trust Fund.

(a) As of each Valuation Date, the Trustee shall determine the net worth of the assets of the Fund and report such value to the Administrator in writing. In determining such net worth, the Trustee shall evaluate the assets of the Fund at their fair market value as of such Valuation Date and shall deduct all expenses chargeable to the Fund. Any increase or decrease in the net worth of the assets of the Fund shall be allocated as of each Valuation Date among the Accounts established as a part of the Fund in the manner specified in the Plan.

(b) In determining and valuing the assets and liabilities of the Fund for any purpose, securities held in the Fund shall be valued at their last published sale price on the Valuation Date, or if the Valuation Date is not a business day, then on the business day immediately prior thereto upon the New York Stock Exchange or upon any other recognized exchange or exchanges, or if no sale shall have been reported, and in the case of over-the-counter quotations, the last bid price at the close of business on said business day, all as reported by any report in common use or authorized as official by the New York Stock Exchange or any such other exchange, as the case may be. Where any security is listed on two or more exchanges, the Administrator or an Investment Manager shall direct the Trustee from time to time with respect to the particular exchange which shall be used for the purpose of this Section.

(c) However, with respect to securities, in the event the Administrator or an Investment Manager considers the method described in Section 4.7(b) above to be impracticable because of the fact that any of the securities included in the Fund are not quoted or listed, or for any other reason, then the Trustee shall employ, at the expense of the Fund, an independent appraiser to appraise such securities for the purpose of obtaining the value of the Fund and for any other purpose in the administration of the Trust.

ARTICLE V
DUTIES AND POWERS OF THE TRUSTEE

5.1 Accounting, Records and Certificates.

(a) The Trustee shall keep accurate and detailed accounts of all investments, receipts and disbursements and other transactions hereunder, which shall show the complete record of the operation of the Fund, and all such accounts and the books and records relating thereto shall be open to inspection at all reasonable times by any person designated in writing by the Administrator.

(b) The Trustee shall also furnish to the Employer and the Administrator, upon request, balance sheets and statements of receipts and disbursements during the continuance of this Agreement as of any date requested, but the Trustee shall not be required to furnish such statements more than once in any three-month period.

(c) Within one hundred twenty (120) days following the close of each Plan Year, and within one hundred twenty (120) days following the resignation or removal of the Trustee as provided for in Section 6.1 hereof, and within one hundred twenty (120) days following the completion of the application or distribution of the Fund upon termination of the Plan as provided for in Article VII hereof, the Trustee shall file with the Employer and with the Administrator a written account setting forth all investments, receipts, disbursements and other transactions effected by it during such year or during the period from the closing date of the last preceding written account to the date of such resignation or removal or to the date of such completion of application or distribution of funds. Each such account shall set forth in summary form the receipts and disbursements of the Trustee for the period accounted for and shall include a description of all securities and other assets purchased and sold during the period accounted for, and the cost or proceeds of sale thereof, and shall show all cash, securities and other property held at the end of such period, and the cost and the market value of each item thereof. Except as otherwise prescribed by the Act, the Trustee shall be forever released and discharged from any liability or accountability to anyone about the propriety of its acts or transactions shown in such account, except with respect to any such acts or transactions as to which the Employer or Administrator shall, within the one year period after such account shall have been filed with the Employer and with the Administrator, file with the Trustee a written statement setting forth its or their exceptions or objections. If such account is filed with the Trustee and the matters thereby brought into controversy cannot be adjusted by agreement between the Employer and/or Administrator and the Trustee, then the Trustee shall file such account in any court of competent jurisdiction for audit and adjudication, as provided in Section 9.5 hereof. The written approval by the Employer and by the Administrator of any account filed by the Trustee with the Employer and the Administrator shall forever release and discharge the Trustee from any liability or accountability to anyone about the propriety of its acts or transactions shown in such account.

5.2 Agents.

(a) The Trustee may employ such counsel, accountants, brokers, actuaries and other agents and provide for such clerical, accounting, actuarial and other services as the Trustee may deem advisable to perform its duties under this Agreement, or as may be directed by the Administrator. The Trustee may pay for such services in accordance with Section 5.9 hereof.

(b) The Trustee may enter into contracts in such form as it shall determine with one or more persons, firms, corporations or associations to provide administrative services in handling investments, including custodial arrangements with qualified parties.

5.3 Administrator's Power to Appoint Investment Manager.

The Administrator may retain the services of one or more persons or firms for the management of (including the power to acquire and dispose of) all or any part of the Fund, or to direct the Trustee on investments for all or any part of the Fund, provided that each such person or firm is registered as an investment advisor under the Investment Advisers Act of 1940, is a bank (as defined in that Act), or is an insurance company qualified to manage, acquire or dispose of trust assets under the laws of more than one state, and provided that each of such persons or firms has acknowledged in writing that he or it is a fiduciary with respect to the Plan; in such event, the investment manager or managers shall have the same investment powers and duties as the Administrator to direct the Trustee with respect to any matters contemplated under the Plan or this Agreement, to the extent that such advisors are so retained, and the Trustee shall not be liable for the acts or omissions of such investment manager or managers, or for any transaction entered into upon the instructions of such investment manager or managers, nor shall it be under any obligation to invest or otherwise manage any Fund assets except as directed by the Administrator or such investment manager or managers.

5.4 General Powers of the Trustee.

The Trustee shall have all of the powers necessary or desirable to perform properly its duties as a directed trustee under the terms of this Agreement.

5.5 Investment of Fund Assets.

The Trustee shall invest and reinvest the Fund assets attributable to the employee stock ownership portion of the Plan (the Employee Stock Ownership Accounts) primarily in Employer Securities in accordance with the directions of the Administrator or an Investment Manager. If any distribution of an investment may be paid at the election of the shareholder in additional shares or in cash, the Trustee may elect to receive it in additional shares. The Trustee is also directed to sell or redeem shares as required to implement the instructions of the Administrator or an Investment Manager or to pay the Trustee's fees and expenses.

8

5.6 Additional Powers of the Trustee.

In extension and not in limitation of the powers given it by law or by other provisions of this Agreement, and except to the extent limited by Section 5.5 hereof, the Trustee, in complying with the directions of the Administrator or an Investment Manager, or Plan Participants (to the extent the Plan permits Participants to direct the investment of their Accounts under the Plan) shall have the following powers with respect to the Fund, to be exercised at the direction of the Administrator or an Investment Manager, if applicable.

(a) To invest and reinvest any monies at any time forming a part of the Fund in any capital or common stock (whether voting or non-voting and whether or not currently paying a dividend), preferred or preference stock (whether voting or non-voting and whether or not currently paying a dividend), convertible securities, corporate and governmental obligations, common or collective trust funds, mutual funds or pooled investment funds maintained by a bank or trust company or pooled investment funds of an insurance company qualified to do business in a state even though such bank, trust company or insurance company is a disqualified person within the meaning of Section 4975(e)(2) of the Code, notes and other evidences of indebtedness or ownership (secured or unsecured), contracts, partnership or joint venture interests, choses in action, and warrants and other instruments entitling the owner thereof to subscribe to or purchase any of the aforesaid. A substitute trustee need not request approval from any governmental agency as to the propriety of any investment in the Fund at the time it assumes its duties.

(b) To borrow or raise money for the purposes of the Fund, including the borrowing of money for the purpose of acquiring Employer Securities to the extent permitted by the Act, the Code and the applicable regulations, upon such terms and conditions as are directed by the Administrator or an Investment Manager in its absolute discretion. For any sum so borrowed, the Trustee may, in accordance with the directions of the Administrator or an Investment Manager, issue a promissory note as Trustee and secure the repayment thereof by pledging, mortgaging or otherwise assigning all or any part of the Fund.

(c) To vote in person or by proxy any stocks, bonds or other securities held by the Trustee; to exercise any options appurtenant to any stocks, bonds or other securities, or to exercise any right to subscribe for additional stocks, bonds, or other securities and to make any and all necessary payments therefor; to join in, or to dissent from and to oppose the reorganization, recapitalization, consolidation, liquidation, sale or merger of corporations or properties, upon such terms and conditions as may be specified in directions to the Trustee by the Administrator or an Investment Manager. Notwithstanding the foregoing, each Participant shall be entitled to direct the Trustee as to the manner in which the Employer Securities in his Account (including the Employee Stock Ownership Account are to be voted. Employer Securities held in suspense account shall be voted by the Trustee on each issue with respect to which shareholders are entitled to vote in the same proportion as the Employer Securities that are credited to the Accounts of those Participants who directed the Trustee as to the manner of voting their shares in such Accounts with respect to such issue. In the event that a Participant fails to give timely voting instructions to the Trustee with

respect to the voting of Employer Securities that are allocated to his Employee Stock Ownership Account, the Trustee shall vote such shares in its discretion.

(d) To cause any investments from time to time held by it to be registered in, or transferred into, its name as Trustee, or the name of a nominee, or to retain them unregistered or in form permitting transferability by delivery, but the books and records of the Trustee shall at all times show that all such investments are part of the Fund. The Administrator or an Investment Manager may direct the Trustee to utilize the services of a securities clearing corporation such as The Depository Trust Co. to the extent permitted by applicable law.

(e) To employ and enter into agreements with such counsel, accountants, brokers, investment advisors, and other agents as the Trustee shall deem advisable, or as may be directed by the Administrator, and to pay their reasonable expenses and compensation.

(f) To retain any cash and keep unproductive of income any portion of the Fund as the Administrator or an Investment Manager, in its absolute discretion, may direct, without liability to pay interest on such cash balance or on cash in its hands pending investment or distribution.

(g) To hold and administer the Fund without distinction between principal and income, and as a single trust fund without physical segregation of any separate funds or accounts provided for in the Plan, except where the Plan clearly requires the segregation of Fund assets.

Each and all of the foregoing powers may be exercised without court order or other legal formality. No one dealing with the Trustee need inquire concerning the validity or propriety of anything that is done or need see to the application of any money paid or property transferred to or upon the order of the Trustee.

5.7 Power to Invest in Employer Securities and Real Property.

(a) The Trustee shall acquire or hold, in accordance with the directions of the Administrator or an Investment Manager, any security issued by the Employer or an affiliate of the Employer which is a "qualifying employer security" as such term is defined in the Act and the Code. The Trustee may invest up to one hundred percent (100%) of the Fund in qualifying employer securities in accordance with the direction of the Administrator, an Investment Manager, or Plan Participants to the extent the Plan permits Participants to direct the investment of their Accounts under the Plan.

(b) In accordance with the direction of the Administrator or an Investment Manager, the Trustee shall purchase or sell qualifying employer securities from or to any party (subject to any restrictions applicable to such employer securities), including the Employer.

(c) Any qualifying employer securities held in the Fund shall be valued at fair market value for all purposes of the Plan. The determination of fair market value shall be made in good faith by the Trustee in accordance with Section 4.7 hereof.

(d) Bearing in mind that this Trust is the trust for an employee stock ownership plan, the Trustee shall invest the assets of the Trust, in accordance with the directions of the Administrator or an Investment Manager, primarily in Employer Securities.

(e) Any Employer Securities received by the Trustee as a stock split or dividend or as the result of a reorganization or recapitalization of the Sponsor shall be allocated as of each Valuation Date in proportion to the Employer Securities to which they are attributable.

5.8 Liability of the Trustee

(a) The Trustee shall perform its duties in accordance with the Act, as well as in accordance with the Plan and this Agreement insofar as they are consistent with the provisions of the Act. The Trustee shall be under no duty to defend or engage in any suit with respect to the Fund unless the Trustee shall have been fully indemnified to its satisfaction. To the extent not prohibited by the Act, the Trustee shall not be responsible in any way for any action or omission of the Employer or the Administrator with respect to its duties and obligations as set forth in the Plan and this Agreement. To the extent not prohibited by the Act, the Trustee shall also not be responsible for any action or omission of any of its agents or with respect to reliance upon the advice of its counsel (whether or not such counsel is also counsel to the Employer or the Administrator), provided that such agents or counsel were prudently chosen by the Trustee and that the Trustee relied in good faith upon the action of such agent or the advice of such counsel. The Trustee shall not be relieved from responsibility or liability for any responsibility, obligation or duty imposed upon it under the Plan or under the Act.

(b) The Trustee is a party to this Agreement solely for the purposes set forth in this Agreement and the Plan and to perform the acts set forth herein, and no obligation or duty shall be expected or required of the Trustee except as expressly stated in the Plan or this Agreement.

5.9 Fees and Expenses.

The Trustee may receive such reasonable fee for its services as shall be mutually agreed upon, prior to the rendering of such services, between the Sponsor and the Trustee. Any expenses incurred by the Trustee in the administration of the Trust shall be paid from the Trust unless paid by the Employer directly. If paid by the Trust, such expenses (including the fees of a corporate trustee) shall be charged proportionately (or in such other reasonable manner as the Trustee shall determine) to the Accounts of all Participants, unless such expenses are allocable to the Account or Accounts of one or more specific Participants.

5.10 Indemnification of Trustee.

The Employer shall indemnify and hold harmless the Trustee and its respective officers, directors, employees and agents from and against any and all damages (including without limitation amounts paid in settlement), fines, losses, costs, liabilities, interest and reasonable attorneys' fees that result from or relate to any Claims (as defined below) that relate to or arise out of Trustee's being or having been Trustee of the Plan (hereinafter collectively referred to as the "Trustee Liabilities") (whether or not it is Trustee at the time any such Trustee Liabilities are asserted or incurred); provided, however, that the foregoing indemnification shall not apply to matters as to which Trustee breached its fiduciary duties under ERISA, unless such breach either: (i) was performed (or not performed) in accordance with the direction or written reports of the Employer, the Administrator, or any person engaged by the Employer or Administrator for such purpose (including, but not limited to, directions or written reports from an Investment Manager); or (ii) was caused by the Employer's or the Administrator's violation of applicable law or their respective duties undertaken with respect to the Plan and Trust (including, but not limited to, their fiduciary duties under ERISA). For purposes of this Section, "Claims" shall mean any actions, causes of action, claims, demands, suits, proceedings, disputes, citations, summons, subpoenas, inquiries or investigations of any nature whatsoever, whether or not in law, in equity or in any civil, criminal or regulatory proceeding.

5.11 Freedom from Liability as to Validity of Agreement.

Anything herein contained to the contrary notwithstanding, the Trustee shall not have any responsibility for the validity of the Plan or this Agreement.

ARTICLE VI
RESIGNATION OR REMOVAL OF THE TRUSTEE

The Trustee may resign from being trustee under this Agreement at any time by giving the Sponsor and the Administrator written notice of resignation. The Trustee may be removed by the Sponsor by written notice of removal either mailed or delivered by hand to the Trustee. Such resignation or removal shall take effect on the date specified in the notice of resignation or removal, but the date thus specified shall not be less than thirty (30) days nor more than ninety (90) days following the date of mailing or delivery of such notice. In the event that the Trustee is unable or unwilling to comply with instructions from the Sponsor, the Investment Manager (if any), or the Administrator, or the voting determination made pursuant to Section 8.2 of the Plan, the Trustee shall be entitled to resign immediately upon delivery of written notice to the Sponsor. Notwithstanding the preceding sentence, the Trustee shall not be entitled to resign immediately in the event of a dispute between the Trustee and the Sponsor or the Administrator about the prudence of continuing to make payments under a previously negotiated Exempt Loan to purchase Employer Securities. In the event of such a dispute, the Trustee may resign, but such resignation shall not take effect less than thirty (30) days from the date of the mailing of such written resignation. In no event shall the resignation or removal of the Trustee terminate this Agreement, but upon such resignation or removal of the Trustee, the Sponsor shall have the duty forthwith to appoint a successor trustee to carry out the terms of this Agreement. Notice in writing of such appointment of a successor trustee shall be given to the Trustee resigning or being removed by the Sponsor. In the event of such resignation or removal of the Trustee and upon the appointment of a successor trustee and acceptance by such trustee, the Trustee shall transfer to the successor trustee the assets of the Fund and all records or books of account pertaining to this Agreement in its possession, provided that the Trustee shall be given a reasonable time, not to exceed sixty (60) days, to complete its accounting before making such transfer. Upon such resignation or removal of a corporate Trustee, it

shall be entitled to be paid its fee, if any, earned to the date of such resignation or removal. A successor trustee shall have the same powers and duties as those herein conferred upon the Trustee. A successor trustee may be removed or may resign in the same manner, and, in the event of such removal or resignation of a successor trustee, the same steps shall be allowed as on the removal or resignation of the Trustee. When the Fund assets shall have been transferred and delivered to the successor trustee and the accounts of the Trustee shall have been settled in accordance with Section 5.1(c) hereof, the Trustee shall be forever released and discharged from all further accountability, responsibility and liability to anyone for the Fund assets and shall not be responsible in any way for the further disposition of the Fund.

ARTICLE VII
CONTINUANCE AND TERMINATION OF THIS AGREEMENT

7.1 Term of this Agreement.

This Agreement shall continue as long as the Plan is in full force and effect. If the Plan ceases to be in full force and effect, this Agreement shall thereupon terminate unless expressly extended by the Sponsor.

7.2 Effect of Termination.

Upon the termination of the Plan, the Fund shall be allocated and distributed or held by the Trustee as provided in Article XIII of the Plan.

7.3 Irrevocability of Contributions.

Except as otherwise expressly provided in the Plan, neither the termination of this Agreement nor any other action or non-action shall cause the Employer to have any right whatsoever with respect to any contribution, any asset of the Fund, or any other matter or thing whatsoever in connection with the Fund, it being expressly agreed and understood that all contributions made are irrevocable and that none of said contributions may, under any circumstances whatsoever (except as specifically set forth in the Plan), be returned to or used for the benefit of the Employer.

ARTICLE VIII
AMENDMENTS

8.1 Amendments Suggested by the Treasury Department.

Any and all amendments to this Agreement which may be required or suggested by any employee or agent of the Internal Revenue Service for the purpose of the qualification of the Plan and Trust under Sections 401(a), 401(k)), 501(a) and 4975(e)(7) of the Code, or any other governmental agency, may be made retroactively to the extent permitted by law and shall be accomplished by the Sponsor and effected by written notice to the Trustee.

8.2 Other Amendments.

This Agreement may otherwise be amended by the Sponsor, in which event written notice of amendment shall be given by the Sponsor to the Trustee. No amendment may be made to this Agreement which is prohibited under the Plan, and no amendment may be made either to the Plan or to this Agreement which increases or changes the duties or liabilities of the Trustee without its consent.

ARTICLE IX
MISCELLANEOUS

9.1 Reliance.

The parties hereto shall be protected in acting upon any notice, resolution, request, consent, order, certificate, report, opinion, statement or other document which they reasonably believe to be genuine and to have been signed by the proper party or parties or by a person or persons authorized to act on its behalf.

9.2 Persons Dealing with the Trustee.

No person dealing with the Trustee shall be under any obligation to inquire into the validity, expediency or propriety of any action by the Trustee or of any exercise by it of any of the powers conferred upon it by this Agreement. The execution by the Trustee of any instrument, document or paper in connection with the exercise of any of the powers enumerated herein shall, of itself, be conclusive evidence to all persons of the authority of the Trustee to execute the same and to exercise the powers incident thereto.

9.3 Advice of Administrator, Counsel, Etc.

(a) If at any time or times the Trustee is in doubt as to the course which it should follow in any matter relating to the administration of this Agreement, it may request the Administrator to advise it with respect thereto, and it shall be protected in relying upon the advice or direction which may be given it by the Administrator, in writing, in response to such request.

(b) In the event the Trustee shall have any reasonable doubt at any time as to its rights or obligations hereunder, or in the event of any dispute arising under the terms of this Agreement or the Plan, in which dispute the Sponsor, the Administrator, any Participant, any Beneficiary or any person claiming an interest in the Fund is involved, the Trustee shall have the right to consult with legal counsel (including counsel for the Sponsor or the Administrator) and to obtain other professional assistance such as, for example, from accountants or actuaries, to assist it in resolving such doubts, or to advise it with respect to the meaning or construction of this Agreement, or its obligations, powers or duties hereunder, or to advise it or represent it with respect to any action or proceeding or any question, and it shall be fully protected with respect to any action taken by it or omitted by it in good faith pursuant to the advice of such counsel or such other professional advisors. The fees and expenses of such counsel or such professional advisors shall be paid from the Fund, unless paid by the Employer.

9.4 Notices.

(a) Any action required or permitted to be taken by any entity constituting the Employer under the Plan shall be by resolution of its board of directors or by a person or persons authorized by its board of directors, and the Trustee shall be fully protected in acting in accordance with such direction. All orders, requests, directions and instructions of the Administrator to the Trustee shall be in writing, signed by the Administrator or by any agent of the Administrator duly authorized to act on its behalf. Unless otherwise required by applicable law, the Trustee shall act and shall be fully protected in acting in accordance with such order, requests, directions and instructions. Unless otherwise required by applicable law, the Trustee shall be entitled to rely conclusively on such direction, and shall have no further duty to make any investigation or inquiry before acting upon any such direction of the Administrator. The Trustee shall not be liable to anyone for the inaction, action, mistaken action or other errors of the Administrator in directing or failing to direct the Trustee to make any payments to any Participant or Beneficiary.

(b) Promptly after the execution of this Agreement, the Sponsor shall furnish the Trustee with a list of the names of the members of the committee constituting the Administrator, and thereafter it shall, upon the removal of or resignation of any such member, notify the Trustee of the name of the member so removed or so resigning, and at such time or times as a successor member is appointed it shall notify the Trustee of the name of said successor. The Trustee may assume at all times that the members of the committee constituting the Administrator are the same persons named in said list, unless it has received written notice from the Sponsor to the contrary.

9.5 Judicial Accounting.

Nothing contained in this Agreement or in the Plan shall be construed as depriving the Trustee of the right to have a judicial settlement of its accounts. Upon any proceeding by the Trustee for a judicial settlement of its accounts or for instructions, the sole necessary party thereto in addition to the Trustee shall be the Sponsor. If the Trustee's statement or account proves accurate, the costs of such proceedings, including any reasonable counsel fee incurred by the Trustee,

shall be paid from the Fund, unless it is paid by the Employer.

9.6 No Bond or Security Required.

The Trustee shall not be required to give any bond or other security for the faithful performance of its duties hereunder, unless otherwise required by law.

9.7 Governing Law.

This Agreement shall be construed in accordance with the laws of the State of California, except to the extent superseded by the Act.

9.8 Invalidity.

In the event any provision of this Agreement shall be held illegal or invalid for any reason, said illegality or invalidity shall not affect the remaining provisions hereof, and this Agreement shall thereafter be construed and enforced as if said illegal or invalid provisions had never been included herein.

9.9 Copies.

This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective officers thereunto duly authorized and their corporate seals to be hereunto affixed and attested as of the day and year first above written.

"Sponsor"

ATTEST:

FIRST PACIFIC BANCORP, INC., A Maryland Corporation

Secretary

By:

President and Chief Executive Officer

State of California)

) to wit:

COUNTY OF _____)

I HEREBY CERTIFY that on this ____ day of _____, 2002, before me, the subscriber, a Notary Public of the State of _____, in and for _____ County, aforesaid, personally appeared _____, Chairman and Chief Executive Officer of FIRST PACIFIC BANCORP, INC., a Maryland corporation, and duly acknowledged the foregoing Trust Agreement to be the act and deed of said corporation.

Notary Public

My Commission Expires:

"Trustee"

ATTEST:

By:

Its:

State of _____

)

) to wit:

COUNTY OF _____

)

I HEREBY CERTIFY that on this ____ day of _____, 2002, before me, the subscriber, a Notary Public of the State of _____, in and for _____ County, aforesaid, personally appeared _____, _____ and _____ of _____, _____, and duly acknowledged the foregoing Trust Agreement to be the act and deed of said corporation.

_____ Notary Public

My Commission Expires:

