PACIFIC PREMIER BANCORP INC
Form 10-K
April 02, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2006

or

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

For the transition period from to ..

Commission File No.: 0-22193

Pacific Premier Bancorp, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**33-0743196**
(State of Incorporation)	(I.R.S. Employer Identification No)

1600 Sunflower Ave. 2nd Floor, Costa Mesa, California 92626

(714) 431-4000

Securities registered pursuant to Section 12(b) of the Act:

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

Securities registered pursuant to Section 12(g) of the Act:

None

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

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

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

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act (Check one).

Large accelerated filer o Accelerated filer o Non-accelerated filer x

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

The aggregate market value of the voting stock held by non-affiliates of the registrant, i.e., persons other than directors and executive officers of the registrant, was approximately $57,356,443 and was based upon the last sales price as quoted on The NASDAQ Stock Market as of June 30, 2006, the last business day of the most recently completed 2nd fiscal quarter.

As of March 30, 2007, the Registrant had 5,213,488 shares outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2007 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K.

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PART I

ITEM 1. BUSINESS

Overview

All references to we , us , our , or the Company mean Pacific Premier Bancorp, Inc. and our consolidated subsidiaries, including Pacific Premier Bank, our primary operating subsidiary. All references to Bank refer to Pacific Premier Bank.

The statements contained herein that are not historical facts are forward looking statements based on management s current expectations and beliefs concerning future developments and their potential effects on the Company. There can be no assurance that future developments affecting the Company will be the same as those anticipated by management. Actual results may differ from those projected in the forward-looking statements. These forward-looking statements involve risks and uncertainties. These include, but are not limited to, the following risks: (1) changes in the performance of the financial markets, (2) changes in the demand for and market acceptance of the Company s products and services, (3) changes in general economic conditions including interest rates, presence of competitors with greater financial resources, and the impact of competitive projects and pricing, (4) the effect of the Company s policies, (5) the continued availability of adequate funding sources, and (6) various legal, regulatory and litigation risks.

We are a California-based holding company for Pacific Premier Bank, a federally-chartered savings bank. As the Company continues to transition to a commercial business platform, management determined that a California commercial bank charter was better aligned with its strategic plans. Accordingly, management submitted a conversion application in June 2006 to the California Department of Financial Institutions (DFI) and the Federal Deposit Insurance Corporation (FDIC) to convert its existing federal savings bank charter to a California chartered commercial bank. In connection with the charter conversion, the Company will become a bank holding company regulated by the Board of Governors of the Federal Reserve System (Federal Reserve Board). We expect the charter conversion to be completed in the first quarter of 2007.

We conduct business throughout Southern California from our six locations in the counties of Los Angeles, Orange and San Bernardino. We operate five depository branches in the cities of Costa Mesa, Huntington Beach, Los Alamitos, San Bernardino and Seal Beach, a Small Business Administration (SBA) loan production office in Pasadena and our corporate headquarters in Costa Mesa California. In the first quarter of 2007, we opened an additional depository branch in the City of Newport Beach, California.

We provide banking services within our targeted markets in Southern California to businesses, including the owners and employees of those businesses, professionals, real estate investors and non-profit organizations, as well as, consumers in the communities we serve. Through our branches and our web site at www.PPBI.net on the Internet, we offer a broad array of deposit products and services for both commercial businesses, professionals, non-profit organizations, and consumer customers including checking, money market and savings accounts, cash management services, electronic banking, and on-line bill payment. Our employees are compensated to increase low cost deposits through relationship banking. We offer a wide array of loan products, such as commercial business loans, lines of credit, commercial real estate loans, SBA loans, residential home loans, and home equity loans. At December 31, 2006, we had consolidated total assets of $730.9 million, net loans of $605.1 million, total deposits of $339.4 million, consolidated total stockholders equity of $58.0 million, and the Bank was considered a well-capitalized financial institution for regulatory capital purposes.

History

The Bank was founded in 1983 as a state chartered savings and loan and converted to a federally chartered stock savings bank in 1991. From 1983 to 1994, the Bank engaged in traditional community banking activities, consisting primarily of deposit taking and originating one-to-four family home loans. In 1994, the Bank shifted its operating strategy and implemented a nationwide sub-prime focused mortgage banking platform. The Bank expanded its operations to originate and to sell sub-prime residential home loans through asset securitizations and whole loan sales. Lending activities were funded primarily through non-core deposits, such as wholesale and brokered certificates of deposit (CDs), as well as, high rate consumer CDs. In 1998, the Company and Bank began to experience losses. By the third quarter of 2000, the Bank was deemed under-capitalized, was operating under regulatory enforcement agreements and incurring losses primarily due to loan defaults.

The current management team was retained and implemented a new business plan in the fourth quarter of 2000 in order to primarily refocus the Company s business model toward a community bank. We implemented a three phase strategic plan which involved (1) lowering the risk profile of the Bank and re-capitalizing the Company, (2) growing the balance sheet at an accelerated rate through the origination of adjustable rate multi-family loans, thus, returning the Company to profitability, and (3) transforming the institution to a commercial banking business model. The first two phases of our plan were completed in 2002 and 2004, respectively. Phase three of our plan involves the transition to a commercial banking platform and, thus, we are focusing on changing the deposit base to a higher percentage of low cost core deposits and a diversification of the Bank s loan portfolio. We began implementing this phase of our strategic plan in late 2004 through a shift in our corporate focus towards relationship banking.

When we implemented the second phase of our plan in 2002, our lending was focused on multi-family or apartment loans. We began originating these loans in the second quarter of 2002 with a focus on small to medium-sized loans, in the $200,000 to $2.0 million range, as we believe this market was underserved, especially in Southern California. During 2005, we began shifting our focus towards commercial real estate loans, both owner occupied and investor owned, and commercial and industrial (C&I) business loans as part of our strategic transition towards a commercial banking platform. In 2006, we added SBA loans as part of our commercial banking platform. We will continue to originate multi-family loans that satisfy our loan criteria and compliment our business plan.

Operating Strategy

Our goal is to develop the Bank into one of Southern California s top performing commercial banks as an alternative to the large regional and national banks for small businesses, professionals and real estate entrepreneurs for the long term benefit of our shareholders, customers and employees. The following are our operating strategies to achieve our goals:

- *Recruitment of Commercial Bankers*. We began our transition to a commercial banking platform in 2005 by recruiting experienced commercial bankers who possess an established following of customer relationships. These relationships typically include businesses that have both deposit and loan needs, as well as, the personal depository needs of the business owners themselves. Our incentive plans compensate our commercial bankers for the generation and retention of customer relationships as measured by the level of low cost deposits maintained at the Bank. We will continue to recruit experienced bankers to staff our branches and serve our targeted markets.

- *Relationship Banking.* We recognize that customer relationships are built through a series of consistently executed experiences in both routine transactions and higher value interactions. Our commercial bankers are focused on developing long term relationships with business owners, professionals, real estate investors, and non-profit organizations through consistent and frequent contact. Our bankers work closely with our real estate originators to cross-sell clients to ensure we

are capturing the entire banking relationship of each customer with which we do business. Our bankers are actively involved in community organizations and events, thus building and capitalizing on the Bank s reputation within our local communities.

- *Growing Core Deposits/Reducing our Wholesale Funding.* The second phase of our strategic plan relied on wholesale borrowings, such as advances from Federal Home Loan Bank (FHLB) System and brokered deposits to fund a large portion of our accelerated growth during that phase. As we transition towards a commercial banking platform, we intend to reduce our reliance on these funding sources over time. We will manage our growth and our concentration in commercial real estate, in part, by selling excess loan production, generally multi-family loans. We also expect to increase the growth of low cost core deposit accounts via the expansion of our branch network, in order to better serve our market area and to attract additional small business customers. We opened two new branches in the cities of Los Alamitos and Costa Mesa in 2006. Additionally, we relocated our Huntington Beach branch to a new facility which will enable us to better serve our existing business clients and to attract additional business in the surrounding area. In the first quarter of 2007, we will open our sixth full service branch in Newport Beach to serve the business owners, professionals, real estate entrepreneurs, non-profit organizations, and consumers of Newport Beach and the surrounding communities.

- *Expansion through de novo branches, organic growth and acquisitions*. We believe that the consolidation in the banking industry has created an opportunity at the community banking level in the areas that we serve. Many bank customers feel displaced by large out-of-market acquirers and are attracted to local institutions that have local decision making capability, more responsive customer service, and more familiarity with the needs in their markets. We intend to continue expanding our franchise in the high growth areas of Orange and Los Angeles Counties, including the previously mentioned branches. Furthermore, as opportunities arise, we will consider expansion into markets contiguous to our own through potential acquisitions and/or de novo branching.

- *Diversifying our Loan Portfolio.* We believe it is important to diversify our loan portfolio and to increase the amount of commercial real estate, C&I loans and SBA loans within our portfolio. As a result, we believe it is essential to be able to offer our customers a wide array of products and services. We provide flexible and structured loan products to meet our customer s needs, which, in turn, provide us the opportunity to become their full service banker. We continually reassess our various product and service offerings to ensure they allow us to achieve our objectives.

- *Change in our Banking Charter.* As we increase the amount of the commercial real estate and C&I loans in our portfolio we will begin to approach the maximum amount of non-residential real estate loans allowed under our current charter (i.e., four times our regulatory capital). Additionally, our charter limits the amount of C&I loans we may invest in up to 20% of our assets, provided that the amounts in excess of 10% of total assets are used for small business loans. Consequently, the Bank and Company have filed applications to change its charter from a federally-chartered savings association whose primary regulator is the Office of Thrift Supervision (OTS) to a California chartered commercial bank whose primary regulator is the DFI. In connection with such a charter change, the Federal Reserve Board would become the primary regulator of the Company. We expect the change in the charter to be completed sometime in the first quarter of 2007.

- *Maintain Excellent Asset Quality*. Our credit and risk management culture has resulted in low levels of nonperforming loans and an overall high credit quality within our loan portfolio. We monitor existing economic trends and conditions that could positively or negatively impact our business. We will continue to adjust our risk management practices to changes in the conditions that impact our business.

- *Premier Customer Service Provider*. We believe it is imperative that the Bank provide a consistent level of quality service which generates customer retention and referrals. All of our employees, through training, understand that each interaction with our customers is an opportunity to exceed their expectations. Our employees incentive compensation is, in part, predicated on achieving a consistently high level of customer satisfaction.

Our executive offices are located at 1600 Sunflower Avenue, 2nd Floor, Costa Mesa, California 92626 and our telephone number is (714) 431-4000. Our internet website address is www.ppbi.net. Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, and all amendments thereto, from 1998 to present, are available free of charge on our internet website. Also on our website are our Code of Ethics, Insider Trading and Beneficial Ownership forms, and Corporate Governance Guidelines. The information contained in our website, or in any websites linked by our website, is not a part of this Annual Report on Form 10-K.

Lending Activities

General. In 2006, we continued our efforts to diversify our lending activities as the Bank transitioned toward a commercial banking platform. We focused on increasing C&I, SBA and commercial real estate lending activities in addition to continuing our strong multi-family lending programs. Loans were made primarily to borrowers within our market area and secured by real property and business assets located principally in Southern California. We emphasized relationship lending, and focused on generating retail production by dealing directly with customers. We have and will continue to offer loans up to our legal lending limit, which was $9.7 million as of December 31, 2006. These efforts assisted us in establishing depository relationships with new and existing customers consistent with the Bank s strategic direction. During 2006, we originated $182.4 million in multi-family, $90.8 million in commercial real estate and land loans, and $72.1 million of business loans consisting of $28.4 million of commercial real estate owner-occupied loans, $34.5 million of C&I loans, and $9.2 million of SBA loans and $1.5 million in other loans. At December 31, 2006, we had $607.6 million in total gross loans outstanding.

Sourcing of our Loans. We primarily obtain new multi-family and commercial real estate loans, from established relationships with mortgage brokers operating throughout Southern California. Our commercial bankers work out of our corporate office and are responsible for building and maintaining these relationships. In 2006, we maintained relationships with over 50 brokerage companies of which five could be termed significant. In 2006, the top five brokerage companies accounted for 62.0% of the multi-family and commercial real estate loans originated by the Bank. Within these five brokerage companies, we funded loans with a total of 26 different agents. Our commercial bankers have relationships with these individuals and seek to maintain the relationship regardless of where these agents are employed. Additionally, our bankers seek to establish relationships with other agents within these brokerage companies that have not done business with us in the past.

Direct loan originations in 2006 accounted for 25.9% of our loans, which represented an increase of 134.9% over 2005. These loans were sourced through referrals from our depository branches and by soliciting these loans directly. Our bankers will continue to focus on developing and maintaining relationships with individual investors, accountants, consultants, commercial real estate investment sales and leasing agents, and other banks to further increase the percentage of direct referrals in future periods.

Commercial business loans are sourced by our Business Development Officers and Branch Managers. These bankers call on business owners, accountants, attorneys, consultants, non-profit organizations, and various other referral sources to generate new business banking relationships. Upon securing the business banking relationships, they work with the business owner to offer personal banking products and services to the business owner, their families, and the businesses employees as well. Additionally, our Branch

Managers work closely with our commercial bankers to capture the full banking needs of our multi-family and commercial real estate loan customers.

SBA loans are sourced by our SBA lending office in Pasadena, CA, our web site, brokers, and through direct contact by our Business Development Officers and Branch Managers. As with other business loans, our bankers work to establish full banking relationships with our SBA loan customers.

Interest Rates on Our Loans. We employ a risk-based pricing strategy on all loans we fund. The interest rates we charge on our loans generally vary based on a number of factors, including the degree of credit risk, size, maturity of the loan, borrower/property management/business expertise, and prevailing market rates for similar types of loans. Depending on market conditions at the time the loan is originated, certain loan agreements will include prepayment penalties. All of the multi-family and commercial real estate loans originated in 2006, except for two loans, had a prepayment penalty provision. Most of our loans are adjustable-rate, and 3, 5, 7, or 10 year fixed rate hybrid adjustable-rate loans and are based on one of several interest rate indices. Mostly all of the loans originated by the Bank in 2006 were fixed rate hybrid adjustable-rate loans and had minimum interest rates (floor rates) at which the rate charged may not be reduced further regardless of further reductions in the underlying interest rate index.

Lending Risks on our Loans. The majority of our loans involve larger extensions of credit to a single borrower that are generally viewed as exposing us to a greater risk than one-to-four family residential lending. The liquidation values of the properties securing our multi-family and commercial real estate loans may be adversely affected by risks generally incidental to interests in real property, such as:

- Changes or continued weakness in general or local economic conditions;
- Changes or continued weakness in specific industry segments;
- Declines in real estate values;
- Declines in rental rates;
- Declines in occupancy rates;
- Increases in other operating expenses (including energy costs);
- The availability of refinancing at lower interest rates or better loan terms;
- Changes in governmental rules, regulations and fiscal policies, including rent control ordinances, environmental legislation and taxation;
- Increases in interest rates, real estate and personal property tax rates; and
- Other factors beyond the control of the borrower or the lender.

We attempt to mitigate these risks through sound and prudent underwriting practices, as well as a proactive loan review process and our risk management practices. See Lending Activities - Underwriting and Approval Authority for Our Loans.

We will not extend credit to any one borrower that is in excess of regulatory limits. Pursuant to OTS regulations, loans-to-one borrower cannot exceed 15% of the Bank s unimpaired capital and surplus. At December 31, 2006, the Bank s loans-to-one borrower limit was $9.7 million. See Regulation Federal Savings Institution Regulation Loans-to-One Borrower.

Underwriting and Approval Authority for Our Loans. Our board of directors establishes our lending policies. Each loan must meet minimum underwriting criteria established in our lending policies and must fit within our overall strategies for yield, interest rate risk, and portfolio concentrations. The underwriting and quality control functions are managed through our corporate office. Each loan application is evaluated

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from a number of underwriting perspectives. For real estate secured loans, these underwriting considerations include property appraised value, loan-to-value, level of debt service coverage utilizing both the actual net operating income and forecasted net operating income, use and condition of the property, as well as, the borrower s liquidity, income, credit history, net worth, and operating experience. For business and SBA loans, underwriting considerations include historic business cash flows, debt service coverage, loan-to-value ratios of underlying collateral, if any, debt to equity ratios, credit history, business experience, history of business, forecasts of operations, business viability, net worth, and liquidity.

Loans secured by real estate are originated on both a non-recourse and full recourse basis. Business loans are generally originated as recourse or with full guarantees from key borrowers or borrower principals. On loans made to entities, such as partnerships, limited liability companies, corporations or trusts, we typically obtain personal guarantees from the appropriate managing members, major shareholders, trustees or other appropriate principals. In 2006, 99% of our income property loans to entities were originated with full recourse and/or personal guarantees from principals of the borrowers.

Upon receipt of a completed loan application from a prospective borrower, a credit report and other required reports are ordered and, if necessary, additional information is requested. Prior to processing and underwriting any loan, we issue a letter of interest based on a preliminary analysis by our bankers, which letter details the terms and conditions on which we will consider the loan request. Upon receipt of the signed letter of interest and a deposit fee, we process and underwrite each loan application and prepare all loan documentation wherein the loan has been approved.

Our credit memorandum, which are prepared by our underwriters, include a description of the transaction and prospective borrower and guarantors, the collateral securing the loan, if any, the proposed uses of loan proceeds and source(s) of repayment, as well as an analysis of the borrower s business and personal financial statements and creditworthiness. The financial statements and creditworthiness of any guarantors are also analyzed. For loans secured by real property, the credit memorandum will include an analysis of the historic operating income of the property. Loans secured by real estate require an independent appraisal conducted by a licensed appraiser. All appraisal reports are appropriately reviewed by our appraisal department. Our board of directors reviews and approves annually the independent list of acceptable appraisers. When appropriate, environmental reports are obtained and reviewed as well.

Following loan approval and prior to funding, our underwriting and processing departments assure that all loan approval terms have been satisfied, that they conform with lending policies (or are properly documented as exceptions with required approvals), and that all required documentation is present and in proper form.

Commercial business loans are subject to Bank guidelines regarding appropriate covenants and periodic monitoring requirements which include but are not limited to:

- Capital and lease expenditures;
- Capital levels;
- Salaries and other withdrawals;
- Working capital levels;
- Debt to net worth ratios;
- Sale of assets;
- Change of management;
- Change of ownership;

- Cash flow requirements;
- Profitability requirements;
- Debt service ratio;
- Collateral coverage ratio;
- Current and quick ratios.

Subject to the above standards, our board of directors delegates authority and responsibility for loan approvals to management up to $1.5 million for all loans secured by real estate and up to $250,000 for loans not secured by real estate. Loan approvals at the management level require the approval of at least two members of our Management Loan Committee, consisting of our President and Chief Executive Officer, Chief Credit Officer, and Chief Banking Officer. All loans in excess of $1.5 million, including total aggregate borrowings in excess of $1.5 million, and any loan in excess of $250,000 not secured by real estate require a majority approval of our board s Credit Committee, which is comprised of three directors, including our President and Chief Executive Officer.

Multi-family Real Estate Lending. We originate and purchase loans secured by multi-family residential properties (five units and greater) located predominantly in Southern California. The majority of loans we fund on multi-family properties are sold in the secondary market. Pursuant to our underwriting policies, multi-family residential loans may be made in an amount up to 75% of the lesser of the appraised value or the purchase price of the collateral property. In addition, we generally require a stabilized minimum debt service coverage ratio of 1.15:1, based on the qualifying loan interest rate. Loans are made for terms up to 30 years with amortization periods up to 30 years. As of December 31, 2006, we had $357.3 million of multi-family real estate secured loans, constituting 58.8% of our loan portfolio. Multi-family loans originated in 2006 had an average outstanding balance of $1,208,000, loan-to-value of 64.3%, and debt coverage ratio of 1.15:1 at origination.

Commercial Real Estate Lending. We originate and purchase loans secured by commercial real estate, such as retail centers, small office and light industrial buildings, and mixed-use commercial properties located predominantly in Southern California. We will also, from time to time, make a loan secured by a special purpose property, such as a gas station or motel. Pursuant to our underwriting policies, commercial real estate loans may be made in amounts up to 75% of the lesser of the appraised value or the purchase price of the collateral property. We consider the net operating income of the property and typically require a stabilized debt service coverage ratio of at least 1.20:1, based on the qualifying interest rate. Loans are generally made for terms up to fifteen years with amortization periods up to 30 years. As of December 31, 2006, we had $173.5 million of commercial real estate secured loans, constituting 28.6% of our loan portfolio. Commercial real estate loans originated in 2006 had an average balance of $1,138,000, loan-to-value of 64.84% and debt coverage ratio of 1.24:1 at origination.

Commercial Business (C&I) Lending. We originate loans secured by business assets including inventory, receivables, machinery and equipment to businesses located predominantly in our primary market area. In many instances, real estate holdings of the borrower, its principals or loan guarantors are also taken as loan collateral. Loan types include revolving lines of credit, term loans, seasonal loans and loans secured by liquid collateral such as cash deposits or marketable securities. We also issue letters of credit on behalf of our customers, backed by loans or deposits with the Bank. In addition to lending against business assets, our business loan programs include loans for owner-occupied commercial real estate such as retail, office and industrial properties. Owner-occupied real estate is underwritten based on the value of the building and the cash flow of the occupying business. As of December 31, 2006, we had total commitments of $48.1 million in commercial business lines of credit, of which, $30.4 million was disbursed.

Small Business (SBA) Lending. Our SBA Division, which started in the fourth quarter of 2005, was approved to originate loans under the SBA s Preferred Lenders Program (PLP) within its first year of operation when the Bank was named a PLP lender in the third quarter of 2006. The PLP lending status affords the Bank a higher level of delegated credit autonomy, translating to a significantly shorter turnaround time from application to funding, which is critical to our marketing efforts. We originate loans under the SBA s 7(a), 504 and *Express* loan programs, in conformance with SBA underwriting and documentation standards. The guaranteed portion of the 7(a) loans is typically sold on the secondary market. As of December 31, 2006, we had $5.3 million of SBA loans.

One-to-Four Family Loans. The Bank s portfolio of one-to-four family home loans at December 31, 2006 totaled $12.8 million, of which $10.0 million consists of loans secured by first liens on real estate and $2.8 million consists of loans secured by second or junior liens on real estate. In 2006, the Bank originated two new single family loans for $1.5 million.

Loan Servicing. Loan servicing is centralized at our corporate headquarters. Our loan servicing operations are intended to provide prompt customer service and accurate and timely information for account follow-up, financial reporting and loss mitigation. Following the funding of an approved loan, the data is entered into our data processing system, which provides monthly billing statements, tracks payment performance, and effects agreed upon interest rate adjustments. The loan servicing activities include (i) the collection and remittance of mortgage loan payments, (ii) accounting for principal and interest and other collections and expenses, (iii) holding and disbursing escrow or impounding funds for real estate taxes and insurance premiums, (iv) inspecting properties when appropriate, (v) contacting delinquent borrowers, and (vi) acting as fiduciary in foreclosing and disposing of collateral properties.

When payments are not received by their contractual due date, collection efforts are initiated by our loss mitigation personnel. Accounts delinquent more than 15 days are reviewed by our loss mitigation manager and are assigned to our collector to begin the process of collections. Our collector begins by contacting the borrower telephonically and progresses to sending a notice of intention to foreclose within 30 days of delinquency, and we will initiate foreclosure on one-to-four family loans 30 days thereafter and on multi-family and commercial real estate 10 days thereafter if the delinquent payments are not received in full. Our loss mitigation manager conducts an evaluation of all loans 90 days or more past due by obtaining an estimate of value on the underlying collateral. The evaluation may result in our establishing a specific allowance for that loan or charging off the entire loan, but still continuing with collection efforts.

Loan Portfolio Composition. At December 31, 2006, our net loans receivable held for investment totaled $604.3 million and net loans receivable held for sale totaled $795,000. The types of loans that the Bank may originate are subject to federal law, state law, and regulations.

The following table sets forth the composition of our loan portfolio in dollar amounts and as a percentage of the portfolio at the dates indicated:

	At December 31, 2006		2005		2004		2003		2002	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
	(dollars in thousands)									
Real estate loans:										
Multi-family	$ 357,275	58.80 %	$ 459,714	75.98 %	$ 394,582	83.67 %	$ 188,939	75.54 %	$ 62,511	38.33 %
Commercial	173,452	28.55 %	123,364	20.39 %	53,937	11.44 %	20,075	8.03 %	22,336	13.69 %
Construction				0.00 %		0.00 %	3,646	1.46 %	8,387	5.14 %
One-to-four family(1)	12,825	2.11 %	16,561	2.74 %	22,347	4.74 %	36,632	14.65 %	68,822	42.20 %
Business loans:										
Commercial owner occupied(2)	35,929	5.91 %	2,062	0.34 %	565	0.12 %	592	0.24 %	714	0.44 %
Commercial and industrial	22,762	3.75 %	3,248	0.54 %	103	0.02 %		0.00 %		0.00 %
SBA	5,312	0.87 %		0.00 %		0.00 %		0.00 %		0.00 %
Other loans	63	0.01 %	27	0.01 %	75	0.01 %	233	0.08 %	327	0.20 %
Total gross loans	607,618	100.00 %	604,976	100.00 %	471,609	100.00 %	250,117	100.00 %	163,097	100.00 %
Less (plus):										
Undisbursed construction loan funds							1,016		2,372	
Deferred loan origination (costs), fees and (premiums) and discounts	(1,024)		(1,467)		(1,371)		(483)		(341)	
Allowance for loan losses	3,543		3,050		2,626		1,984		2,835	
Loans receivable, net	$ 605,099		$ 603,393		$ 470,354		$ 247,600		$ 158,231	

(1) Includes second trust deeds.

(2) Secured by real estate

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Loan Maturity. The following table shows the contractual maturity of the Bank s gross loans for the period indicated. The table does not reflect prepayment assumptions.

	At December 31, 2006 One-to-Four Family (in thousands)	Multi Family	Commercial Real Estate	Commercial Owner Occupied	Commercial Business	SBA	Other Loans	Total Loans Receivable
Amounts due:								
One year or less	$	$	$ 960	$	$ 13,822	$	$ 20	$ 14,802
More than one year to three years	6	2,792	3,846		7,281		799	14,724
More than three years to five years	75		128	212	736		993	2,144
More than five years to 10 years	2,213	9,342	127,825	28,310	923	5,098	22	173,733
More than 10 years to 20 years	2,680	6,927	25,618	6,111		214		41,549
More than 20 years	7,852	338,214	11,798	1,297			1,505	360,666
Total amount due	12,825	357,275	170,175	35,929	22,762	5,312	3,340	607,618
Less (plus):								
Undisbursed loan funds								
Deferred loan origination fees (costs) and discounts	(61)	(1,079)	(56)	21	31	19		(1,125)
Lower of cost or market	101							101
Allowance for loan losses	331	1,405	863	197	675	68	4	3,543
Total loans, net	12,454	356,949	169,368	35,711	22,056	5,225	3,336	605,099
Loans held for sale, net						795		795
Loans held for investment, net	$ 12,454	$ 356,949	$ 169,368	$ 35,711	$ 22,056	$ 4,430	$ 3,336	$ 604,304

The following table sets forth at December 31, 2006, the dollar amount of gross loans receivable contractually due after December 31, 2007, and whether such loans have fixed interest rates or adjustable interest rates.

	Loans Due After December 31, 2007 At December 31, 2006		
	Fixed (in thousands)	Adjustable	Total
Residential			
One-to-four family	$ 6,808	$ 6,017	$ 12,825
Multi-family	11,437	345,838	357,275
Commercial real estate	19,506	149,709	169,215
Commercial owner occupied	8,552	27,377	35,929
Commercial and industrial	1,082	7,808	8,890
SBA		5,312	5,312
Other loans	40	3,281	3,321
Total gross loans receivable	$ 47,425	$ 545,342	$ 592,767

The following table sets forth the Bank s loan originations, purchases, sales, and principal repayments for the periods indicated:

	For the Year Ended December 31,		
	2006 (in thousands)	2005	2004
Beginning balance of gross loans	$ 604,976	$ 471,609	$ 250,117
Loans originated:			
Multi-family	182,378	184,757	254,714
Commercial and land	90,840	74,548	43,563
Commercial owner occupied	28,396	12,335	
Commecial and industrial	34,420	3,741	103
SBA	9,230		
Other loans	1,537	1,945	15
Total loans originated	346,801	277,326	298,395
Loans purchased			
Sub total production	346,801	277,326	298,395
Total	951,777	748,935	548,512
Less:			
Principal repayments	138,116	83,754	63,793
Sales of loans	205,268	59,752	12,147
Charge-offs	266	216	400
Transfer to real estate owned	509	237	563
Total gross loans	607,618	604,976	471,609
Ending balance loans held for sale, gross	795	456	587
Ending balance loans held for investment, gross	$ 606,823	$ 604,520	$ 471,022

Delinquencies and Classified Assets. Federal regulations require that the Bank utilize an internal asset classification system to identify and report problem and potential problem assets. The Bank s Internal Asset Review (IAR) Manager has responsibility for identifying and reporting problem assets to the Bank s Internal Asset Review Committee (IARC), which operates pursuant to the board-approved IAR policy. The policy incorporates the regulatory requirements of monitoring and classifying all assets of the Bank. The Bank currently designates or classifies problem and potential problem assets as Special

Mention , Substandard or Loss assets. 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 Bank will sustain some loss if the deficiencies are not corrected. All real estate owned (REO) acquired from foreclosure is classified as Substandard . 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 allowance is not warranted. Assets which do not currently expose the Bank to sufficient risk to warrant classification in one of the aforementioned categories but possess weaknesses are designated Special Mention.

When the Bank classifies an asset, or portions thereof, as Substandard under current OTS policy, the Bank is required to consider establishing a general valuation allowance in an amount deemed prudent by management. The general valuation allowance, which is a regulatory term, represents a loss allowance which has been established to recognize the inherent credit risk associated with lending and investing activities, but which, unlike specific allowances, has not been allocated to particular problem assets. When the Bank classifies one or more assets, or portions thereof, as Loss, it is required either to establish a specific allowance for losses equal to 100% of the amount of the asset so classified or to charge off such amount.

The Bank s determination as to the classification of its assets and the amount of its valuation allowances are subject to review by the OTS, which can order the establishment of additional general or specific loss allowances or a change in a classification. The OTS, in conjunction with the other federal banking agencies, adopted an interagency policy statement on the allowance for loan and lease losses. The policy statement provides guidance for financial institutions on both the responsibilities of management for the assessment and establishment of adequate allowances and guidance for banking agency examiners to use in determining the adequacy of general valuation allowances. Generally, the policy statement recommends that institutions have effective systems and controls to identify, monitor and address asset quality problems; that management has analyzed all significant factors that affect the collectability of the portfolio in a reasonable manner; and that management has established acceptable allowance evaluation processes that meet the objectives set forth in the policy statement. While the Bank believes that it has established an adequate allowance for estimated loan losses, there can be no assurance that its regulators, in reviewing the Bank s loan portfolio, will not request the Bank to materially increase its allowance for estimated loan losses, thereby negatively affecting the Bank s financial condition and earnings at that time. Although management believes that an adequate allowance for estimated loan losses has been established, actual losses are dependent upon future events and, as such, further additions to the level of allowances for estimated loan losses may become necessary.

The Bank s IARC reviews the IAR Manager s recommendations for classifying the Bank s assets quarterly and reports the results of its review to the board of directors. The Bank classifies assets and establishes both a general allowance and specific allowance in accordance with the board-approved Allowance for Loan Losses policy. The following table sets forth information concerning substandard assets, REO and total classified assets at December 31, 2006 for the Company:

	At December 31, 2006					
	Total Substandard Assets		REO		Total Substandard Assets and REO	
	Gross Balance	# of Loans	Gross Balance	# of Properties	Gross Balance	# of Assets
	(dollars in thousands)					
Residential:						
One-to-four family	$ 703	14	$ 138	8	$ 841	22
Multi-family						
Commercial Real Estate						
Commercial Owner Occupied						
Commercial Business						
SBA						
Other loans						
Specific Allowance	(60)				(60)	
Total Substandard Assets	$ 643	14	$ 138	8	$ 781	22

At December 31, 2006, the Company had $1.0 million of Special Mention assets, $781,000 of Substandard assets, and $166,000 assets classified as Loss that are offset by a specific allowance of the same amount. The difference between the specific allowance in the above table and the total specific allowance is the specific allowance on accounts that were Substandard at one time and are currently classified either as Special Mention or as Pass.

The following table sets forth delinquencies in the Company s loan portfolio as of the dates indicated:

	60-89 Days			90 Days or More		
	# of Loans	Principal Balance of Loans		# of Loans	Principal Balance of Loans	
	(dollars in thousands)					
At December 31, 2006						
Multi-family		$			$	
Commercial real estate						
Commercial owner occupied						
Commercial and industrial						
SBA						
One-to-four family and other loans	4	182		13	634	
Total	4	$ 182		13	$ 634	
Delinquent loans to						
total gross loans		0.03	%		0.10	%
At December 31, 2005						
Multi-family		$			$	
Commercial real estate						
Commercial owner occupied						
Commercial and industrial						
SBA						
One-to-four family and other loans	2	157		33	1,687	
Total	2	$ 157		33	$ 1,687	
Delinquent loans to						
total gross loans		0.03	%		0.28	%
At December 31, 2004						
Multi-family		$			$	
Commercial real estate						
Construction						
One-to-four family and other loans	11	525		38	2,371	
Total	11	$ 525		38	$ 2,371	
Delinquent loans to						
total gross loans		0.11	%		0.50	%
At December 31, 2003						
Multi-family		$			$	
Commercial real estate						
Construction						
One-to-four family and other loans	2	46		45	2,730	
Total	2	$ 46		45	$ 2,730	
Delinquent loans to						
total gross loans		0.02	%		1.09	%
At December 31, 2002						
Multi-family		$			$	
Commercial real estate						
Construction and land						
One-to-four family and other loans	17	929		91	5,205	
Total	17	$ 929		91	$ 5,205	
Delinquent loans to						
total gross loans		0.57	%		3.19	%

Nonperforming Assets. At December 31, 2006 and 2005, respectively, we had $712,000 and $1.7 million of net nonperforming assets, respectively, which included $574,000 and $1.5 million of net nonperforming loans, respectively. Our current policy is not to accrue interest on loans 90 days or more past due. Our nonperforming assets consist of loans made prior to December 31, 2000 and secured by one-to-four family residences. The decrease in nonperforming assets in 2006 is primarily due to increases in housing prices since the loans were made which allowed delinquent customers to refinance or sell their homes and our continuing foreclosure efforts.

Real estate owned (REO) was $138,000 (consisting of eight properties) at December 31, 2006, compared to $211,000 (consisting of eight properties) at December 31, 2005. Properties acquired through or in lieu of foreclosure are initially recorded at the lower of fair value less cost to sell, or the balance of the loan at the date of foreclosure through a charge to the allowance for loan losses. The Bank generally obtains an appraisal and/or a market evaluation on all REO at the time of possession. After foreclosure, valuations are periodically performed by management as needed due to changing market conditions or factors specifically attributable to the properties condition. If the carrying value of the property exceeds its fair value less estimated cost to sell, a charge to operations is recorded. The decline in REO over the periods represented reflects the improvements in asset quality and sales of REO properties.

The following tables set forth information concerning nonperforming loans and REO at the periods indicated:

	At December 31,				
	2006	2005	2004	2003	2002
	(dollars in thousands)				
Nonperforming assets(1)					
Real Estate:					
One-to-four family	$ 634	$ 1,687	$ 2,371	$ 2,729	$ 5,203
Multi-family					
Commercial and land					
Business loans:					
Commercial owner occupied					
Commercial and industrial					
SBA					
Other loans				1	2
Total nonaccrual loans	634	1,687	2,371	2,730	5,205
Foreclosures in process				43	425
Specific allowance	(60)	(185)	(244)	(299)	(627)
Total nonperforming loans, net	574	1,502	2,127	2,474	5,003
Foreclosed real estate owned(2)	138	211	351	979	2,427
Total nonperforming assets, net(3)	$ 712	$ 1,713	$ 2,478	$ 3,453	$ 7,430
Restructured loans(4)	$	$	$	$	$
Allowance for loan losses as a percent of gross loans receivable(5)	0.58 %	0.50 %	0.56 %	0.79 %	1.74 %
Allowance for loan losses as a percent of total nonperforming loans, gross	558.83 %	180.79 %	110.77 %	71.55 %	50.35 %
Nonperforming loans, net of specific allowances, as a percent of gross loans receivable	0.09 %	0.25 %	0.45 %	0.99 %	3.07 %
Nonperforming assets, net of specific allowances, as a percent of total assets	0.10 %	0.24 %	0.46 %	1.12 %	3.12 %

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(1) During the years ended December 31, 2006, 2005, 2004, 2003, and 2002, approximately $41,000, $75,000, $131,000, $299,000, and $313,000, respectively, of interest income related to these loans was included in net income. Additional interest income of approximately $106,000, $310,000, $317,000, $406,000, and $708,000 million, respectively, would have been recorded for the years ended December 31, 2006, 2005, 2004, 2003, and 2002 if these loans had been paid in accordance with their original terms and had been outstanding throughout the applicable period then ended or, if not outstanding throughout the applicable period then ended, since origination.

(2) Foreclosed REO balances are shown net of related loss allowances.

(3) Nonperforming assets consist of nonperforming loans and REO. Nonperforming loans consisted of all loans 90 days or more past due and foreclosures in process less than 90 days and still accruing interest.

(4) A restructured loan is one wherein the terms of the loan were renegotiated to provide a reduction or deferral of interest or principal because of deterioration in the financial position of the borrower. We did not include in interest income any interest on restructured loans during the periods presented.

(5) Gross loans include loans receivable held for investment and held for sale.

Allowance for Loan Losses. We maintain an allowance for loan losses to absorb losses inherent in the loans held for investment portfolio. Loans held for sale are carried at the lower of cost or estimated market value. Net unrealized losses, if any, are recognized in a lower of cost or market valuation allowance by charges to operations. The allowance is based on ongoing, quarterly assessments of probable estimated losses inherent in our loan portfolio. The allowance is increased by a provision for loan losses which is charged to expense and reduced by charge-offs, net of recoveries.

As of December 31, 2006, the allowance for loan losses totaled $3.5 million, compared to $3.1 million at December 31, 2005 and $2.6 million at December 31, 2004. The December 31, 2006 allowance for loan losses, as a percent of nonperforming loans and gross loans, was 558.8% and 0.58%, respectively, compared with 180.8% and 0.50% at December 31, 2005, and 110.8% and 0.56% at December 31, 2004. The specific allowance amount included in the allowance for loan losses totaled $166,000, $291,000 and $345,000, as of December 31, 2006, 2005 and 2004, respectively.

The Bank s methodology for assessing the appropriateness of the allowance consists of several key elements, which include the formula allowance, specific allowance for identified problem loans and the unallocated allowance. The formula allowance is calculated by applying loss factors to all loans held for investment.

The loan loss factors for the multi-family loan portfolio are based primarily upon the charge-off data for all FDIC insured commercial banks and savings institutions in the state of California for the past 14¾ years, a peer analysis of other financial institutions engaged in similar lending activities, a quantitative and qualitative analysis of the portfolio and management s past experience with such loan types. Management believes the utilization of industry-wide historic loss data of multi-family loans is more reflective of potential losses due to the fact that the Bank has not had a loss or a delinquency on any of its multi-family loans since it began originating these loan types in the second quarter of 2002. The industry s average annual charge-off loss experience over the last 14¾ years (1992-2006Q3) was 35.6 basis points. During the past 10 year (1996Q4-2006Q3) period, the charge-off rate for multi-family loans for California was 2.9 basis points. However, the Bank used the data for the longer period as a starting point in developing the multi-family loan loss factors. Management has adopted a tiered system that establishes the highest loss factors for loans with a loan-to-value (LTV) ratio greater than 65% at origination and with less than 12 months of payment history (seasoning). Loans that possess a LTV ratio less than 65% at origination and a satisfactory payment history for the past 13 months or more are considered to have less credit risk

and, therefore, are assigned a lower loss factor. The tiered system has four categories to address the unique characteristics of the Bank s multi-family loan portfolio and are reviewed and updated quarterly.

The loss factors for the commercial real estate loan portfolio are developed and applied in a similar manner as the multi-family loan portfolio and thus considers the industry s charge-off data in the state of California, a peer analysis of other financial institutions engaged in similar lending activities, a quantitative and qualitative analysis of the portfolio and management s past experience with such loan types. The industry s average annual charge-off over the last 14¾ years was 33.2 basis points and was reduced to 3.6 basis points for the past 10 year period. Management also considers the past loss experience related to Southern California commercial real estate in establishing loan loss factors for the commercial real estate portfolio.

The loan loss factors for the commercial business loan portfolio is based primarily upon the thrift industry s nationwide and West Region historic charge-off data, a peer analysis of other financial institutions engaged in similar lending activities, a quantitative and qualitative analysis of the portfolio and management s past experience with such loan types. Since this portfolio is relatively unseasoned, the Bank s loss experience is nonexistent and, therefore, management relies upon available recent industry data to support the loss factor for this portfolio. The Bank s IAR Department has reviewed and analyzed the charge-off data for commercial business loans in the state of California over a period of 14¾ years (1992-2006Q3). The data represents commercial business loan charge-offs for all FDIC insured commercial banks and savings institutions in the state of California. Based upon this analysis, the IAR Department has determined that for this period, the average annual charge-off rate was 83 basis points. Management will continue to analyze and evaluate the adequacy of the loss factors for this loan portfolio segment on a quarterly basis.

For the homogeneous single-family residential loan portfolio, the loss factors were developed by the Bank s IAR Department using a loss migration analysis over the prior one year period to determine the percentage of loans from a particular classification category that flows through to a realized loss. The formula allowance is calculated based upon the developed loss factors and is assigned to the homogeneous single-family residential loan portfolio by geographic regions, loan pool type and classification.

Specific allowances are established for certain loans where management has identified significant conditions or circumstances related to a credit that management believes indicates the probability that a loss has been incurred in excess of the amount determined by the application of the formula allowance. Furthermore, on all one-to-four family loans secured by first and second deeds of trust that are 90 days or more past due, a market evaluation which includes adjusting the value for the location of the collateral and the Bank s historical loss experience for that location is completed. A specific allowance is determined based on the valuation of the collateral underlying the loan and is calculated by subtracting the current market value less estimated selling and holding costs from the loan balance.

The IARC meets monthly to review and monitor conditions in the portfolio and to determine the appropriate allowance for loan losses based on the recommendation of the IAR Department and the analysis performed. To the extent that any of these conditions are evidenced by a specifically identifiable problem credit or portfolio segment as of the evaluation date, the IARC s estimate of the effect of such condition may be reflected as a specific allowance applicable to such credit or portfolio segment. Where any of these conditions is not evidenced by a specifically identifiable problem credit or portfolio segment as of the evaluation date, the IARC s evaluation of the probable loss related to such condition is reflected in the unallocated allowance. By assessing the probable estimated losses inherent in the loan portfolios on a quarterly basis, the Bank is able to adjust specific and inherent loss estimates based upon more recent information that has become available.

The following table sets forth activity in the Bank s allowance for loan losses for the periods indicated:

	As of and For the Year Ended December 31,				
	2006	2005	2004	2003	2002
	(dollars in thousands)				
Balances:					
Average net loans outstanding during the period	$ 607,439	$ 546,426	$ 351,968	$ 184,460	$ 152,738
Total loans outstanding at end of the period	607,618	604,976	471,609	250,117	163,097
Allowance for Loan Losses:					
Balance at beginning of period	3,050	2,626	1,984	2,835	4,364
Provision for loan losses	531	349	705	655	1,133
Charge-offs:					
Real Estate:					
One-to-four family	266	211	252	1,612	1,908
Multi-family					
Commercial and land					
Construction					386
Business loans:					
Commercial owner occupied					
Commercial and industrial					
SBA					
Other loans		5	148	388	820
Total charge-offs	266	216	400	2,000	3,114
Recoveries :					
Real Estate:					
One-to-four family	225	191	122	197	295
Multi-family					
Commercial and land					
Construction		74			
Business loans:					
Commercial owner occupied					
Commercial and industrial					
SBA					
Other loans	3	26	215	297	157
Total recoveries	228	291	337	494	452
Net loan charge-offs	38	(75)	63	1,506	2,662
Balance at end of period	$ 3,543	$ 3,050	$ 2,626	$ 1,984	$ 2,835
Ratios:					
Net charge-offs to average net loans	0.01 %	(0.01)%	0.02 %	0.82 %	1.74 %
Allowance for loan losses to gross loans at end of period	0.58 %	0.50 %	0.56 %	0.79 %	1.74 %
Allowance for loan losses to total nonperforming loans	558.83 %	180.79 %	110.77 %	71.55 %	50.35 %

The following table sets forth the Bank s allowance for loan losses and the percent of gross loans to total gross loans in each of the categories listed at the dates indicated:

Balance at End of Period Applicable to	As of December 31, 2006 Amount	% of Loans in Category to Total Loans	2005 Amount	% of Loans in Category to Total Loans	2004 Amount	% of Loans in Category to Total Loans
	(dollars in thousands)					
Real Estate:						
Residential:						
One-to-four family	$ 331	2.11 %	$ 554	2.74 %	$ 661	4.74 %
Multi-family	1,405	58.80 %	1,746	75.98 %	1,643	83.67 %
Commercial real estate	881	28.55 %	627	20.39 %	271	11.44 %
Commercial owner occupied	179	5.91 %	10	0.34 %	1	0.12 %
Commercial and industrial	478	3.75 %	110	0.54 %	3	0.02 %
SBA	68	0.87 %		0.00 %		0.00 %
Other Loans	4	0.01 %	3	0.01 %	11	0.01 %
Unallocated	197				36	
Total	$ 3,543	100.00 %	$ 3,050	100.00 %	$ 2,626	100.00 %

Balance at End of Period Applicable to	As of December 31, 2003 Amount	% of Loans in Category to Total Loans	2002 Amount	% of Loans in Category to Total Loans
	(dollars in thousands)			
Real Estate:				
Residential:				
One-to-four family	$ 843	14.65 %	$ 2,205	42.20 %
Multi-family	812	75.54 %	316	38.33 %
Commercial real estate	105	8.03 %	121	13.69 %
Construction and land	41	1.46 %	92	5.14 %
Commercial business		0.24 %		0.44 %
Other Loans	15	0.08 %	16	0.20 %
Unallocated	168		85	
Total	$ 1,984	100.00 %	$ 2,835	100.00 %

The following table sets forth the allowance for loan losses amounts calculated by the categories listed for the periods set forth in the table:

	As of December 31,					
	2006		2005		2004	
Balance at End of Period Applicable to	Amount	% of Allowance to Total	Amount	% of Allowance to Total	Amount	% of Allowance to Total
	(dollars in thousands)					
Formula allowance	$ 3,180	89.7 %	$ 2,759	90.5 %	$ 2,245	85.5 %
Specific allowance	166	4.7 %	291	9.5 %	345	13.1 %
Unallocated allowance	197	5.6 %		0.0 %	36	1.4 %
Total	$ 3,543	100.0 %	$ 3,050	100.0 %	$ 2,626	100.0 %

	As of December 31,			
	2003		2002	
Balance at End of Period Applicable to	Amount	% of Allowance to Total	Amount	% of Allowance to Total
	(dollars in thousands)			
Formula allowance	$ 1,386	69.9 %	$ 2,015	71.1 %
Specific allowance	430	21.7 %	735	25.9 %
Unallocated allowance	168	8.5 %	85	3.0 %
Total	$ 1,984	100.0 %	$ 2,835	100.0 %

Investment Activities

Our investment policy as established by our board of directors attempts to provide and maintain liquidity, generate a favorable return on investments without incurring undue interest rate and credit risk, and complement our lending activities. Specifically, our policies limit investments to U.S. government securities, federal agency-backed securities, non-government guaranteed securities, municipal bonds, corporate bonds and mutual funds comprised of the above.

Our investment securities portfolio amounted to $77.1million at December 31, 2006, as compared to $49.8 million at December 31, 2005. As of December 31, 2006, the portfolio consisted of $35.1 million of mortgage-backed securities, $26.7 million of mutual funds, and $15.3 million of FHLB stock. The increase in securities in 2006 is primarily due to the purchase of $26.8 million of mortgage backed securities and $1.4 million in FHLB stock.

At December 31, 2006, our securities portfolio includes $32.9 million of mortgage-backed securities which are guaranteed by Freddie Mac and a $2.1 million private-issue mortgage-backed security that are accounted for as available for sale. The mutual fund investments are comprised of two separate funds under the Shay Asset Management Funds, with $16.9 million invested in the Adjustable Rate Mortgage (ARM) Fund and $9.8 million in the Intermediate Fund. The ARM Fund invests in U.S. government agency adjustable-rate mortgage-backed securities, fixed and floating-rate collateralized mortgage obligations and investment grade corporate debt instruments. The Intermediate Fund invests in mortgage-backed securities, U.S. government notes and U.S. government agency debentures. We may increase or decrease our investment in mortgage-backed securities and mutual funds in the future depending on our liquidity needs and market opportunities.

The following table sets forth certain information regarding the carrying and fair values of the Company s securities at the dates indicated:

	2006 Amortized Cost (in thousands)	Carrying Value	2005 Amortized Cost	Carrying Value
Available for sale:				
Mortgage-backed securities	$ 35,271	$ 35,081	$ 9,171	$ 9,059
Mutual funds	27,719	26,735	27,719	26,791
Total securities available for sale	62,990	61,816	36,890	35,850
Held to maturity:				
FHLB Stock	15,328	15,328	13,945	13,945
Total securities held to maturity	15,328	15,328	13,945	13,945
Total securities	$ 78,318	$ 77,144	$ 50,835	$ 49,795

The table below sets forth certain information regarding the carrying value, weighted average yields and contractual maturities of the Company s securities as of December 31, 2006.

	At December 31, 2006									
	One Year or Less		More than One to Five Years		More than Five Years to Ten Years		More than Ten Years		Total	
	Carrying Value (dollars in thousands)	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield
Available for sale:										
Mortgage-backed securities	$		$		$		$ 35,081	5.03 %	$ 35,081	5.03 %
Mutual Funds	26,735	4.72 %							26,735	4.72 %
Total available for sale	$ 26,735	4.72 %	$		$		$ 35,081	5.03 %	$ 61,816	4.90 %
Held to maturity:										
FHLB Stock	$ 15,328	5.33 %	$		$		$		$ 15,328	5.33 %
Total held to maturity	$ 15,328	5.33 %	$		$		$		$ 15,328	5.33 %
Total securities	$ 42,063	4.94 %	$		$		$ 35,081	5.03 %	$ 77,144	4.98 %

Sources of Funds

General. Deposits, lines of credit, loan repayments and prepayments, and cash flows generated from operations and borrowings are the primary sources of the Bank s funds for use in lending, investing and for other general purposes.

Deposits. Deposits represent our primary source of funds for our lending and investing activities. The Bank offers a variety of deposit accounts with a range of interest rates and terms. The deposit accounts are offered through our five branch network in Southern California, which increased to six branches with the opening of a de novo branch located in the City of Newport Beach in the first quarter of 2007. The Bank s deposits consist of passbook savings, checking accounts, money market accounts and certificates of deposit. Total deposits at December 31, 2006 were $339.4 million, as compared to $327.9 million at December 31, 2005. For the year ended December 31, 2006, certificates of deposit constituted 71.7% of total average deposits. The terms of the fixed-rate certificates of deposit offered by the Bank vary from 3 months to 5 years. Specific terms of an individual account vary according to the type of account, the minimum balance required, the time period funds must remain on deposit and the interest rate, among other factors. The flow of deposits is influenced significantly by general economic conditions,

changes in money market rates, prevailing interest rates and competition. At December 31, 2006, the Bank had $228.3 million of certificate of deposit accounts maturing in one year or less.

The Bank relies primarily on customer service, business development efforts, cross-selling of deposit products to loan customers, and long-standing relationships with customers to attract and retain local deposits. However, market interest rates and rates offered by competing financial institutions significantly affect the Bank s ability to attract and retain deposits. Additionally, the Bank will utilize both wholesale and brokered deposits to supplement its generation of deposits from businesses and consumers. During 2006, the Bank reduced the amount of broker deposits by $21.1 million to $35.5 million at December 31, 2006.

The following table presents the deposit activity of the Bank for the years ended December 31:

	2006	**2005**	**2004**
	(in thousands)		
Net (withdrawals) deposits	$ 424	$ 30,914	$ 61,976
Interest credited on deposit accounts	11,089	8,135	5,464
Total increase in deposit accounts	$ 11,513	$ 39,049	$ 67,440

At December 31, 2006, the Bank had $130.3 million in certificate accounts in amounts of $100,000 or more maturing as follows:

Maturity Period	**Amount**	**Weighted Average Rate**
	(dollars in thousands)	
Three months or less	$ 73,391	5.06 %
Over three months through 6 months	34,136	5.22 %
Over 6 months through 12 months	16,996	5.01 %
Over 12 months	5,804	4.21 %
Total	$ 130,326	5.06 %

The following table sets forth the distribution of the Bank s average deposit accounts for the periods indicated and the weighted average interest rates on each category of deposits presented:

	For the Year Ended December 31, 2006			**2005**			**2004**		
	Average Balance	**% of Total Average Deposits**	**Weighted Average Rate**	**Average Balance**	**% of Total Average Deposits**	**Weighted Average Rate**	**Average Balance**	**% of Total Average Deposits**	**Weighted Average Rate**
	(dollars in thousands)								
Passbook accounts	$ 2,600	0.81 %	0.55 %	$ 3,613	1.19 %	0.24 %	$ 3,682	1.40 %	0.32 %
Money market accounts	39,128	12.13 %	3.44 %	33,905	11.12 %	2.57 %	28,013	10.66 %	1.69 %
Checking accounts	49,441	15.32 %	0.63 %	42,755	14.02 %	1.19 %	42,123	16.02 %	0.78 %
Sub-total	91,169	28.26 %	1.83 %	80,273	26.33 %	1.48 %	73,818	28.08 %	1.10 %
Certificate of deposit accounts:									
Three months or less	9,072	2.81 %	4.89 %	12,580	4.13 %	3.30 %	487	0.19 %	1.64 %
Four through 12 months	163,802	50.79 %	4.55 %	109,580	35.96 %	3.14 %	97,654	37.15 %	2.05 %
13 through 36 months	43,093	13.36 %	3.75 %	85,210	27.95 %	2.97 %	74,823	28.47 %	2.58 %
37 months or greater	15,453	4.79 %	4.39 %	17,176	5.63 %	4.44 %	16,057	6.11 %	4.50 %
Total certificate of deposit accounts	231,420	71.74 %	4.40 %	224,546	73.67 %	3.18 %	189,021	71.92 %	2.47 %
Total average deposits	$ 322,589	100.00 %	3.67 %	$ 304,819	100.00 %	2.73 %	$ 262,839	100.00 %	2.10 %

The following table presents, by various rate categories, the amount of certificate of deposit accounts outstanding at the date indicated and the periods to maturity of the certificate of deposit accounts outstanding at December 31, 2006:

	Period to Maturity from December 31, 2006						
	Less than One Year (in thousands)	**One to Two Years**	**Two to Three Years**	**Three to Four Years**	**Four to Five Years**	**More than Five Years**	**Total**
Certificate of deposit accounts							
0.50 to 2.00%	$	$	$	$	$ 1	$ 5	$ 6
2.01 to 3.00%	390	16	14	7	25	135	587
3.01 to 4.00%	17,532	4,259	1,068	94	57	23	23,033
4.01 to 5.00%	63,969	4,129	2,250	674	47	5	71,074
5.01 to 6.00%	145,996	343	201	123	164	497	147,324
6.01 to 7.00%	6	77	37	15	34	22	191
7.01 to 8.00%	357	112	4				473
Total	$ 228,250	$ 8,936	$ 3,574	$ 913	$ 328	$ 687	$ 242,688

FHLB Advances. The FHLB system functions as a source of credit to financial institutions that are members. Advances are secured by certain real estate loans, investment securities and the capital stock of the FHLB owned by the Bank. Subject to the FHLB s advance policies and requirements, these advances can be requested for any business purpose in which the Bank is authorized to engage. In granting advances, the FHLB considers a member s creditworthiness and other relevant factors. The Bank is allowed to have advances totaling 45% of its assets, equating to a credit line of $318.1 million as of December 31, 2006. At December 31, 2006, the Bank had FHLB advances outstanding totaling $300.3 million of which eight were term advances totaling $280.0 million with a weighted average interest rate of 5.21% and a weighted average remaining maturity of 1.6 years.

Borrowings. The Bank has established a credit facility, secured by mutual funds pledged to Pershing LLC. The Bank is able to borrow up to 70% of the valuation of the pledged mutual funds at a cost of the current federal funds rate plus 75 basis points. At December 31, 2006, the Bank had borrowed $1.0 million against the line. The Bank maintains lines of credit totaling $30.0 million with four correspondent banks to purchase federal funds as business needs dictate. Federal funds purchased are short-term in nature and utilized to meet short term funding needs. As of December 31, 2006, we had an outstanding federal funds purchased balance with our correspondent banks of $5.0 million that matured on January 2, 2007. Additionally, the Bank has a $100.0 million credit facility with Salomon Brothers. At December 31, 2006, there were $10.0 million borrowings against this line.

Debentures. On March 25, 2004 the Company issued $10,310,000 of Floating Rate Junior Subordinated Deferrable Interest Debentures (the Debt Securities) to PPBI Trust I, a statutory trust created under the laws of the State of Delaware. The Debt Securities are subordinated to effectively all borrowings of the Company and are due and payable on April 7, 2034. Interest is payable quarterly on the Debt Securities at three-month LIBOR plus 2.75% for an effective rate of 8.12% as of December 31, 2006.

The following table sets forth certain information regarding the Company s borrowed funds at or for the years ended on the dates indicated:

	At or For Year Ended December 31,		
	2006	2005	2004
	(dollars in thousands)		
FHLB advances			
Average balance outstanding	$ 297,441	$ 234,243	$ 95,601
Maximum amount outstanding at any month-end during the year	319,200	296,835	178,000
Balance outstanding at end of year	300,300	296,835	178,000
Weighted average interest rate during the year	4.79 %	3.12 %	1.99 %
Debentures			
Average balance outstanding	$ 10,310	$ 10,310	$ 7,939
Maximum amount outstanding at any month-end during the year	10,310	10,310	10,310
Balance outstanding at end of year	10,310	10,310	10,310
Weighted average interest rate during the year	7.77 %	6.03 %	4.28 %
Other borrowings and lines of credit			
Average balance outstanding	$ 1,833	$ 9,870	$ 6,657
Maximum amount outstanding at any month-end during the year	16,191	35,500	18,400
Balance outstanding at end of year	16,191	11,000	18,400
Weighted average interest rate during the year	5.86 %	3.16 %	1.50 %
Total borrowings			
Average balance outstanding	$ 309,584	$ 254,423	$ 110,197
Maximum amount outstanding at any month-end during the year	345,701	342,645	206,710
Balance outstanding at end of year	326,801	318,145	206,710
Weighted average interest rate during the year	4.89 %	3.24 %	2.12 %

Subsidiaries

As of December 31, 2006, we had two subsidiaries, the Bank, which did not have any subsidiaries at December 31, 2006, and PPBI Trust I, which has been deconsolidated for reporting purposes.

Personnel

As of December 31, 2006, we had 104 full-time employees and 5 part-time employees. The employees are not represented by a collective bargaining unit and we consider our relationship with our employees to be satisfactory.

Competition

The banking business in California, in general, and specifically in our market areas, is highly competitive with respect to virtually all products and services. The industry continues to consolidate, and unregulated competitors have entered banking markets with focused products targeted at highly profitable customer segments. Many largely unregulated competitors are able to compete across geographic boundaries, and provide customers increasing access to meaningful alternatives to nearly all significant banking services and products. These competitive trends are likely to continue.

The banking business is largely dominated by a relatively small number of major banks with many offices operating over a wide geographical area. These banks have, among other advantages, the ability to finance wide-ranging and effective advertising campaigns and to allocate their resources to regions of highest yield and demand. Many of the major banks operating in the area offer certain services that we do

not offer directly but may offer indirectly through correspondent institutions. By virtue of their greater total capitalization, such banks also have substantially higher lending limits than the Bank s.

In addition to other savings banks, our competitors include commercial banks, credit unions, and numerous non-banking institutions, such as finance companies, leasing companies, insurance companies, brokerage firms, and investment banking firms. In recent years, increased competition has also developed from specialized finance and non-finance companies that offer wholesale finance, credit card, and other consumer finance services, including on-line banking services and personal financial software. Strong competition for deposit and loan products affects the rates of those products, as well as, the terms on which they are offered to customers. Mergers between financial institutions have placed additional pressure on banks within the industry to streamline their operations, reduce expenses, and increase revenues to remain competitive.

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

In order to compete with these other institutions, the Company primarily relies on local promotional activities, personal relationships established by officers, directors and employees of the Company and specialized services tailored to meet the individual needs of the Company s customers.

REGULATION

General

The Company, as a savings and loan holding company, is required to file certain reports with, and otherwise comply with the rules and regulations of the OTS under the Home Owners Loan Act, as amended (the HOLA). In addition, the activities of savings institutions, such as the Bank, are governed by the HOLA and the Federal Deposit Insurance Act (FDI Act). Upon completion of the Bank s charter conversion to a California chartered commercial bank in 2007, the Bank will be regulated by the DFI and the FDIC. In addition, the Company will become a bank holding company subject to regulation by the Federal Reserve Board.

The Bank, a federally chartered savings bank, is subject to extensive regulation, examination and supervision by the OTS, as its primary federal regulator, and the Federal Deposit Insurance Corporation (FDIC), as the deposit insurer. The Bank is a member of the Federal Home Loan Bank System and its deposit accounts are insured up to applicable limits by the FDIC. The Bank must file reports with the OTS and the FDIC concerning its activities and financial condition in addition to obtaining regulatory approvals prior to entering into certain transactions, such as mergers with, or acquisitions of, other savings institutions. The OTS and/or the FDIC conduct periodic examinations to test the Bank s safety and soundness and compliance with various regulatory requirements. This regulation and supervision establishes a comprehensive framework of activities in which an institution can engage and is intended primarily for the protection of the insurance fund and depositors. The regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes. Any change in such regulatory requirements and policies, whether by the OTS, the FDIC or Congress, could have a material adverse impact on the Company, the Bank and their operations. Certain of the regulatory requirements applicable

to the Bank and to the Company are referred to below or elsewhere herein. The description of statutory provisions and regulations applicable to savings institutions and their holding companies set forth in this Form 10-K does not purport to be a complete description of such statutes and regulations and their effects on the Bank and the Company.

Holding Company Regulation

The Company is a nondiversified unitary savings and loan holding company within the meaning of the HOLA. As a unitary savings and loan holding company, the Company generally is not restricted under existing laws as to the types of business activities in which it may engage, provided that the Bank continues to be a qualified thrift lender (QTL). See Federal Savings Institution Regulation--QTL Test. Upon any non-supervisory acquisition by the Company of another savings institution or savings bank that meets the QTL test and is deemed to be a savings institution by the OTS, the Company would become a multiple savings and loan holding company (if the acquired institution is held as a separate subsidiary) and would be subject to extensive limitations on the types of business activities in which it could engage. The HOLA limits the activities of a multiple savings and loan holding company and its non-insured institution subsidiaries primarily to activities permissible for bank holding companies under the Bank Holding Company Act (BHC Act), subject to the prior approval of the OTS, and certain activities authorized by OTS regulation, and no multiple savings and loan holding company may acquire more than 5% of the voting stock of a company engaged in impermissible activities.

The HOLA prohibits a savings and loan holding company, directly or indirectly, or through one or more subsidiaries, from acquiring more than 5% of the voting stock of another savings institution or holding company thereof, without prior written approval of the OTS or acquiring or retaining control of a depository institution that is not insured by the FDIC. In evaluating applications by holding companies to acquire savings institutions, the OTS must consider the financial and managerial resources and future prospects of the company and institution involved the effect of the acquisition on the risk to the insurance funds, the convenience and needs of the community and competitive factors.

The OTS is prohibited from approving any acquisition that would result in a multiple savings and loan holding company controlling savings institutions in more than one state, subject to two exceptions: (i) the approval of interstate supervisory acquisitions by savings and loan holding companies and (ii) the acquisition of a savings institution in another state if the laws of the state of the target savings institution specifically permit such acquisition. The states vary in the extent to which they permit interstate savings and loan holding company acquisitions.

Although savings and loan holding companies are not subject to specific capital requirements or specific restrictions on the payment of dividends or other capital distributions, HOLA does prescribe such restrictions on subsidiary savings institutions as described below. The Bank must notify the OTS 30 days before declaring any dividend to the Company and, under certain circumstances, receive OTS approval of such dividend. In addition, the financial impact of a holding company on its subsidiary institution is a matter that is evaluated by the OTS and the agency has authority to order cessation of activities or divestiture of subsidiaries deemed to pose a threat to the safety and soundness of the institution.

Federal Savings Institution Regulation

Capital Requirements. The OTS capital regulations require savings institutions to meet three minimum capital standards: a 1.5% tangible capital ratio, a 4% leverage (core) capital ratio and an 8% risk-based capital ratio. Core capital is defined as common stockholders equity (including retained earnings), certain noncumulative perpetual preferred stock and related surplus, and minority interests in equity accounts of consolidated subsidiaries less intangibles other than certain mortgage servicing rights and credit card relationships. The OTS regulations require that, in meeting the tangible, leverage (core)

and risk-based capital standards, institutions must generally deduct investments in and loans to subsidiaries engaged in activities that are not permissible for a national bank.

The risk-based capital standard for savings institutions requires the maintenance of total capital (which is defined as core capital and supplementary capital) to risk-weighted assets to be at least 8%. In determining the amount of risk-weighted assets, all assets, including certain off-balance sheet assets, are multiplied by a risk-weight factor of 0% to 100% or higher if deemed appropriate, as assigned by the OTS capital regulation based on the risks the OTS believes are inherent in the type of asset. The components of core capital are equivalent to those discussed earlier under the 4% leverage standard. The components of supplementary capital currently include cumulative preferred stock, long-term perpetual preferred stock, mandatory convertible securities, subordinated debt and intermediate preferred stock and, within specified limits, the allowance for loan and lease losses. Overall, the amount of supplementary capital included as part of total capital cannot exceed 100% of core capital.

Prompt Corrective Action Regulations. Under the OTS prompt corrective action regulations, the OTS is required to take certain supervisory actions against undercapitalized institutions, the severity of which depends upon the institution s degree of undercapitalization. Generally, a savings institution that has a total risk-based capital ratio of 10%, a Tier 1 risk-based capital ratio of 6% and a leverage ratio of 5% is considered to be well-capitalized, and a savings institution that has a total risk-based capital ratio of 8%, a Tier 1 risk-based capital ratio of 4% and a leverage ratio of 4% is considered to be adequately capitalized . A saving institution that has a total risk-based capital of less than 8% or a leverage ratio or a Tier 1 capital ratio that is less than 4% is considered to be undercapitalized . A savings institution that has a total risk-based capital ratio less than 6%, a Tier 1 capital ratio less than 3% or a leverage ratio less than 3% is considered to be significantly undercapitalized and a savings institution that has a tangible capital to asset ratio equal to or less than 2% is deemed to be critically undercapitalized . Numerous mandatory supervisory actions become immediately applicable to the institution depending upon its category, including, but not limited to, increased monitoring by regulators and restrictions on growth, capital distributions and expansion. The OTS could also take any one of a number of discretionary supervisory actions, including requiring a capital plan, the issuance of a capital directive and the replacement of senior executive officers and directors.

The following table presents the Bank s capital position at December 31, 2006:

	Actual Amount	Ratio	To be adequately capitalized Amount	Ratio	To be well capitalized Amount	Ratio
	(dollars in thousands)					
At December 31, 2006						
Total Capital (to risk-weighted assets)	$ 64,124	11.55 %	$ 44,407	8.00 %	$ 55,508	10.00 %
Tier 1 Capital (to adjusted tangible assets)	60,747	8.38 %	29,012	4.00 %	36,265	5.00 %
Tangible Capital (to tangible assets)	60,747	8.38 %	N.A.	N.A.	N.A.	N.A.
Tier 1 Capital (to risk-weighted assets)	60,747	10.94 %	22,203	4.00 %	33,305	6.00 %

Insurance of Accounts and Regulation by the FDIC. The Bank is a member of the Deposit Insurance Fund (DIF), which is administered by the FDIC. Deposits are insured up to the applicable limits by the FDIC. 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 Insurance Fund. The FDIC also has the authority to initiate enforcement actions against savings institutions, after giving the OTS an opportunity to take such action, and may terminate an institution s deposit insurance if it determines that the institution has engaged in unsafe or unsound practices or is in an unsafe or unsound condition.

In February 2006, the Federal Deposit Insurance Reform Act (Reform Act) was enacted. The new law merged the old BIF and SAIF into the single Deposit Insurance Fund, increased deposit insurance coverage for IRAs to $250,000, provides for the further increase of deposit insurance on all accounts by indexing the coverage to the rate of inflation, authorizes the FDIC to set the reserve ratio of the combined DIF at a level between 1.15% and 1.50%, and permits the FDIC to establish assessments to be paid by insured banks to maintain the minimum ratios.

In November 2006, the FDIC adopted final regulations to implement the Reform Act. The final regulations include the annual assessment rates that will take effect at the beginning of 2007. The new assessment rates for nearly all banks will vary between five and seven cents for every $100 of domestic deposits. Applied to the Bank s assessment base of approximately $326.7 million, this translates to an annual deposit premium estimated to be between $163,000 and $229,000. Most banks have not been required to pay any deposit insurance premiums since 1995. We have not paid any deposit insurance premiums since 2004. As part of the Reform Act, Congress provided credits to institutions that paid high premiums in the past to bolster the FDIC s insurance reserves. As a result, according to the FDIC, the majority of banks will have assessment credits to initially offset all or most of their premiums in 2007. The preliminary assessment credit for the Bank was calculated at $123,000. The assessment credit will not be recognized up front, but recognized on a go-forward basis only to the extent the credit is used to reduce future deposit premiums that would otherwise be due. Accordingly, we expect the reinstitution of deposit premiums by the FDIC will not have a material effect on our financial condition, results of operations or cash flows in 2007. The level of annual deposit premiums is dependent on the amount of the Bank s deposit assessment base. However, assuming our deposit base remains at approximately $326.7 million in 2008, our annual deposit premiums will increase by approximately $163,000 to $229,000 per year, which will result in higher general and administrative expenses.

The Bank, as a former member of the SAIF, also pays, in addition to its normal deposit insurance premium, assessments towards the retirement of the Financing Corporation Bonds (known as FICO Bonds) issued in the 1980s to assist in the recovery of the savings and loan industry. These assessments will continue until the FICO Bonds mature in 2017. The annual rate (as of the first quarter of 2007) for all insured institutions is $0.122 for every $1,000 in domestic deposits. These assessments are revised quarterly and will continue until the bonds mature in the year 2017. For the year ended December 31, 2006, assessments for the FICO payments was $41,000.

Loans-to-One Borrower. Under the HOLA, savings institutions are generally subject to the limits on loans-to-one borrower applicable to national banks. Generally, savings institutions may not make a loan or extend credit to a single or related group of borrowers in excess of 15% of its unimpaired capital and surplus. An additional amount may be lent; equal to 10% of unimpaired capital and surplus, if such loan is secured by readily marketable collateral, which is defined to include certain financial instruments and bullion. At December 31, 2006, the Bank s limit on loans-to-one borrower was $9.7 million. At December 31, 2006, the Bank s largest aggregate outstanding balance of loans-to-one borrower was $8.7 million.

QTL Test. The HOLA requires savings institutions to meet a QTL test. Under the QTL test, a savings association is required to maintain at least 65% of its portfolio assets (total assets less: (i) specified liquid assets up to 20% of total assets; (ii) intangibles, including goodwill; and (iii) the value of property used to conduct business) in certain qualified thrift investments (primarily residential mortgages and related investments, including certain mortgage-backed securities and, to a certain extent, education loans, credit card loans and small business loans) in at least 9 months out of each 12 month period.

A savings association that fails the QTL test must convert to a bank charter or operate under certain restrictions. As of December 31, 2006, the Bank maintained 70.7% of its portfolio assets in qualified thrift investments and, therefore, met the QTL test.

Limitation on Capital Distributions. OTS regulations impose limitations upon all capital distributions by savings institutions, such as cash dividends, payments to repurchase or otherwise acquire its shares, payments to shareholders of another institution in a cash-out merger and other distributions charged against capital. The rule establishes three tiers of institutions, which are based primarily on an institution s capital level. An institution that exceeds all fully phased-in capital requirements before and after a proposed capital distribution (Tier 1 Bank) and has not been advised by the OTS that it is in need of more than normal supervision, could, after prior notice but without obtaining approval of the OTS, make capital distributions during a calendar year equal to the greater of (i) 100% of its net earnings to date during the calendar year plus the amount that would reduce by one-half its surplus capital ratio (the excess capital over its fully phased-in capital requirements) at the beginning of the calendar year or (ii) 75% of its net income for the previous four quarters. Any additional capital distributions would require prior regulatory approval. In the event the Bank s capital fell below its regulatory requirements or the OTS notified it that it was in need of more than normal supervision, the Bank s ability to make capital distributions could be restricted. In addition, the OTS could prohibit a proposed capital distribution by any institution, which would otherwise be permitted by the regulation, if the OTS determines that such distribution would constitute an unsafe or unsound practice.

Liquidity. The Financial Regulatory Relief and Economic Efficiency Act of 2000 repealed the statutory liquidity requirement for savings association, citing the requirement as unnecessary. In light of this action, the OTS repealed its liquidity regulations and replaced them with a general requirement that thrifts continue to maintain sufficient liquidity to ensure safe and sound operations. The Bank s average liquidity ratio for the year ended December 31, 2006 was 7.15%.

Branching. OTS regulations permit nationwide branching by federally chartered savings institutions to the extent allowed by federal statute. This permits federal savings institutions to establish interstate networks and to geographically diversify their loan portfolios and lines of business. The OTS authority preempts any state law purporting to regulate branching by federal savings institutions.

Transactions with Related Parties. The Bank s authority to engage in transactions with related parties or affiliates (e.g., any company that controls or is under common control with an institution, including the Company, is limited by Sections 23A and 23B of the Federal Reserve Act (FRA). Section 23A restricts the aggregate amount of covered transactions with any individual affiliate to 10% of the capital and surplus of the savings institution. The aggregate amount of covered transactions with all affiliates is limited to 20% of the savings institution s capital and surplus. Certain transactions with affiliates are required to be secured by collateral in an amount and of a type described in Section 23A and the purchase of low quality assets from affiliates are generally prohibited. Section 23B generally provides that certain transactions with affiliates, including loans and asset purchases, must be on terms and under circumstances, including credit standards, that are substantially the same or at least as favorable to the institution as those prevailing at the time for comparable transactions with non-affiliated companies. The Federal Reserve Board has promulgated Regulation W, which codifies prior interpretations under Sections 23A and 23B of the FRA and provides interpretive guidance with respect to affiliate transactions. Affiliates of a bank include, among other entities, a bank s holding company and companies that are under common control with the bank. We are considered to be an affiliate of the Bank.

Enforcement. Under the FDI Act, the OTS has primary enforcement responsibility over savings institutions and has the authority to bring actions against the institution and all institution-affiliated parties, including stockholders, and any attorneys, appraisers and accountants who knowingly or recklessly participate in wrongful action likely to have an adverse effect on an insured institution. Formal

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enforcement action may range from the issuance of a capital directive or cease and desist order, to removal of officers and/or directors, to institution of receivership, or conservatorship or termination of deposit insurance. Civil penalties cover a wide range of violations and can amount to $25,000 per day, or even $1.0 million per day in especially egregious cases. Under the FDI Act, the FDIC has the authority to recommend to the Director of the OTS enforcement action to be taken with respect to a particular savings institution. If action is not taken by the Director, the FDIC has authority to terminate the Bank s deposit insurance. Federal law also establishes criminal penalties for certain violations.

Standards for Safety and Soundness. The FDI Act requires each federal banking agency to prescribe for all insured depository institutions standards relating to, among other things, internal controls, information systems and audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, and compensation, fees, benefits and such other operational and managerial standards as the agency deems appropriate. The federal banking agencies have adopted final regulations and Interagency Guidelines Prescribing Standards for Safety and Soundness (Guidelines) to implement these safety and soundness standards. The Guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. If the appropriate federal banking agency determines that an institution fails to meet any standard prescribed by the Guidelines, the agency may require the institution to submit to the agency an acceptable plan to achieve compliance with the standard, as required by FDI Act.

Federal Reserve System. The Federal Reserve Board regulations require savings institutions to maintain noninterest earning reserves against their transaction accounts (primarily NOW and regular checking accounts). At December 31, 2006, the Bank maintained compliance with the foregoing requirements.

Community Reinvestment Act and the Fair Lending Laws. Savings associations have a responsibility under the Community Reinvestment Act and related regulations of the OTS to help meet the credit needs of their communities, including low- and moderate-income neighborhoods. In addition, the Equal Credit Opportunity Act and the Fair Housing Act prohibit lenders from discriminating in their lending practices on the basis of characteristics specified in those statutes. An institution s failure to comply with the provisions of the Community Reinvestment Act could, as a minimum, result in regulatory restrictions on its activities and the denial of applications. In addition, an institution s failure to comply with the Equal Credit Opportunity Act and the Fair Housing Act could result in the OTS, other federal regulatory agencies and/or the Department of Justice taking enforcement actions against the institution. Based on its last Community Reinvestment Act examination conducted in November 2005, the Bank received an outstanding rating with respect to its performance pursuant to the Community Reinvestment Act.

Financial Services Modernization Legislation. In November 1999, the Gramm-Leach-Bliley Act of 1999 (the GLB) was enacted. The GLB repeals provisions of the Glass-Steagall Act which restricted the affiliation of Federal Reserve member banks with firms engaged principally in specified securities activities, and which restricted officer, director or employee interlocks between a member bank and any company or person primarily engaged in specified securities activities.

In addition, the GLB also contains provisions that expressly preempt any state law restricting the establishment of financial affiliations, primarily related to insurance. The general effect of the law is to establish a comprehensive framework to permit affiliations among commercial banks, insurance companies, securities firms and other financial service providers by revising and expanding the BHC Act framework to permit a holding company to engage in a full range of financial activities through a new entity known as a financial holding company. Financial activities is broadly defined to include not only banking, insurance and securities activities, but also merchant banking and additional activities that the Federal Reserve Board, in consultation with Secretary of the Treasury, determines to be financial in

nature, incidental to such financial activities or complementary activities that do not pose a substantial risk to the safety and soundness of depository institutions or the financial system generally.

The GLB provides that no company may acquire control of an insured savings association unless that company engages, and continues to engage, only in the financial activities permissible for a financial holding company, unless the company is grandfathered as a unitary savings and loan holding company. The Financial Institution Modernization Act grandfathers any company that was a unitary savings and loan holding company on May 4, 1999 or became a unitary savings and loan holding company pursuant to an application pending on that date.

To the extent that the GLB permits banks, securities firms and insurance companies to affiliate, the financial services industry may experience further consolidation. The GLB is intended to grant to community banks powers as a matter of right that larger institutions have accumulated on an ad hoc basis and which unitary savings and loan holding companies already possess. Nevertheless, the GLB may have the result of increasing the amount of competition that we face from larger institutions and other types of companies offering financial products, many of which may have substantially more financial resources than we have.

USA Patriot Act of 2001. On October 26, 2001, President Bush signed the USA Patriot Act of 2001 (the Patriot Act). Enacted in response to the terrorist attacks in New York, Pennsylvania and Washington, D.C. on September 11, 2001, the Patriot Act is intended to strengthen U.S. law enforcement s and the intelligence communities ability to work cohesively to combat terrorism on a variety of fronts. The potential impact of the Act on financial institutions of all kinds is significant and wide ranging. The Act contains sweeping anti-money laundering and financial transparency laws and requires various regulations, including:

- due diligence requirements for financial institutions that administer, maintain, or manage private bank accounts or correspondent accounts for non-U.S. persons;

- standards for verifying customer identification at account opening; and

- rules to promote cooperation among financial institutions, regulators, and law enforcement entities in identifying parties that may be involved in terrorism or money laundering.

Sarbanes-Oxley Act of 2002. The Sarbanes-Oxley Act of 2002 (SOA) was enacted to increase corporate responsibility, to provide for enhanced penalties for accounting and auditing improprieties at publicly traded companies and to protect investors by improving the accuracy and reliability of corporate disclosures pursuant to the securities laws. The SOA generally applies to all companies, both U.S. and non-U.S., that file or are required to file periodic reports with the Securities Exchange Commission under the Securities Exchange Act of 1934, as amended (the Exchange Act), including us.

The SOA includes additional disclosure requirements and new corporate governance rules, requires the SEC and securities exchanges to adopt extensive additional disclosure, corporate governance and other related rules and mandates further studies of specified issues by the Securities and Exchange Commission (SEC) and the Comptroller General. The SEC has promulgated regulations to implement various provisions of the SOA, including additional disclosure requirements and certifications in periodic filings under the Exchange Act. We have revised our internal policies and Exchange Act disclosures to comply with these new requirements.

Federal and State Taxation

The Company and the Bank report their income on a consolidated basis using the accrual method of accounting, and are subject to federal income taxation in the same manner as other corporations with

some exceptions. The Bank has not been audited by the IRS. For its 2006 taxable year, the Bank is subject to a maximum federal and state income tax rate of 34% and 10.84%, respectively.

ITEM 1A. RISK FACTORS

Risk Factors

You should carefully consider the following risk factors and all other information contained in this Annual Report on Form 10-K. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently believe are immaterial also may impair our business. If any of the events described in the following risk factors occur, our business, results of operations and financial condition could be materially adversely affected.

Our multi-family residential and commercial real estate loans are relatively unseasoned, and defaults on such loans would adversely affect our financial condition and results of operations.

At December 31, 2006, our multi-family residential loans amounted to $357.3 million, or 58.8% of our total loans. At December 31, 2006, our commercial real estate loans amounted to $205.6 million, or 33.8% of our total loans. Our multi-family residential and commercial real estate loan portfolios consist primarily of loans originated after June 30, 2002 and are, consequently, relatively unseasoned. In addition, such loans originated after June 30, 2002 have an average loan balance as of December 31, 2006 of $837,000 in the case of multi-family loans and $1.2 million in the case of commercial real estate loans, so that a default on a multi-family or commercial real estate loan may have a greater impact on us than a default on a single-family residential loan which is generally smaller in size. Further, the payment on multi-family and commercial real estate loans is typically dependent on the successful operation of the project, which is affected by the supply and demand for multi-family residential units and commercial property within the relevant market. If the market for multi-family units and commercial property experiences a decline in demand, multi-family and commercial borrowers may suffer losses on their projects and be unable to repay their loans. Defaults on these loans would negatively affect our financial condition, results of operations and financial prospects.

We may be unable to successfully compete in our industry.

We face direct competition from a significant number of financial institutions, many with a state-wide or regional presence, and in some cases a national presence, in both originating loans and attracting deposits. Competition in originating loans comes primarily from other banks and mortgage companies that make loans in our primary market areas. We also face substantial competition in attracting deposits from other banking institutions, money market and mutual funds, credit unions and other investment vehicles. In addition banks with larger capitalizations and non-bank financial institutions that are not governed by bank regulatory restrictions have large lending limits and are better able to serve the needs of larger customers. Many of these financial institutions are also significantly larger and have greater financial resources than we have, and have established customer bases and name recognition. We compete for loans principally on the basis of interest rates and loan fees, the types of loans that we originate and the quality of service that we provide to our borrowers. Our ability to attract and retain deposits requires that we provide customers with competitive investment opportunities with respect to rate of return, liquidity, risk and other factors. To effectively compete, we may have to pay higher rates of interest to attract deposits, resulting in reduced profitability. In addition, we rely upon local promotional activities, personal relationships established by our officers, directors and employees and specialized services tailored to meet the individual needs of our customers in order to compete. If we are not able to effectively compete in our market area, our profitability may be negatively affected.

Our origination of multi-family and commercial real estate loans is dependent on the mortgage brokers who refer these loans to us.

Our primary method of originating multi-family and commercial real estate loans is through referrals by mortgage brokers. During 2006, five mortgage brokers have referred to us approximately 62.0% of all the multi-family and commercial real estate loans we originated. Although we have in-house account managers who have the responsibility of developing relationships with additional mortgage brokers which may refer us the types of loans we target, should we not be successful in developing relationships with additional mortgage brokers and should we lose referrals from one or more mortgage brokers on whom we depend for a large percentage of our multi-family and commercial real estate loans, our loan originations could be substantially less than we anticipate, thus reducing our anticipated income from these loans.

Interest rate fluctuations, which are out of our control, could harm profitability.

Our profitability depends to a large extent upon net interest income, which is the difference between interest income on interest-earning assets, such as loans and investments, and interest expense on interest-bearing liabilities, such as deposits and borrowings. Any change in general market interest rates, whether as a result of changes in the monetary policy of the Federal Reserve Board or otherwise, may have a significant effect on net interest income. The assets and liabilities may react differently to changes in overall market rates or conditions. Moreover, in periods of rising interest rates, financial institutions typically originate fewer mortgage loans adversely affecting our interest income on loans. Further, if interest rates decline, our loans may be refinanced at lower rates or paid off and our investments may be prepaid earlier than expected. If that occurs, we may have to redeploy the loan or investment proceeds into lower yielding assets, which might also decrease our income.

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

We try to limit the risk that borrowers will fail to repay loans by carefully underwriting the loans, nevertheless losses can and do occur. We create an allowance for estimated loan losses in our accounting records, based on estimates of the following:

- industry historical losses as reported by the FDIC;
- historical experience with our loans;
- evaluation of economic conditions;
- regular reviews of the quality mix and size of the overall loan portfolio;
- regular reviews of delinquencies; and
- the quality of the collateral underlying our loans.

We maintain an allowance for loan losses at a level that we believe is adequate to absorb any specifically identified losses, as well as, any other losses inherent in our loan portfolio. However, changes in economic, operating and other conditions, including changes in interest rates, which are beyond our control, may cause our actual loan losses to exceed our current allowance estimates. If the actual loan losses exceed the amount reserved, it will adversely affect our financial condition and results of operations. In addition, the OTS, as part of its supervisory function, periodically reviews our allowance for loan losses. Such agency may require us to increase our provision for loan losses or to recognize further loan losses, based on their judgments, which may be different from those of our management. Any increase in the allowance required by the OTS could also adversely affect our financial condition and results of operations.

Upon exercise of the Warrant, shareholders will experience significant dilution in their shares of common stock.

In 2002, a warrant (the Warrant) was issued in conjunction with a private placement. The holder of the Warrant has the right to purchase 1,166,400 shares of our common stock at an exercise price of $0.75 per share, which shares, once exercised, would represent approximately 17.4% of our issued and outstanding shares as of December 31, 2006. The Warrant is currently exercisable for an aggregate of 1,166,400 shares of our common stock. The trading price of our common stock has been significantly higher than $0.75 per share for the last three fiscal years and at December 31, 2006, the closing price of our common stock was $12.18 per share. Upon exercise of the Warrant, existing shareholders will experience significant dilution of the shares of our common stock that they hold.

Adverse outcomes of litigation against us could harm our business and results of operations.

We are currently involved in litigation involving the prior management s origination and sale of subprime mortgages, as well as, other actions arising in the ordinary course of our business. A significant judgment against us in connection with any pending or future litigation could harm our business and results of operations.

Poor economic conditions in California may cause us to suffer higher default rates on our loans and decreased value of the assets we hold as collateral.

A substantial majority of our assets and deposits are generated in Southern California. As a result, poor economic conditions in Southern California may cause us to incur losses associated with higher default rates and decreased collateral values in our loan portfolio. In addition, demand for our products and services may decline. Further, a downturn in the Southern California real estate market could hurt our business. Our business activities and credit exposure are concentrated in Southern California. A downturn in the Southern California real estate market could hurt our business because the vast majority of our loans are secured by real estate located within Southern California. As of December 31, 2006, approximately 93.9% of our loan portfolio consisted of loans secured by real estate located in California, the substantial majority of which are located in Southern California. If there is a significant decline in real estate values, especially in Southern California, the collateral for our loans will provide less security. As a result, our ability to recover on defaulted loans by selling the underlying real estate would be diminished, and we would be more likely to suffer losses on defaulted loans. Real estate values in Southern California could be affected by, among other things, earthquakes and other natural disasters particular to Southern California.

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

We do not intend to pay cash dividends on our common stock in the foreseeable future. Instead, we intend to reinvest our earnings in our business. In addition, in order to pay cash dividends to our shareholders, we would most likely need to obtain funds from the Bank. The Bank s ability, in turn, to pay dividends to us is limited by federal banking law. It is possible, depending on the financial condition of the Bank and other factors, that the OTS could assert that payment of dividends by the Bank is an unsafe or unsound practice.

Federal law imposes conditions on the ability to acquire control of our common stock at specified threshold percentages, which could discourage a change in control.

Acquisition of control of a federal savings bank or its holding company requires advance approval by the OTS. Under federal law, the acquisition of more than 10% of our common stock would result in a rebuttable presumption of control and the ownership of more than 25% of our voting stock would result in

conclusive control. Depending on the circumstances, the foregoing requirements may prevent or restrict a change in control of us.

Our business may be adversely affected by the highly regulated environment in which we operate.

We are subject to extensive federal and state legislation, regulation and supervision. Recently enacted, proposed and future legislation and regulations have had and are expected to continue to have a significant impact on the financial services industry. Some of the legislative and regulatory changes may benefit us. However, other changes could increase our costs of doing business or reduce our ability to compete in certain markets.

Anti-takeover defenses may delay or prevent future transactions

Our Certificate of Incorporation and Bylaws, among other things:

- divide the board of directors into three classes with directors of each class serving for a staggered three year period;
- provides that our directors must fill vacancies on the board;
- permit the issuance, without shareholder approval, of shares of preferred stock having rights and preferences determined by the board of directors;
- provide that stockholders holding 80% of our issued and outstanding shares must vote to approve certain business combinations and other transactions involving holders of more than 10% of our common stock or our affiliates;
- provide that stockholders holding 80% of our issued and outstanding shares must vote to remove directors for cause; and
- provide that record holders of our common stock who beneficially own in excess of 10% of our common stock are not entitled to vote shares held by them in excess of 10% of our common stock.

In addition, Steven R. Gardner, our President and Chief Executive Officer, has an employment agreement which provides that, in the event of a change of control in which Mr. Gardner s employment is terminated, Mr. Gardner will be entitled to severance payments equal to two times his annual base salary plus an amount equal to his incentive bonus for the previous year. Also, the Bank has Salary Continuation Agreements with Mr. Gardner and John Shindler, our Chief Financial Officer, that provides that if their employment is terminated within 12 months of a change in control they would receive the present value of their benefits which is approximately $1.5 million and $740,000, respectively.

These provisions in our certificate of incorporation, by-laws and Mr. Gardner s employment agreement could make the removal of incumbent directors more difficult and time-consuming and may have the effect of discouraging a tender offer or other takeover attempts not previously approved by our board of directors.

We are dependent on our key personnel

Our future operating results depend in large part on the continued services of our key personnel, including Steven R. Gardner, our President and Chief Executive Officer, who developed and implemented our new business strategy. The loss of Mr. Gardner could have a negative impact on the success of our new business strategy. In addition, we rely upon the services of John Shindler, our Executive Vice President and Chief Financial Officer, Eddie Wilcox, our Executive Vice President and Chief Banking Officer, and our ability to attract and retain highly skilled personnel. We cannot assure you that we will be able to continue to attract and retain the qualified personnel necessary for the development of our business. We do not

maintain key-man life insurance on any employee other than Messrs Gardner and Shindler, nor have we entered into an employment agreement with any other employee other than Mr. Gardner. Mr. Gardner entered into a three year employment agreement with both the Company and Bank on January 5, 2004 which automatically extended for an additional year on October 7, 2006.

Potential acquisitions may disrupt our business and dilute stockholder value.

We have evaluated merger and acquisition opportunities and conduct due diligence activities related to possible transactions with other financial institutions. As a result, merger or acquisition discussions and, in some cases, negotiations may take place and future mergers or acquisitions involving cash, debt or equity securities may occur at any time. Acquisitions typically involve the payment of a premium over book and market values, and, therefore, some dilution of our stock s tangible book value and net income per common share may occur in connection with any future transaction. Furthermore, failure to realize the expected revenue increases, cost savings, increases in geographic or product presence, and/or other projected benefits from an acquisition could have a material adverse effect on our financial condition and results of operations.

We may seek merger or acquisition partners that are culturally similar and have experienced management and possess either significant market presence or have potential for improved profitability through financial management, economies of scale or expanded services. We do not currently have any specific plans, arrangements or understandings regarding such expansion. We cannot say with any certainty that we will be able to consummate, or if consummated, successfully integrate, future acquisitions or that we will not incur disruptions or unexpected expenses in integrating such acquisitions. In attempting to make such acquisitions, we anticipate competing with other financial institutions, many of which have greater financial and operational resources. Acquiring other banks, businesses, or branches involves various risks commonly associated with acquisitions, including, among other things:

- Potential exposure to unknown or contingent liabilities of the target company;
- Exposure to potential asset quality issues of the target company;
- Difficulty and expense of integrating the operations and personnel of the target company;
- Potential disruption to our business;
- Potential diversion of management s time and attention;
- The possible loss of key employees and customers of the target company;
- Difficulty in estimating the value of the target company;
- Potential changes in banking or tax laws or regulations that may affect the target company.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Location	Leased or Owned	Original Year Leased or Acquired	Date of Lease Expiration	Net Book Value of Property or Leasehold Improvements at December 31, 2006
Corporate Headquarters: 1600 Sunflower Ave(a) Costa Mesa, CA 92626	Owned	2002	N.A.	$ 4,906,000
Branch Office: 1598 E Highland Avenue San Bernardino, CA 92404	Leased	1986	2015	$ 69,000
Branch Office: 19011 Magnolia Avenue Huntington Beach CA 92646	Owned (b)	2005	2023	$ 1,500,000
Branch Office: 13928 Seal Beach Blvd. Seal Beach, CA 90740	Leased	1999	2012	$ 7,000
Branch Office: 4957 Katella Avenue, Suite B Los Alamitos, CA 90720	Leased	2005	2015	$ 387,000
Branch Office: 4667 MacArthur Blvd. Newport Beach, CA 92660	Leased	2005	2016	$ 2,000
Branch Office: 201 South Lake Avenue, Suite 602 Pasadena, CA 91101	Leased	2005	2007	$

(a) We lease to two tenants approximately 9,735 square feet of the 36,159 square feet of our corporate headquarters for $15,423 per month.

(b) The building is owned, but the land is leased on a long-term basis.

All of our existing facilities are considered to be adequate for our present and anticipated future use. In the opinion of management, all properties are adequately covered by insurance.

ITEM 3. LEGAL PROCEEDINGS

In February 2004, the Bank was named in a class action lawsuit titled, James Baker v. Century Financial, et al , alleging various violations of Missouri s Second Mortgage Loans Act by charging and receiving fees and costs that were either wholly prohibited by or in excess of that allowed by the Act relating to origination fees, interest rates, and other charges. The class action lawsuit was filed in the Circuit Court of Clay County, Missouri. The complaint seeks restitution of all improperly collected charges and interest plus the right to rescind the mortgage loans or a right to offset any illegal collected charges and interest against the principal amounts due on the loans. In March of 2005, the Bank s motion for dismissal due to limitations was denied by the trial court without comment. Our motion to dismiss due to federal preemption of state law because the Bank is a federal savings bank was denied in August 2006. The Bank has answered the Plaintiffs complaint and the lawsuit is in the early stages of discovery. The Bank

intends to appeal the trial court s ruling on the limitations in the form of a motion for summary judgment after discovery is completed.

In October 2005, the Bank and the Company were added to a lawsuit titled, DLJ Mortgage Capital, Inc. (DLJ) vs. Attorneys Title Guaranty Fund, Inc. and William Mansell, et al, for alleged defaults and breaches of warranty under a loan sale agreement between DLJ and the Company. The lawsuit was filed in the District Court of Salt Lake County, Utah. The complaint seeks restitution of the principal balance, interest, and late charges totaling $1.5 million as of the date of the complaint. The action is relates to a fraudulent loan, which the Bank purchased in 1999 from an unaffiliated mortgage company and then sold to DLJ in February 2000.

In August 2006, DLJ filed a motion for partial summary judgment against the Company and the Bank which the Company and the Bank are opposing. We expect a ruling on such motion in the second quarter of 2007. The Company and the Bank believe that they have numerous defenses to such complaint, including that any losses should be covered by the applicable title insurance with respect to the loan. While the Company and the Bank intend to vigorously defend this matter no assurance can be given that the Company and the Bank will be successful with respect to its defense of the complaint or that the Company and the Bank ultimately will not be required to pay all or a portion of the specific damages. In any event, Management does not believe that the resolution of the lawsuit will have a material adverse affect on the Company s consolidated financial condition or results of operation.

The Company and the Bank are not involved in any other pending legal proceedings other than legal proceedings occurring in the ordinary course of business. Management believes that none of these legal proceedings, individually or in the aggregate, will have a material adverse impact on the results of operations or financial condition of the Company or the Bank.

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

None.

PART II

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

PRICE RANGE BY QUARTERS

The common stock of the Company has been publicly traded since 1997 and is currently traded on the NASDAQ Global Market under the symbol PPBI. However, until recently, trading in the common stock has not been extensive and such trades cannot be characterized as constituting an active trading market.

As of March 5, 2007, there were approximately 1,260 holders of record of the common stock. The following table summarizes the range of the high and low closing sale prices per share of our common stock as quoted by the Nasdaq Global Market for the periods indicated.

	Sale Price of Common Stock	
	High	**Low**
2005		
First Quarter	$ 13.42	$ 10.48
Second Quarter	$ 11.14	$ 9.70
Third Quarter	$ 13.16	$ 10.69
Fourth Quarter	$ 12.95	$ 10.58
2006		
First Quarter	$ 12.45	$ 11.63
Second Quarter	$ 12.03	$ 11.12
Third Quarter	$ 12.33	$ 10.79
Fourth Quarter	$ 12.69	$ 11.46

Stock Performance Graph. The graph below compares the performance of the common stock with that of the Nasdaq Composite Index (U.S. Companies) and the Nasdaq Bank Stocks Index from December 31, 2001 through December 31, 2006. The graph is based on the investment of $100 in the common stock at its closing price on December 31, 2001. The Company has not paid any dividends on its common stock.

Total Return Analysis	12/31/2001	12/31/2002	12/31/2003	12/31/2004	12/30/2005	12/29/2006
Pacific Premier Bancorp, Inc.	$ 100.00	$ 259.02	$ 540.98	$ 646.83	$ 575.61	$ 594.15
Nasdaq Bank Stocks Index	$ 100.00	$ 102.37	$ 131.69	$ 150.71	$ 147.23	$ 165.24
Nasdaq Composite Index	$ 100.00	$ 69.13	$ 103.36	$ 112.49	$ 114.88	$ 126.21

DIVIDENDS

It is our policy to retain earnings, if any, to provide funds for use in our business. We have never declared or paid dividends on our common stock and do not anticipate declaring or paying any cash dividends in the foreseeable future.

Our ability to pay a dividend on the common stock will depend upon, among other things, future earnings, operating and financial condition, capital requirements, general business conditions and the receipt of regulatory approvals. In addition, our ability to pay dividends at any time may be limited by the Bank s ability to pay dividends to the Company. The OTS regulations require that the Bank must give prior notice to the OTS before making any dividend declaration. Further, if the OTS should decide that to pay a dividend would place the Bank in an unsafe or unsound financial condition, it can prohibit the payment of dividends.

ISSUER PURCHASES OF EQUITY SECURITIES

In 2005, the Company s Board of Directors authorized the Management of the Company to repurchase up to 61,500 shares, or 1.17% of the Company s issued and outstanding common stock, to be done in accordance with Rule 10b-18 of the Exchange Act. At December 31, 2006, the Company had purchased 34,300 shares pursuant to that authorization. The following table summarizes purchase activity for the year of 2006:

Month of Purchase	Total Number of shares purchased/ returned	Average price paid per share	Total number of shares repurchased as part of the publicly announced program	Maximum number of shares that may yet be purchased under the program
Jan-06		$		29,950
Feb-06				29,950
Mar-06				29,950
Apr-06				29,950
May-06	750	11.32	750	29,200
Jun-06			0	29,200
Jul-06			0	29,200
Aug-06			0	29,200
Sep-06	2,000	11.46	2,000	27,200
Oct-06				27,200
Nov-06				27,200
Dec-06				27,200
Total/Average	2,750	$ 11.42	2,750	27,200

ITEM 6. SELECTED FINANCIAL DATA

The selected financial data presented below is derived from the audited consolidated financial statements of the Company and should be read in conjunction with the Consolidated Financial Statements presented elsewhere herein (dollars in thousands, except ratios and per share data):

	As of and For the Years Ended December 31,				
	2006	2005	2004	2003	2002
Operating Data:					
Interest income	$ 44,128	$ 33,707	$ 23,223	$ 17,248	$ 18,872
Interest expense	27,003	16,571	7,817	7,657	8,910
Net interest income	17,125	17,136	15,406	9,591	9,962
Provision for loan losses	531	349	705	655	1,133
Net interest income after provision for loans losses	16,594	16,787	14,701	8,936	8,829
Net gains (losses) from loan sales	3,697	590	105	328	(261)
Other noninterest income	2,818	3,540	4,141	1,987	2,130
Noninterest expense	15,231	12,260	11,234	9,783	10,165
Income before income tax provision (benefit)	7,878	8,657	7,713	1,468	533
Income tax provision (benefit)(1)	450	1,436	972	(597)	(2,345)
Net income	$ 7,428	$ 7,221	$ 6,741	$ 2,065	$ 2,878

	As of and For the Years Ended December 31,				
	2006	2005	2004	2003	2002
Share Data:					
Net income per share:					
Basic	$ 1.41	$ 1.37	$ 1.28	$ 0.96	$ 2.16
Diluted	$ 1.11	$ 1.08	$ 1.02	$ 0.61	$ 1.16
Weighted average common shares outstanding:					
Basic	5,261,897	5,256,906	5,256,334	2,161,314	1,333,572
Diluted	6,684,915	6,658,240	6,622,735	3,399,376	2,476,648
Book value per share (basic)	$ 11.03	$ 9.67	$ 8.37	$ 7.10	$ 8.72
Book value per share (diluted)	$ 9.16	$ 8.09	$ 7.08	$ 5.98	$ 4.98
Selected Balance Sheet Data:					
Total assets	$ 730,874	$ 702,696	$ 543,124	$ 309,368	$ 238,278
Participation Contract				5,977	4,869
Securities and FHLB stock	77,144	49,795	44,844	42,275	58,243
Loans held for sale, net(2)	795	456	532	804	1,866
Loans held for investment, net(2)	604,304	602,937	469,822	246,796	156,365
Allowance for loan losses	3,543	3,050	2,626	1,984	2,835
Mortgage servicing rights			12	29	51
Total deposits	339,449	327,936	288,887	221,447	191,170
Borrowings	316,491	318,145	206,710	48,600	32,940
Total stockholders equity	58,038	50,542	44,028	37,332	11,623
Performance Ratios:(3)					
Return on average assets(4)	1.07 %	1.18 %	1.61 %	0.82 %	1.18 %
Return on average equity(5)	13.47 %	15.17 %	16.37 %	12.43 %	30.70 %
Average equity to average assets	7.94 %	7.78 %	9.86 %	6.59 %	3.85 %
Equity to total assets at end of period	7.98 %	7.20 %	8.11 %	12.07 %	4.88 %
Average interest rate spread(6)	2.39 %	2.70 %	3.66 %	4.02 %	4.44 %
Net interest margin(7)	2.58 %	2.88 %	3.82 %	4.06 %	4.37 %
Efficiency ratio(8)	64.26 %	57.72 %	57.21 %	81.20 %	85.19 %
Average interest-earning assets to average interest-bearing liabilities	104.83 %	106.41 %	108.02 %	101.16 %	98.45 %
Capital Ratios(9):					
Tier 1 capital to adjusted total assets	8.38 %	7.79 %	9.09 %	8.93 %	7.03 %
Tier 1 capital to total risk-weighted assets	10.94 %	11.21 %	13.00 %	12.49 %	11.29 %
Total capital to total risk-weighted assets	11.55 %	11.78 %	13.59 %	13.21 %	12.54 %
Asset Quality Ratios:					
Nonperforming loans, net, to total loans(10)	0.09 %	0.25 %	0.45 %	0.99 %	3.07 %
Nonperforming assets, net as a percent of total assets(11)	0.10 %	0.24 %	0.46 %	1.12 %	3.12 %
Net charge-offs to average total loans	0.01 %	(0.01)%	0.02 %	0.82 %	1.74 %
Allowance for loan losses to total loans at period end	0.58 %	0.50 %	0.56 %	0.79 %	1.74 %
Allowance for loan losses as a percent of nonperforming loans at period end(10)	558.83 %	180.79 %	110.77 %	71.55 %	50.35 %

(1) In the years ended December 31, 2006, December 31, 2005 and December 31, 2004, we reversed $2.4 million, $1.6 million, and $1.6 million, respectively, of our deferred tax valuation allowance due to our improved financial outlook.

(2) Loans are net of the allowance for loan losses and deferred fees.

(3) All average balances consist of average daily balances.

(4) Net income divided by total average assets.

(5) Net income divided by average stockholders equity.

(6) Represents the weighted average yield on interest-earning assets less the weighted average cost of interest-bearing liabilities.

(7) Represents net interest income as a percent of average interest-earning assets.

(8) Represents the ratio of noninterest expense less (gain) loss on foreclosed real estate to the sum of net interest income before provision for loan losses and total noninterest income.

(9) Calculated with respect to the Bank.

(10) Nonperforming loans consist of loans past due 90 days or more and foreclosures in process less than 90 days and still accruing interest.

(11) Nonperforming assets consist of nonperforming loans (see footnote 10 above) and foreclosed real estate owned.

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

Summary

Our principal business is attracting deposits from small businesses and consumers and investing those deposits together with funds generated from operations and borrowings, primarily in commercial business loans and various types of commercial real estate loans. In 2007, the Bank expects to fund substantially all of the loans that it originates or purchases through deposits, FHLB advances and internally generated funds. Deposit flows and cost of funds are influenced by prevailing market rates of interest primarily on competing investments, account maturities and the levels of savings in the Bank s market area. The Bank s ability to originate and purchase loans is influenced by the general level of product available. The Bank s results of operations are also affected by the Bank s provision for loan losses and the level of operating expenses. The Bank s operating expenses primarily consist of employee compensation and benefits, premises and occupancy expenses, and other general expenses. The Company s results of operations are also affected by prevailing economic conditions, competition, government policies and other actions of regulatory agencies.

Critical Accounting Policies

We have established various accounting policies that govern the application of accounting principles generally accepted in the United States of America in the preparation of the Company s financial statements. The Company s significant accounting policies are described in the Notes to the Consolidated Financial Statements. Certain accounting policies require management to make estimates and assumptions that have a material impact on the carrying value of certain assets and liabilities; management considers these to be critical accounting policies. The estimates and assumptions management uses are based on historical experience and other factors, which management believes to be reasonable under the circumstances. Actual results could differ significantly from these estimates and assumptions, which could have a material impact on the carrying value of assets and liabilities at balance sheet dates and the Company s results of operations for future reporting periods.

We believe that the allowance for loan losses and the valuation allowance on deferred taxes are the critical accounting policies that require estimates and assumptions in the preparation of the Company s financial statements that are most susceptible to significant change. For further information, see Business Allowances for Loan Losses and Note 1 to the Consolidated Financial Statements.

Average Balance Sheet. The following tables set forth certain information relating to the Company for the years ended December 31, 2006, 2005, and 2004. The yields and costs are derived by dividing income or expense by the average balance of assets or liabilities, respectively, for the periods shown. Average balances are measured on a daily basis. The yields and costs include fees, which are considered adjustments to yields.

	For the Year Ended December 31,								
	2006			2005			2004		
	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost
	(dollars in thousands)								
Assets:									
Interest-earning assets:									
Cash and cash equivalents(1)	$ 602	$ 126	20.93 %	$ 509	$ 53	10.41 %	$ 4,096	$ 57	1.39 %
Federal funds sold	1,123	54	4.84 %	575	20	3.50 %	621	7	1.13 %
Participation Contract			0.00 %			0.00 %	2,367	1,965	83.02 %
Investment securities(2)	53,519	2,654	4.96 %	47,564	1,924	4.05 %	43,896	1,475	3.36 %
Loans receivable, net(3)	607,439	41,294	6.80 %	546,426	31,710	5.80 %	351,968	19,719	5.60 %
Total interest-earning assets	662,683	44,128	6.66 %	595,074	33,707	5.66 %	402,948	23,223	5.76 %
Noninterest-earning assets	31,893			16,967			14,630		
Total assets	$ 694,576			$ 612,041			$ 417,578		
Liabilities and Equity:									
Interest-bearing liabilities:									
Transaction accounts	$ 91,169	1,669	1.83 %	$ 80,273	1,185	1.48 %	$ 73,818	812	1.10 %
Certificate accounts	231,420	10,185	4.40 %	224,546	7,148	3.18 %	189,021	4,670	2.47 %
Total interest-bearing deposits	322,589	11,854	3.67 %	304,819	8,333	2.73 %	262,839	5,482	2.09 %
FHLB advances and other borrowings	299,274	14,348	4.79 %	244,113	7,616	3.12 %	102,258	1,995	1.95 %
Subordinated debentures	10,310	801	7.77 %	10,310	622	6.03 %	7,939	340	4.28 %
Total interest-bearing liabilities	632,173	27,003	4.27 %	559,242	16,571	2.96 %	373,036	7,817	2.10 %
							110,197		
Noninterest-bearing liabilities	7,253			5,187			3,358		
Total liabilities	639,426			564,429			376,394		
Stockholders equity	55,150			47,612			41,184		
Total liabilities and equity	$ 694,576			$ 612,041			$ 417,578		
Net interest income		$ 17,125			$ 17,136			$ 15,406	
Net interest rate spread(4)			2.39 %			2.70 %			3.66 %
Net interest margin(5)			2.58 %			2.88 %			3.82 %
Ratio of interest-earning assets to interest-bearing liabilities			104.83 %			106.41 %			108.02 %

(1) Includes interest on float from cash disbursements.

(2) Includes unamortized discounts and premiums.

(3) Amount is net of deferred loan origination fees, unamortized discounts, premiums and allowance for estimated loan losses and includes loans held for sale and nonperforming loans. Loan fees were approximately $1.1 million, $1.6 million, and $1.6 million for the years ended December 31, 2006, 2005, and 2004, respectively.

(4) Net interest rate spread represents the difference between the yield on interest-earning assets and the cost of interest-bearing liabilities.

(5) Net interest margin represents net interest income divided by average interest-earning assets.

Rate Volume Analysis. The following table presents the extent to which changes in interest rates and changes in the volume of interest-earning assets and interest-bearing liabilities have affected our interest income and interest expense during the periods indicated. Information is provided in each category with respect to: (i) changes attributable to changes in volume (changes in volume multiplied by prior rate); (ii) changes attributable to changes in rate (changes in rate multiplied by prior volume); and (iii) the net

change. The changes attributable to the combined impact of volume and rate have been allocated proportionately to the changes due to volume and the changes due to rate.

	Year Ended December 31, 2006 Compared to Year Ended December 31, 2005 Increase (decrease) due to			Year Ended December 31, 2005 Compared to Year Ended December 31, 2004 Increase (decrease) due to		
	Average Volume (in thousands)	Average Rate	Net	Average Volume	Average Rate	Net
Interest-earning assets:						
Cash and cash equivalents	$ 11	$ 62	$ 73	$ (88)	$ 84	$ (4)
Federal funds sold	25	9	34		13	13
Investment securities	260	470	730	131	318	449
Participation Contract				(1,965)		(1,965)
Loans receivable, net	3,780	5,804	9,584	11,261	730	11,991
Total interest-earning assets	4,076	6,345	10,421	9,339	1,145	10,484
Interest-bearing liabilities:						
Transaction accounts	175	309	484	76	297	373
Certificate accounts	208	2,829	3,037	978	1,500	2,478
FHLB advances and other borrowings	1,996	4,736	6,732	3,926	1,695	5,621
Subordinated debentures		179	179	119	163	282
Total interest-bearing liabilities	2,379	8,053	10,432	5,099	3,655	8,754
Changes in net interest income	$ 1,697	$ (1,708)	$ (11)	$ 4,240	$ (2,510)	$ 1,730

Comparison of Operating Results for the Year Ended December 31, 2006 and December 31, 2005

General: For the year ended December 31, 2006, the Company reported net income of $7.4 million or $1.11 per diluted share, compared with net income of $7.2 million or $1.08 per diluted share for the same period in 2005. The $207,000 increase in net income in 2006 compared to 2005 was primarily the result of increases in total interest income of $10.4 million, total noninterest income of $2.4 million and the reversal of its valuation allowance for deferred taxes of $2.4 million, which was partially offset by increases in total interest expense of $10.4 million and noninterest expense of $3.0 million.

Interest Income: Interest income for the year ended December 31, 2006 was $44.1 million, compared to $33.7 million for the year ended December 31, 2005. The increase of $10.4 million, or 30.9%, is primarily due to interest income on loans receivable increasing $9.6 million to $41.3 million for the year ended December 31, 2006 from $31.7 million for the year ended December 31, 2005. The increase in interest income on loans was primarily the result of an increase in the average loan balance of $61.0 million from $546.5 million in 2005 to $607.4 million in 2006 combined with a 100 basis points increase in the average yield on said loans from 5.80% for 2005 to 6.80% for 2006. The increase in loan yield is primarily due to the re-pricing of our short-term adjustable-rate income property loans and the origination of higher yielding loans during 2006.

Interest Expense: Interest expense for the year ended December 31, 2006 was $27.0 million, compared to $16.6 million for the year ended December 31, 2005. The $10.4 million increase, or 63.0%, primarily reflects an increase in the average balance of deposits and FHLB advances and other borrowings of $17.8 million and $55.2 million, respectively, during the year, combined with a 131 basis points increase in the average cost of interest-bearing liabilities that was due to a higher interest rate environment.

Net Interest Income: Our primary source of revenue is net interest income, which is the difference between interest income on earning assets and interest expense on interest-bearing liabilities. Net interest income and net interest margin are affected by several factors including (1) the level of, and the

relationship between, the dollar amount of interest-earning assets and interest-bearing liabilities, (2) the relationship between repricing or maturity of our variable-rate and fixed-rate loans and securities, and our deposits and borrowings, and (3) the magnitude of our non-interest earning assets, including non-accrual loans and foreclosed real estate.

Net interest income before provision for loan losses was $17.1 million for each of the years ended December 31, 2006 and 2005.

Provision for Loan Losses: The provision for loan losses increased to $531,000 for the year ended December 31, 2006 from $349,000 for the year ended December 31, 2005. The increase in the current year provision for loan losses was primarily due to the overall shift in our loan portfolio mix toward more commercial real estate, business and SBA loans, which was partially offset by a decrease in our nonperforming loans by 58.4% from $1.7 million in 2005 to $712,000 in 2006, Net charge-offs increased $113,000 in 2006 from a net recoveries of $75,000 in 2005 to $38,000 in net charge-off in 2006. Total net loans receivable in 2006 increased $1.7 million, or 2.8%, over 2005.

Noninterest Income: Noninterest income was $6.5 million for the year ended December 31, 2006, compared to $4.1 million for the year ended December 31, 2005. The $2.4 million increase, or 57.7%, was primarily due to an increase in gains from loan sales of $3.1 million in 2006 compared to 2005. Partially offsetting the increase from the gains on loan sales was a decrease in other income from the sale and collection of charged-off loans related to the Participation Contract. During 2006 and 2005, the Company collected $171,000 and $1.0 million, respectively, in recoveries on the collection of charged-off loans associated with the Participation Contract.

Noninterest Expense: Noninterest expense for the year ended December 31, 2006 was $15.2 million compared to $12.3 million for the year ended December 31, 2005. The $2.9 million increase, or 24.2%, in noninterest expense was principally due to increases in compensation and benefits of $1.6 million and premises and occupancy of $805,000. These increases are reflective of the Bank s investments in its strategic expansion through de novo branching and the addition of experienced business bankers to staff its new locations. The number of employees at the Bank grew from 89 at December 31, 2005 to 106 at December 31, 2006. A large portion of the increases in compensation and benefits, $996,000, and premises and occupancy expense, $478,000, for the year ended December 31, 2006 compared to the prior year, is associated with the Bank s depository branches in the cities of Costa Mesa and Los Alamitos that opened in 2006 and Newport Beach (scheduled to open in the first quarter of 2007), and the SBA loan production office in Pasadena, which opened in January 2006.

Income Taxes: The provision for income taxes decreased to $450,000 for the year ended December 31, 2006 compared to a provision of $1.4 million for the year ended December 31, 2005. The Company had income before income taxes of $7.9 million for the year ended December 31, 2006 compared to income before income taxes of $8.7 million for the year ended December 31, 2005. In 2006, the Company eliminated its remaining valuation allowance for deferred taxes which reduced its provision by $2.4 million. In 2005, the Company reduced its valuation allowance for deferred taxes by $1.6 million. The elimination of the deferred tax valuation allowance is due to management s forecast of taxable earnings, based on assumptions regarding the Company s growth in the near future.

Comparison of Operating Results for the Year Ended December 31, 2005 and December 31, 2004

General: For the year ended December 31, 2005, the Company reported net income of $7.2 million or $1.08 per diluted share, compared with net income of $6.7 million or $1.02 per diluted share for the same period in 2004. The $480,000 increase in net income was primarily the result of increases in net interest income of $2.1 million which was partially offset by increases in noninterest expense and provision for income tax of $1.0 million and $464,000, respectively.

Interest Income: Interest income for the year ended December 31, 2005 was $33.7 million, compared to $23.2 million for the year ended December 31, 2004. The increase of $10.5 million, or 45.1%, is primarily due to an increase of $194.5 million in the average balance of our loans receivable, which was partially offset by no interest income from the Participation Contract in 2005 compared to $2.0 million in 2004. The three residuals that made up the Participation Contract were either sold or terminated during 2004. Interest income on loans receivable increased $12.0 million to $31.7 million for the year ended December 31, 2005 from $19.7 million for the year ended December 31, 2004. The increase in interest income on loans was primarily the result of an increase in the average loan balance from $352.0 million in 2004 to $546.5 million in 2005 combined with a 20 basis points increase in the average yield on loans. The increase in loan yield is primarily due to the re-pricing of our short-term adjustable-rate income property loans.

Interest Expense: Interest expense for the year ended December 31, 2005 was $16.6 million, compared to $7.8 million for the year ended December 31, 2004. The $8.8 million increase, or 112.0%, primarily reflects an increase in the average balance of deposits and FHLB advances and other borrowings of $42.0 million and $141.9 million, respectively, during the year, combined with an 86 basis points increase in the average cost of interest-bearing liabilities that was due to a higher interest rate environment.

Net Interest Income: Net interest income before provision for loan losses was $17.1 million for the year ended December 31, 2005, compared to $15.4 million for the year ended December 31, 2004. The $1.7 million increase, or 11.2%, in net interest income before provision for loan losses is primarily due to the $10.5 million increase in the Company s interest income which is predominately attributable to a 55.3% increase in average loans outstanding of $194.5 million, over the prior year period, which was partially offset by a decline in net interest margin of 0.94%. The average cost of interest-bearing liabilities for the Company increased to 2.96% during the year ended 2005, compared with 2.10% during the same period in 2004. The Company s yield on average earning assets was 5.66% for the year ended December 31, 2005, compared with 5.76% for the same period in 2004. Total interest income increased $10.5 million, or 45.1%, while total interest expense increased by $8.8 million, or 112.0%.

Provision for Loan Losses: The provision for loan losses decreased to $349,000 for the year ended December 31, 2005 from $705,000 for the year ended December 31, 2004. The current year provision for loan losses was primarily due to the growth in our loan portfolio. Nonperforming loans decreased by 28.8% from $2.4 million in 2004 to $1.7 million in 2005, with a corresponding decrease in net charge-offs from $63,000 in 2004 to recoveries of $75,000 in 2005. Total loans receivable in 2005 increased $133.5 million, or 28.3%, over 2004.

Noninterest Income: Noninterest income was $4.1 million for the year ended December 31, 2005, compared to $4.2 million for the year ended December 31, 2004. The $116,000 decrease, or 2.7%, was primarily due to a reduction of income associated with the Participation Contract of $1.4 million partially offset by an increase in prepayment penalties of $882,000 and gains on loan sales of $485,000. In 2004, the Participation Contract generated $2.4 million gain from the sale or termination of the three residual interest components and $141,000 from recoveries on the collection of charged-off loans associated with the Participation Contract. During 2005, the Company collected $1.0 million in recoveries on the collection of charged-off loans associated with the Participation Contract.

Noninterest Expense: Noninterest expense for the year ended December 31, 2005 was $12.3 million compared to $11.2 million for the year ended December 31, 2004. The $1.1 million increase, or 9.1%, in noninterest expense was principally due to increases in compensation and benefits of $762,000 and premises and occupancy of $166,000. The increase in compensation and benefits was primarily due to an increase in the number of employees from 80 full-time employees at December 31, 2004 to 87 full-time employees at December 31, 2005.

Income Taxes: The provision for income taxes increased to a tax provision of $1.4 million for the year ended December 31, 2005 compared to a provision of $972,000 for the year ended December 31, 2004. The Company had income before income taxes of $8.7 million for the year ended December 31, 2005 compared to income before income taxes of $7.7 million for the year ended December 31, 2004. The Company increased the deferred tax asset by reducing its deferred tax valuation allowance by $1.6 million and $1.4 million in 2005 and 2004, respectively. The decrease in the deferred tax valuation allowance is due to management s forecast of taxable earnings, based on assumptions regarding the Company s growth in the near future. As the Company achieves continuous taxable income and if the earning projections show that the Company will have the ability to use its net operating loss carry-forwards, then all or part of the remaining valuation allowance for deferred taxes of $2.4 million will be eliminated.

Comparison of Financial Condition at December 31, 2006 and December 31, 2005

Total assets of the Company were $731.1 million as of December 31, 2006, compared to $702.7 million as of December 31, 2005. The $28.4 million, or 4.0%, increase in total assets is primarily due to the purchase of $10.0 million of Bank Owned Life Insurance (BOLI) at the end of March 2006, and an increase in securities available for sale of $26.0 million, partially offset by a decrease in federal funds sold of $14.0 million.

Total liabilities of the Company were $672.8 million at December 31, 2006 compared to $652.2 million at December 31, 2005. The $20.6 million increase, or 3.2%, was primarily due to increases of $8.7 million in other borrowings and $11.5 million in deposits. Total deposits at December 31, 2006 were $339.4 million compared to $327.9 million at December 31, 2005. In addition, FHLB advances and other borrowings increased by $3.5 million and $5.2 million, respectively, as of December 31, 2006 compared to the prior year-end.

At December 31, 2006 and 2005, our stockholders equity amounted to $58.3 million and $50.6 million, respectively. The increase in stockholders equity was due primarily to $7.4 million of net income for the year ended December 31, 2006.

Liquidity

Our primary sources of funds are principal and interest payments on loans, deposits and FHLB advances. While maturities and scheduled amortization of loans are a predictable source of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions and competition. We seek to maintain a level of liquid assets to ensure a safe and sound operation. Our average liquidity ratios were 7.20%, 6.32% and 13.70% for the years ended December 31, 2006, 2005 and 2004, respectively. The liquidity ratio is calculated by dividing the sum of cash balances plus unpledged securities by the sum of deposits that mature in one year or less plus transaction accounts and FHLB advances. Our liquidity is monitored daily.

We believe the level of liquid assets is sufficient to meet current and anticipated funding needs. Liquid assets of the Bank (which are comprised of cash and unpledged investments) represent approximately 9.2% of total assets at December 31, 2006, 9.9% of total assets at December 31, 2005 and 6.2% of total assets at December 31, 2004. At December 31, 2006, the Bank had four unsecured lines of credit with other correspondent banks totaling $30.0 million to purchase federal funds as business needs dictate. The

Bank had $5.0 million on these lines at year end. Also, in March 2004, the Bank established a $100.0 million credit facility which is secured by investments pledged to Salomon Brothers. We also have a line of credit with FHLB allowing us to borrow up to 45% of the Bank s total assets as of September 30, 2006 or $318.1 million, $300.3 million of which was outstanding as of such date. The FHLB advance line is collateralized by eligible loan collateral. At December 31, 2006, we had approximately $480.2 million of loans pledged to secure FHLB borrowings.

We had commitments for capital expenditures of $910,000 at December 31, 2006 related to the construction of our branch located in Newport Beach, California, that opened in the first quarter of 2007. At December 31, 2006, we had $685,000 in outstanding commitments to originate or purchase loans compared to $2.2 million and $8.1 million at December 31, 2005 and 2004, respectively.

The Bank s loan to deposit and borrowing ratio was 91.9%, 94.5% and 96.4% as of December 31, 2006, 2005 and 2004, respectively. Certificates of deposit, which are scheduled to mature in one year or less from December 31, 2006, totaled $228.3 million. We expect to retain a substantial portion of the maturing certificates of deposit at maturity.

Capital Resources

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

At December 31, 2006 and 2005, the Bank s leverage capital amounted to $60.7 million and $54.4 million, respectively, and its risk-based capital amounted to $64.1 million and $57.1 million, respectively. As a result, the Bank exceeded the capital levels required to be considered well capitalized at that date. Pursuant to regulatory guidelines under prompt corrective action rules, a bank must have total risk-based capital of 10% or greater, Tier 1 risk-based capital of 6% or greater and a leverage ratio of 5% or greater to be considered well capitalized. At December 31, 2006, the Bank s total risk-based capital, Tier 1 risk-based capital and leverage ratios were 11.55%, 10.94%, and 8.38%, respectively.

Contractual Obligations and Commitments

The Company enters into contractual obligations in the normal course of business as a source of funds for its asset growth and to meet required capital needs. The following schedule summarizes our contractual obligations as of December 31, 2006:

		Payment Due by Period			
	Total	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
	(in thousands)				
Contractual Obligations:					
FHLB borrowings	$ 300,300	$ 150,300	$ 150,000	$	$
Other borrowings	16,191	16,191			
Certificates of deposit	242,688	228,250	8,936	3,574	1,928
Operating leases	6,596	625	1,224	1,271	3,476
Total contractual cash obligations	$ 565,775	$ 395,366	$ 160,160	$ 4,845	$ 5,404

The following table summarizes our contractual commitments with off-balance sheet risk as of December 31, 2006:

	2006 **(in thousands)**
Other unused commitments:	
Loans to originate	$ 685
Home equity lines of credit	510
Commercial lines of credit	17,690
Commercial letters of credit	8
Standby letters of credit	165

Impact of Inflation and Changing Prices

Our consolidated financial statements and related data presented in this annual report on Form 10-K have been prepared in accordance with accounting principles generally accepted in the United States which require the measurement of financial position and operating results in terms of historical dollar amounts (except with respect to securities classified as available for sale which are carried at market value) without considering the changes in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased cost of our operations. Unlike most industrial companies, substantially all of our assets and liabilities are monetary in nature. As a result, interest rates have a greater impact on our performance than do the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or to the same magnitude as the price of goods and services.

Impact of New Accounting Standards

In December 2004, the FASB SFAS No. 123R which is a revision to SFAS No. 123, and which addresses the accounting for transactions in which an enterprise receives employee services in exchange for (a) equity instruments of the enterprise or (b) liabilities that are based on the fair value of the enterprise s equity instruments or that may be settled by the issuance of such equity instruments. This statement eliminates the ability to account for share-based compensation transactions using Accounting Principles Board Opinion (APB) No. 25 (APB No. 25), and generally requires instead that such transactions be accounted for using a fair-value-based method. The statement does not change the accounting in SFAS No. 123, for transactions in which an enterprise exchanges its equity instruments for services of parties other than employees or the accounting for employee stock ownership plans, which are subject to SOP 93-6.

The phase-in period for this statement, as amended April 14, 2005 by the SEC, began in the first quarter of 2006. Based on the SEC s phase-in period, we adopted SFAS No. 123R on January 1, 2006 and account for share-based compensation based on this new pronouncement. We compute compensation expense for stock options using the Black-Scholes valuation model and utilize the modified prospective method under SFAS No. 123R.

In March 2005, the SEC issued SAB No. 107, which provided interpretative guidance on SFAS No. 123R valuation method assumptions used in valuation models and the interaction of SFAS No. 123R with existing guidance.

In May 2005, FASB issued SFAS No. 154. SFAS No. 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. It establishes, unless impracticable, retrospective application as the required method for reporting a change in accounting principle in the absence of explicit transition requirements specific to the newly adopted accounting principle. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The

adoption of SFAS No. 154, effective January 1, 2006, did not have a material impact on our financial condition or operating results.

In February 2006, FASB issued SFAS No. 155, an amendment of SFAS No. 133 and SFAS No. 140. The provisions of this statement allow financial instruments that have embedded derivatives to be accounted for as a whole if the holder elects to account for the whole instrument on a fair value basis, and establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation. The new statement also amends SFAS No. 140 to eliminate the prohibition on a qualifying special purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. The provisions of this standard are effective as of the beginning of our fiscal year 2007. We do not expect the adoption of SFAS No. 155 to have a material impact on our financial condition or operating results.

In March 2006, FASB issued SFAS No. 156. The provisions of this statement require mortgage servicing rights to be initially valued at fair value. SFAS No. 156 also allows servicers to choose one of the following measurement methods subsequent to the initial fair value measurement: (1) the fair-value-measurement method , which measures servicing rights at fair value at each reporting date, with changes in fair value reported in earnings or (2) the amortization method , which allows continued amortization of servicing rights over the period of estimated net servicing income or loss, consistent with the existing requirements of SFAS No. 140. The provisions of this standard are effective as of the beginning of our fiscal year 2007. We currently use the amortization method to account for our servicing rights, and we expect to continue this practice after implementing SFAS No. 156. We do not expect the adoption of SFAS No. 156 to have a material impact on our financial condition or operating results.

In June 2006, the FASB issued FIN No. 48. This interpretation clarifies the accounting for uncertainty in income taxes in an entity s financial statements, in accordance with FASB Statement No. 109, *Accounting for Income Taxes* by prescribing the minimum recognition threshold a tax position must meet before being recognized in the financial statements. FIN No. 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure, and transition. We do not expect FIN No. 48, which is effective for fiscal years beginning after December 15, 2006, to have a material impact on our financial condition or operating results.

In September 2006, the FASB issued SFAS No. 157, a standard that provides enhanced guidance for using fair value to measure assets and liabilities. The standard also responds to investors requests for expanded information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. The standard applies whenever other standards require (or permit) assets or liabilities to be measured at fair value. Under the standard, fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts. The standard clarifies that fair value should be based on the assumptions market participants would use when pricing the asset or liability. In support of this principle, the standard establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data, for example, the reporting entity s own data. Under the standard, fair value measurements would be separately disclosed by level within the fair value hierarchy. It is required that we adopt SFAS No. 157 on January 1, 2008; however Management is evaluating the financial impact and may choose to adopt SFAS No. 157 effective January 1, 2007.

In September 2006, the FASB issued SFAS No. 158, which will require employers to fully recognize the obligations associated with single-employer defined benefit pension, retiree healthcare and other postretirement plans in their financial statements. The standard will make it easier for investors,

employees, retirees and others to understand and assess an employer s financial position and its ability to fulfill the obligations under its benefit plans. Specifically, SFAS No. 158 requires an employer to (a) recognize in its balance sheet an asset for a plan s overfunded status or a liability for a plan s underfunded status; (b) measure a plan s assets and its obligations that determine its funded status as of the end of the employer s fiscal year (with limited exceptions); and (c) recognize changes in the funded status of a defined benefit postretirement plan in the year in which the changes occur. Those changes will be reported in comprehensive income of a business entity. The adoption of SFAS No. 158 did not have a material impact on our financial condition or operating results. The requirement to recognize the funded status of a benefit plan and the disclosure requirements are effective as of December 31, 2006.

In September 2006, the SEC staff issued SAB No. 108, which expresses the SEC staff s views regarding the process of quantifying financial statement misstatements. SAB No. 108 was issued primarily to address diversity in the practice of quantifying financial statement misstatements and the potential under current practice to build up improper amounts on the balance sheet. This new guidance applies when uncorrected misstatements affect the current year. To eliminate diversity in practice, SAB No. 108 requires registrants to quantify misstatements using both the rollover and iron curtain methods, and then determine if either method results in a material error, as quantified in the existing guidance of Staff Accounting Bulletin No. 99 *Materiality* . SAB No. 108 is effective for errors identified during the year ended December 31, 2006. The adoption of SAB No. 108 did not have a material impact on our financial condition or operating results.

In February 2007, the FASB issued SFAS No. 159, which provides companies with an option to report selected financial assets and liabilities at fair value. This statement requires companies to display on the face of the balance sheet the fair value of those assets and liabilities for which they have chosen to use fair value. This standard also requires companies to provide additional information that will help investors and other users of financial statements to easily understand the effect on earnings of a company s choice to use fair value. SFAS No. 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. This statement is effective as of our fiscal year beginning January 1, 2008. It is required that we adopt SFAS No. 159 on January 1, 2008; however Management is evaluating the financial impact and may choose to adopt SFAS No. 159 effective January 1, 2007.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

Interest Rate Risk Management. The principal objective of the Company s interest rate risk management function is to evaluate the interest rate risk included in certain balance sheet accounts, determine the level of appropriate risk given the Company s business focus, operating environment, capital and liquidity requirements and performance objectives and manage the risk consistent with Board-approved guidelines through the establishment of prudent asset and liability concentration guidelines. Through such activities, management seeks to reduce the vulnerability of the Company s operations to changes in interest rates. Management monitors its interest rate risk as such risk relates to its operational strategies. The Bank s board of directors reviews on a quarterly basis the Bank s asset/liability position, including simulations of the effect on the Bank s capital in various interest rate scenarios. The extent of the movement of interest rates, higher or lower, is an uncertainty that could have a negative impact on the earnings of the Company.

Net Portfolio Value. The Bank s interest rate sensitivity is monitored by management through the use of a model that estimates the change in net portfolio value (NPV) over a range of interest rate scenarios. NPV is the present value of expected cash flows from assets, liabilities and off-balance sheet contracts. A NPV Ratio, in any interest rate scenario, is defined as the NPV in that scenario divided by the

market value of assets in the same scenario. The sensitivity measure is the decline in the NPV Ratio, in basis points, caused by a 2% increase or decrease in rates; whichever produces a larger decline (the Sensitivity Measure). The higher an institution s Sensitivity Measure is, the greater its exposure to interest rate risk is considered to be. The Bank utilizes a market value model prepared by the OTS (the OTS NPV model), which is prepared quarterly, based on the Bank s quarterly Thrift Financial Reports filed with the OTS. The OTS NPV model measures the Bank s interest rate risk by estimating the Bank s NPV, which is the net present value of expected cash flows from assets, liabilities and any off-balance sheet contracts, under various market interest rate scenarios, which range from a 300 basis point increase to a 300 basis point decrease in market interest rates.

As of December 31, 2006 and 2005, the Bank s Sensitivity Measure, as measured by the OTS, was +25 and +15 basis points, respectively; as a result of a hypothetical 200 basis point instantaneous increase in interest rates. This would correspondingly result in a $940,000 increase for 2006 and a $720,000 increase for 2005, respectively, in the NPV of the Bank.

Interest Rate Sensitivity of Net Portfolio Value (NPV)

The following table show the NPV and projected change in the NPV of the Bank at December 31, 2006, assuming an instantaneous and sustained change in market interest rates of 100, 200, and 300 basis points (bp):

As of December 31, 2006
(dollars in thousands)

Net Portfolio Value Change in Rates	**$ Amount**	**$ Change**	**% Change**	**NPV Ratio**	**NPV as % of Portfolio Value of Assets % Change (BP)**
+300 BP	$ 67,880	$ (1,611)	(2.0)%	9.46 %	-1 BP
+200 BP	70,432	940	1.0 %	9.72 %	25 BP
+100 BP	70,047	555	1.0 %	9.61 %	13 BP
Static	69,491		0.0 %	9.47 %	
-100 BP	68,753	(739)	(1.0)%	9.32 %	-16 BP
-200 BP	67,625	(1,866)	(3.0)%	9.11 %	-36 BP
-300 BP *					

* The model was not able to calculate meaningful results due to the low interest rate environment.

Certain shortcomings are inherent in the methodology used in the above interest rate risk measurements. Modeling changes in NPV requires the making of certain assumptions that may tend to oversimplify the manner in which actual yields and costs respond to changes in market interest rates. First, the models assume that the composition of the Bank s interest sensitive assets and liabilities existing at the beginning of a period remains constant over the period being measured. Second, the models assume that a particular change in interest rates is reflected uniformly across the yield curve regardless of the duration to maturity or repricing of specific assets and liabilities. Third, the model does not take into account the impact of the Bank s business or strategic plans on the structure of interest-earning assets and interest- bearing liabilities. Although the NPV measurement provides an indication of the Bank s interest rate risk exposure at a particular point in time, such measurement is not intended to, does not provide a precise forecast of the effect of changes in market interest rates on the Bank s net interest income, and will differ from actual results.

Selected Assets and Liabilities which are Interest Rate Sensitive. The following table provides information regarding the Bank s primary categories of assets and liabilities that are sensitive to changes in interest rates for the year ended December 31, 2006. The information presented reflects the expected cash

flows of the primary categories by year including the related weighted average interest rate. The cash flows for loans are based on maturity and re-pricing date. The loans and mortgage-backed securities that have adjustable rate features are presented in accordance with their next interest-repricing date. Cash flow information on interest-bearing liabilities, such as passbooks, NOW accounts and money market accounts also is adjusted for expected decay rates, which are based on historical information. In addition, for purposes of cash flow presentation, premiums or discounts on purchased assets, and mark-to-market adjustments are excluded from the amounts presented. All certificates of deposit and borrowings are presented by maturity date.

Maturities and Repricing

At December 31, 2006	2007 Year 1	2008 Year 2	2009 Year 3	2010 Year 4	2011 Year 5	Thereafter
	(dollars in thousands)					
Selected Assets:						
Investments and Federal Funds	$ 36,748	$	$	$	$	$
Average Interest Rate	4.84 %					
Mortgage Backed Securities						
Fixed Rate	$	$ 8,512	$	$	$ 2,141	$ 14,024
Average Interest Rate		4.68 %	0.00 %		5.48 %	4.97 %
Mortgage Backed Securities						
Adjustable Rate	$	$	$		$	$ 10,403
Average Interest Rate						5.59 %
Loans Fixed Rate	$ 1,641	$ 173	$ 214	$ 115	$ 806	$ 46,116
Average Interest Rate	6.52 %	6.35 %	7.00 %	8.00 %	8.24 %	7.37 %
Loans Adjustable Rate	$ 13,215	$ 14,138	$ 146	$ 197	$ 1,026	$ 529,832
Average Interest Rate	9.04 %	9.59 %	8.50 %	10.25 %	8.98 %	7.10 %
Selected Liabilities						
Interest-bearing transaction accounts	$ 12,631	$ 10,105	$ 8,084	$ 6,467	$ 5,174	$ 20,694
Average Interest Rate	2.78 %	2.78 %	2.78 %	2.78 %	2.78 %	2.78 %
Certificates of Deposits	$ 227,658	$ 8,987	$ 3,523	$ 913	$ 330	$ 686
Average Interest Rate	5.02 %	4.17 %	4.29 %	4.67 %	4.83 %	4.75 %
FHLB Advances	$ 150,300	$ 150,000	$	$	$	$
Average Interest Rate	5.48 %	4.94 %				
Lines of Credit and Subordinated Debentures	$ 21,310	$	$	$	$	$
Average Interest Rate	6.43 %					

The Bank does not have any foreign exchange exposure or any commodity exposure and therefore does not have any market risk exposure for these issues.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
Pacific Premier Bancorp, Inc. and Subsidiaries
Costa Mesa, California

We have audited the accompanying consolidated statements of financial condition of Pacific Premier Bancorp and Subsidiaries (the Company) as of December 31, 2006 and 2005, and the related consolidated statements of income, changes in stockholders equity and cash flows for each of the three years in the period ended December 31, 2006. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 Premier Bancorp and Subsidiaries as of December 31, 2006 and 2005, and the results of its operations, changes in its stockholders equity, and its cash flows for each of the three years in the period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

/s/ VAVRINEK, TRINE, DAY & CO., LLP
Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants
Rancho Cucamonga, California
April 2, 2007

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PACIFIC PREMIER BANCORP, INC., AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(dollars in thousands, except share data)

	At December 31, 2006	2005
ASSETS		
Cash and due from banks	$ 7,028	$ 10,055
Federal funds sold	10,012	24,000
Cash and cash equivalents	17,040	34,055
Investment securities available for sale	61,816	35,850
Investment securities held to maturity:		
Federal Home Loan Bank Stock, at cost	15,328	13,945
Loans held for sale, net	795	456
Loans held for investment, net	604,304	602,937
Accrued interest receivable	3,764	3,007
Foreclosed real estate	138	211
Premises and equipment	8,622	5,984
Current income taxes	130	133
Deferred income taxes	6,992	5,188
Bank owned life insurance	10,344	
Other assets	1,601	930
TOTAL ASSETS	$730,874	$702,696
LIABILITIES AND STOCKHOLDERS EQUITY		
LIABILITIES:		
Deposit accounts		
Noninterest bearing	$ 33,607	$ 21,803
Interest bearing	305,842	306,133
Total Deposits	339,449	327,936
Borrowings	316,491	307,835
Subordinated debentures	10,310	10,310
Accrued expenses and other liabilities	6,586	6,073
TOTAL LIABILITIES	672,836	652,154
COMMITMENTS AND CONTINGENCIES (Note 11)		
STOCKHOLDERS EQUITY:		
Preferred Stock, $.01 par value; 1,000,000 shares authorized; no shares outstanding		
Common stock, $.01 par value; 15,000,000 shares authorized; 5,263,488 (2006) and 5,228,438 (2005) shares issued and outstanding	53	53
Additional paid-in capital	67,306	67,161
Accumulated deficit	(8,631)	(16,059)
Accumulated other comprehensive loss, net of tax of $483 (2006) and $428 (2005)	(691)	(613)
TOTAL STOCKHOLDERS EQUITY	58,038	50,542
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$730,874	$702,696

See Notes to Consolidated Financial Statements.

PACIFIC PREMIER BANCORP, INC., AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(dollars in thousands, except per share data)

	For the Years ended December 31,		
	2006	2005	2004
INTEREST INCOME:			
Loans	$ 41,294	$ 31,710	$ 19,719
Investment securities and other interest-earning assets	2,834	1,997	3,504
Total interest income	44,128	33,707	23,223
INTEREST EXPENSE:			
Interest-bearing deposits	11,854	8,333	5,482
Borrowings	14,348	7,616	1,995
Subordinated debentures	801	622	340
Total interest expense	27,003	16,571	7,817
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES	17,125	17,136	15,406
PROVISION FOR LOAN LOSSES	531	349	705
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	16,594	16,787	14,701
NONINTEREST INCOME:			
Loan servicing fee income	1,515	1,541	616
Deposit fee income	514	480	592
Net gain from sale of loans	3,697	590	105
Net gain on Participation Contract and investment securities			2,368
Other income	789	1,519	565
Total noninterest income	6,515	4,130	4,246
NONINTEREST EXPENSE:			
Compensation and benefits	9,231	7,612	6,850
Premises and occupancy	2,327	1,522	1,356
Data processing and communications	385	335	310
Net loss (gain) on foreclosed real estate	39	(14)	(8)
Legal and audit	622	665	879
Marketing expenses	693	382	261
Office and postage expense	372	383	303
Other expense	1,562	1,375	1,283
Total noninterest expense	15,231	12,260	11,234
INCOME BEFORE INCOME TAX PROVISION	7,878	8,657	7,713
INCOME TAX PROVISION	450	1,436	972
NET INCOME	$ 7,428	$ 7,221	$ 6,741
EARNINGS PER SHARE:			
Basic earnings per share	$ 1.41	$ 1.37	$ 1.28
Diluted earnings per share	$ 1.11	$ 1.08	$ 1.02
WEIGHTED AVERAGE SHARES OUTSTANDING:			
Basic	5,261,897	5,256,906	5,256,334
Diluted	6,684,915	6,658,240	6,622,735

See Notes to Consolidated Financial Statements.

PACIFIC PREMIER BANCORP, INC., AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY

AND OTHER COMPREHENSIVE INCOME

(dollars in thousands)

	Common Stock Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (loss)	Comprehensive Income (Loss)	Total Stockholders Equity
Balance at December 31, 2003	5,255,072	$ 53	$ 67,546	$ (30,021)	$ (246)		$ 37,332
Comprehensive Income							
Net income				6,741		$ 6,741	6,741
Unrealized loss on investments, net of tax of $217					(63)	(63)	(63)
Total comprehensive income						$ 6,678	
Exercise of options	3,666		18				18
Balance at December 31, 2004	5,258,738	$ 53	$ 67,564	$ (23,280)	$ (309)		$ 44,028
Comprehensive Income							
Net income				7,221		$ 7,221	7,221
Unrealized loss on investments, net of tax of $211					(304)	(304)	(304)
Total comprehensive income						$ 6,917	
Exercise of options	3,750		28				28
Repurchase of common stock	(38,550)		(442)				(442)
Issuance of restricted stock	4,500						48
Share-based compensation expense			11				11
Balance at December 31, 2005	5,228,438	$ 53	$ 67,198	$ (16,059)	$ (613)		$ 50,579
Comprehensive Income							
Net income				7,428		$ 7,428	7,428
Unrealized loss on investments, net of tax of $55					(78)	(78)	(78)
Total comprehensive income						$ 7,350	
Exercise of stock options	6,500		57				57
Issuance of restricted stock	35,050						400
Share-based compensation expense			122				122
Restricted stock vested		1	(1)				
Forfeit of restricted stock	(750)						
Retirement of common stock	(3,000)						(35)
Repurchase of common stock	(2,750)		(33)				(31)
Balance at December 31, 2006	5,263,488	$ 53	$ 67,589	$ (8,631)	$ (691)		$ 58,320

See Notes to Consolidated Financial Statements.

PACIFIC PREMIER BANCORP, INC., AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(dollars in thousands)

	For the Years ended December 31, 2006	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 7,428	$ 7,221	$ 6,741
Adjustments to net income:			
Depreciation expense	532	344	446
Provision for loan losses	531	349	705
Share-based compensation expense	122	11	
Loss on sale, provision, and write-down of foreclosed real estate	57	118	66
Loss on sale and disposal on premises and equipment	8	4	21
Net unrealized and realized loss and accretion on investment securities, residual mortgage-backed securities, and related mortgage servicing rights	126	301	333
Gain on sale of loans held for sale	(77)		
Loss on sale of investment securities available for sale			42
Purchase and origination of loans held for sale	(1,083)		
Proceeds from the sales of and principal payments from loans held for sale	1,749	37	41
Gain on sale of loans held for investment	(3,620)	(590)	(105)
Net accretion on Participation Contract			(1,964)
Gain on sale and termination of Participation Contract			(2,410)
Change in current and deferred income tax receivable	(1,801)	(1,660)	(711)
Increase in accrued expenses and other liabilities	513	2,574	1,510
Federal Home Loan Bank stock dividend	(734)	(423)	(90)
Income from bank owned life insurance	(344)		
Increase in accrued interest receivable and other assets	(1,428)	(1,270)	(860)
Net cash provided by operating activities	1,979	7,016	3,765
CASH FLOW FROM INVESTING ACTIVITIES			
Proceeds from sale and principal payments on loans held for investment	345,015	144,254	75,451
Purchase and origination of loans held for investment	(344,730)	(277,326)	(299,409)
Proceeds from sale and termination of residual assets of Participation Contract			8,848
Proceeds from Participation Contract			1,503
Principal payments on securities available for sale	638		840
Proceeds from sale of foreclosed real estate	525	259	1,125
Purchase of securities available for sale	(26,808)		(5,314)
Proceeds from sale or maturity of securities available for sale			7,436
Increase in premises and equipment	(3,180)	(1,114)	(381)
Proceeds from sale and disposal of premises and equipment	2	26	
Purchase of bank owned life insurance	(10,000)		
Purchase of FHLB stock	(649)	(5,133)	(5,869)
Net cash used in investing activities	(39,187)	(139,476)	(215,770)
CASH FLOW FROM FINANCING ACTIVITIES			
Net increase in deposit accounts	11,513	39,049	67,440
(Payment) proceeds from other borrowings	15,191	(17,400)	18,400
Proceeds from FHLB advances	(6,535)	128,835	129,400
Issuance of subordinated debentures			10,310
Repurchase of common stock	(33)	(442)	
Proceeds from exercise of stock options	57	28	18
Net cash provided by financing activities	20,193	150,070	225,568
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(17,015)	18,052	13,563
CASH AND CASH EQUIVALENTS, beginning of year	34,055	16,003	2,440
CASH AND CASH EQUIVALENTS, end of year	$ 17,040	$ 34,055	$ 16,003
SUPPLEMENTAL CASH FLOW DISCLOSURES:			
Interest paid	$ 26,918	$ 15,783	$ 7,647
Income taxes paid	$ 2,076	$ 2,349	$ 1,039
NONCASH OPERATING ACTIVITIES DURING THE PERIOD:			
Restricted stock vested	$ 1	$	$
NONCASH INVESTING ACTIVITIES DURING THE PERIOD:			
Loan Transfers Loans held for sale from held for investment	$ 1,223	$	$
Loan Transfers Loans held for investment from held for sale	$ 279	$	$
Transfers from loans to foreclosed real estate	$ 509	$ 237	$ 563

See Notes to Consolidated Financial Statements.

PACIFIC PREMIER BANCORP, INC., AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business and Summary of Significant Accounting Policies

Basis of Presentation and Description of Business *The* consolidated financial statements include the accounts of Pacific Premier Bancorp, Inc., (the Corporation) and its wholly owned subsidiaries, Pacific Premier Bank (the Bank) and Pacific Premier Investment Services, Inc. (consolidated into the Bank in 2004) (collectively, the Company). All significant intercompany accounts and transactions have been eliminated in consolidation.

The Corporation, a Delaware corporation organized in 1997, is a savings and loan holding company that owns 100% of the capital stock of the Bank, the Corporation s principal operating subsidiary. The Bank was incorporated and commenced operations in 1983.

The Company accounts for its investments in its wholly owned special purpose entities, PPBI Statutory Trust I, (the Trust) using the equity method under which the subsidiaries net earnings are recognized in the Company s Statement of Income and the investment in the Trust is included in Other Assets on the Company s Balance Sheet.

The principal business of the Bank is attracting deposits from the general public and investing those deposits, together with funds generated from operations and borrowings, primarily in multi-family (apartment buildings of five units or more) and commercial real estate property loans. At December 31, 2006, the Bank had five depository branches located in the cities of Costa Mesa, Los Alamitos, San Bernardino, Seal Beach and Huntington Beach and one loan production office located in Pasadena.

Cash and cash equivalents *Cash* and cash equivalents include cash on hand and due from banks. At December 31, 2006, $757,000 was allocated to cash reserves required by the Federal Reserve Board for depository institutions based on the amount of deposits held. The Bank maintains amounts due from banks that exceed federally insured limits. The Bank has not experienced any losses in such accounts.

Securities Available for Sale *Investments* in debt securities that management has no immediate plan to sell, but which may be sold in the future, are valued at fair value. Realized gains and losses, based on the amortized cost of the specific security, are included in noninterest income as net gain (loss) on investment securities. Unrealized holding gains and losses, net of tax, on available for sale securities are reported as a net amount in a separate component of capital until realized.

Securities Held to Maturity *Investments* in debt securities that management has the positive intent and ability to hold to maturity are reported at cost and adjusted for premiums and discounts that are recognized in interest income using the interest method over the period to maturity.

Impairment of Investments *Declines* in the fair value of individual held-to-maturity and available-for-sale securities below their cost that are other-than-temporary result in write-downs of the individual securities to their fair value. The related write-downs are included in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers i) the length of time and the extent to which the market value has been less than cost; ii) the financial condition and near-term prospects of the issuer; iii) the intent and ability of the Company to retain its investment in a security for a period of time sufficient to allow for any anticipated recovery in market value; and iv) general market conditions which reflect prospects for the economy as a whole, including interest rates and sector credit spreads.

Participation Contract *The* Participation Contract represented the right to receive 50% of any cash realized from three residual mortgage-backed securities. The right to receive cash flows under the

Participation Contract began after the purchaser of the residual mortgage-backed securities recaptured its initial cash investment and a 15% internal rate of return. During 2004, the Company sold its share of the residual interest in the 1998-1 component of the Participation Contract and the 1997-2 and 1997-3 components of the Participation Contract were terminated early and the performing assets sold. Thus, the Participation Contract was no longer on the Company s books at or after December 31, 2004. However, the Company is entitled to 50% of the charge-off recoveries associated with the 1997-2 and 1997-3 components of the Participation Contract. The recoveries from the 1997-2 and 1997-3 components were $171,000 and $1.0 million in the years 2006 and 2005, respectively, and are shown under Other Income.

Loans Held for Sale *Loans* held for sale, consisted of the guarantee portion of our SBA loans at December 31, 2006 and of single family loans at December 31, 2005, are carried at the lower of cost or market. Premiums paid and discounts obtained on such loans held for sale are deferred as an adjustment to the carrying value of the loans until the loans are sold. Interest is recognized as revenue when earned according to the terms of the loans and when, in the opinion of management, it is collectible. Loans are evaluated for collectability, and if appropriate, previously accrued interest is reversed.

Loans Held for Investment *The* Bank s real estate loan portfolio consists primarily of adjustable rate long-term loans secured by first trust deeds on multi-family mortgages and commercial properties and first and second trust deeds on single-family residences.

Loans held for investment are carried at amortized cost and net of deferred loan origination fees and costs and allowance for loan losses. Net deferred loan origination fees and costs on loans are amortized or accreted using the interest method over the expected lives of the loans. Amortization of deferred loan fees is discontinued for nonperforming loans. Loans held for investment are not adjusted to the lower of cost or estimated market value because it is management s intention, and the Bank has the ability, to hold these loans to maturity.

Interest on loans is credited to income as earned. Interest receivable is accrued only if deemed collectible.

The Bank considers a loan impaired when it is probable that the Bank will be unable to collect all contractual principal and interest payments under the terms of the original loan agreement. Loans are evaluated for impairment as part of the Bank s normal internal asset review process. However, in determining when a loan is impaired, management also considers the loan documentation, current loan to value ratio and the borrower s current financial position. Included as impaired loans are all loans delinquent 90 days or more and all loans that have a specific loss allowance applied to adjust the loan to fair value. The accrual of interest on impaired loans is discontinued after a 90-day delinquent period, based upon the contractual terms of the loan, or when, in management s opinion, the borrower may be unable to meet payments as they become due. When the interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received. Interest accruals are resumed on such loans only when they are brought fully current with respect to interest and principal and when, in the judgment of management, the loans are estimated to be fully collectible as to both principal and interest. Where impairment is considered other than temporary, a charge-off is recorded; where impairment is considered temporary, an allowance is established. Impaired loans, which are performing under the contractual terms, are reported as performing loans, and cash payments are allocated to principal and interest in accordance with the terms of the loans.

Allowance for Loan Losses *It* is the policy of the Bank to maintain an allowance for loan losses at a level deemed appropriate by management to provide for known or inherent risks in the portfolio. Management s determination of the adequacy of the loan loss allowance is based on an evaluation of the composition of the portfolio, actual loss experience, current economic conditions, industry charge-off experience on income property loans and other relevant factors in the area in which the Bank s lending and real estate activities are based. These factors may affect the borrowers ability to pay and the value of the

underlying collateral. The Bank s methodology for assessing the appropriateness of the allowance consists of several key elements, which include the formula allowance and specific allowance for identified problem loans. The formula allowance is calculated by applying loss factors to loans held for investment. The loss factors are applied according to loan program type and loan classification. The loss factors for each program type and loan classification are evaluated on a quarterly basis and are established based primarily upon the Bank s historical loss experience and the industry charge-off experience. The unallocated allowance is based upon management s evaluation of various conditions, the effect of which is not directly measured in the determination of the formula and specific allowance. The evaluation of the inherent loss with respect to these conditions is subject to a higher degree of uncertainty because they are not identified with specific problem credits or portfolio segments. The conditions evaluated in connection with the unallocated allowance include the following conditions that existed as of the balance sheet date: (1) then-existing general economic and business conditions affecting the key lending areas of the Bank, (2) credit quality trends, (3) loan volumes and concentrations, (4) recent loss experience in particular segments of the portfolio, and (5) regulatory examination results. Various regulatory agencies, as an integral part of their examination process, periodically review the Bank s allowance for loan losses. Such agencies may require the Bank to recognize additions to the allowance based on judgments different from those of management. Specific allowances are established for certain loans where management has identified significant conditions or circumstances related to a credit that management believes indicates the probability that a loss has been incurred in excess of the amount determined by the application of the formula allowance. A specific allowance is calculated by subtracting the current market value less estimated selling and holding costs from the loan balance. Specific loss allowances are established if the fair value of the loan or the collateral is estimated to be less than the gross carrying value of the loan. At December 31, 2006, the Bank had $60,000 in a specific allowance on loans 90 days or more past due.

Although management uses the best information available to make these estimates, future adjustments to the allowance may be necessary due to economic, operating, regulatory and other conditions that may be beyond the Bank s control.

Foreclosed Real Estate *Real* estate properties acquired through, or in lieu of, loan foreclosure are initially recorded at the lesser of fair value less cost to sell or the balance of the loan at the date of foreclosure through a charge to the allowance for estimated loan losses. It is the policy of the Bank to obtain an appraisal and/or market valuation on all real estate owned at the time of possession. After foreclosure, valuations are periodically performed by management and additional write downs are charged to operations if the carrying value of a property exceeds its fair value less estimated costs to sell. Revenue and expenses from operations and changes in the valuation allowance are included in net loss on foreclosed real estate in the consolidated statement of operations.

Premises and Equipment *Premises* and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets, which range from 40 years for buildings, the remaining term of the lease for leasehold improvements, seven years for furniture, fixtures and equipment, and three years for computer and telecommunication equipment.

The Company periodically evaluates the recoverability of long-lived assets, such as premises and equipment, to ensure the carrying value has not been impaired.

Income Taxes *Deferred* tax assets and liabilities are recorded for the expected future tax consequences of events that have been recognized in the Company s financial statements or tax returns using the asset liability method. In estimating future tax consequences, all expected future events other than enactments of changes in the tax law or rates are considered. In the years 2000 and 2001, management deemed it necessary to establish a valuation allowance totaling $11.6 million on the deferred tax assets. With the recapitalization in the year 2002 and the return to profitability, management began to reduce the

valuation allowance as it appeared that it was more likely than not that the deferred tax assets would be realized. During 2006, the Company reversed the remaining valuation allowance of $2.4 million, as the deferred tax assets were determined, more likely than not, to be realized based on the Company s quarterly analysis of its valuation allowance for deferred taxes. As of December 31, 2006, the valuation allowance was zero.

Bank owned life insurance *Bank* owned life insurance is accounted for using the cash surrender value method and is recorded at its realizable value. The change in the net asset value is included in other assets and other non-interest income.

Presentation of Cash Flows *For* purposes of reporting cash flows, cash and cash equivalents include cash and due from banks.

Advertising Costs *The* Company expenses the costs of advertising in the period incurred.

Use of Estimates *The* preparation of the consolidated 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, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the valuation of foreclosed real estate and deferred tax assets.

Comprehensive Income The Company adopted Statement of Financial Accounting Standard (SFAS) No.130, *Reporting Comprehensive Income* , which requires the disclosure of comprehensive income and its components. Changes in unrealized gain (loss) on available-for-sale securities net of income taxes is the only component of accumulated other comprehensive income for the Company.

Fair Value of Financial Instruments *SFAS* No. 107, Disclosures About Fair Value of Financial Instruments (SFAS No. 107) specifies the disclosure of the estimated fair value of financial instruments. The Company s estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies.

However, considerable judgment is required to develop the estimates of fair value. Accordingly, the estimates are not necessarily indicative of the amounts the Company could have realized in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since the balance sheet date and, therefore, current estimates of fair value may differ significantly from the amounts presented in the accompanying notes.

Change in accounting principle Stock-Based Compensation *Effective* January 1, 2006, we adopted the provisions of SFAS No. 123R, *Share-based payments,* under the modified prospective method. Accordingly, compensation expense for stock option awards is measured at grant date fair value and amortized over the requisite service period of the award. Compensation expense related to restricted stock awards is based on the fair value of the underlying stock on the award date and is recognized over the vesting period by the straight-line method. The impact of adopting SFAS No. 123R is discussed in Note #12 to the Consolidated Financial Statements.

For the years ended December 31, 2005 and 2004, we accounted for share-based payments in accordance with APB No. 25. Had we recorded compensation expense for our stock option plan consistent

with the method of SFAS No. 123, our net income and EPS would have been reduced to the following pro forma amounts:

	2005 (dollars in thousands, except per share data)	2004
Net income to common stockholders:		
As reported	$ 7,221	$ 6,741
Stock-based compensation that would have been reported using the fair value method of SFAS 123		(418)
Pro forma	$ 7,221	$ 6,323
Basic earnings per share:		
As reported	$ 1.37	$ 1.28
Pro forma	$ 1.37	$ 1.20
Diluted earnings per share:		
As reported	$ 1.08	$ 1.02
Pro forma	$ 1.08	$ 0.95

Recent Accounting Pronouncements

In December 2004, the FASB SFAS No. 123R which is a revision to SFAS No. 123, and which addresses the accounting for transactions in which an enterprise receives employee services in exchange for (a) equity instruments of the enterprise or (b) liabilities that are based on the fair value of the enterprise s equity instruments or that may be settled by the issuance of such equity instruments. This statement eliminates the ability to account for share-based compensation transactions using Accounting Principles Board Opinion (APB) No. 25 (APB No. 25), and generally requires instead that such transactions be accounted for using a fair-value-based method. The statement does not change the accounting in SFAS No. 123, for transactions in which an enterprise exchanges its equity instruments for services of parties other than employees or the accounting for employee stock ownership plans, which are subject to SOP 93-6.

The phase-in period for this statement, as amended April 14, 2005 by the SEC, began in the first quarter of 2006. Based on the SEC s phase-in period, we adopted SFAS No. 123R on January 1, 2006 and account for share-based compensation based on this new pronouncement. We compute compensation expense for stock options using the Black-Scholes valuation model and utilize the modified prospective method under SFAS No. 123R.

In March 2005, the SEC issued SAB No. 107, which provided interpretative guidance on SFAS No. 123R valuation method assumptions used in valuation models and the interaction of SFAS No. 123R with existing guidance.

In May 2005, FASB issued SFAS No. 154. SFAS No. 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. It establishes, unless impracticable, retrospective application as the required method for reporting a change in accounting principle in the absence of explicit transition requirements specific to the newly adopted accounting principle. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The adoption of SFAS No. 154, effective January 1, 2006, did not have a material impact on our financial condition or operating results.

In February 2006, FASB issued SFAS No. 155, an amendment of SFAS No. 133 and SFAS No. 140. The provisions of this statement allow financial instruments that have embedded derivatives to be accounted for as a whole if the holder elects to account for the whole instrument on a fair value basis, and

establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation. The new statement also amends SFAS No. 140 to eliminate the prohibition on a qualifying special purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. The provisions of this standard are effective as of the beginning of our fiscal year 2007. We do not expect the adoption of SFAS No. 155 to have a material impact on our financial condition or operating results.

In March 2006, FASB issued SFAS No. 156. The provisions of this statement require mortgage servicing rights to be initially valued at fair value. SFAS No. 156 also allows servicers to choose one of the following measurement methods subsequent to the initial fair value measurement: (1) the fair-value-measurement method , which measures servicing rights at fair value at each reporting date, with changes in fair value reported in earnings or (2) the amortization method , which allows continued amortization of servicing rights over the period of estimated net servicing income or loss, consistent with the existing requirements of SFAS No. 140. The provisions of this standard are effective as of the beginning of our fiscal year 2007. We currently use the amortization method to account for our servicing rights, and we expect to continue this practice after implementing SFAS No. 156. We do not expect the adoption of SFAS No. 156 to have a material impact on our financial condition or operating results.

In June 2006, the FASB issued FIN No. 48. This interpretation clarifies the accounting for uncertainty in income taxes in an entity s financial statements, in accordance with FASB Statement No. 109, *Accounting for Income Taxes* by prescribing the minimum recognition threshold a tax position must meet before being recognized in the financial statements. FIN No. 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure, and transition. We do not expect FIN No. 48, which is effective for fiscal years beginning after December 15, 2006, to have a material impact on our financial condition or operating results.

In September 2006, the FASB issued SFAS No. 157, a standard that provides enhanced guidance for using fair value to measure assets and liabilities. The standard also responds to investors requests for expanded information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. The standard applies whenever other standards require (or permit) assets or liabilities to be measured at fair value. Under the standard, fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts. The standard clarifies that fair value should be based on the assumptions market participants would use when pricing the asset or liability. In support of this principle, the standard establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data, for example, the reporting entity s own data. Under the standard, fair value measurements would be separately disclosed by level within the fair value hierarchy. It is required that we adopt SFAS No. 157 on January 1, 2008; however Management is evaluating the financial impact and may choose to adopt SFAS No. 157 effective January 1, 2007.

In September 2006, the FASB issued SFAS No. 158, which will require employers to fully recognize the obligations associated with single-employer defined benefit pension, retiree healthcare and other postretirement plans in their financial statements. The standard will make it easier for investors, employees, retirees and others to understand and assess an employer s financial position and its ability to fulfill the obligations under its benefit plans. Specifically, SFAS No. 158 requires an employer to (a) recognize in its balance sheet an asset for a plan s overfunded status or a liability for a plan s underfunded status; (b) measure a plan s assets and its obligations that determine its funded status as of the end of the employer s fiscal year (with limited exceptions); and (c) recognize changes in the funded status of a defined benefit postretirement plan in the year in which the changes occur. Those changes will

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be reported in comprehensive income of a business entity. The adoption of SFAS No. 158 did not have a material impact on our financial condition or operating results. The requirement to recognize the funded status of a benefit plan and the disclosure requirements are effective as of December 31, 2006.

In September 2006, the SEC staff issued SAB No. 108, which expresses the SEC staff s views regarding the process of quantifying financial statement misstatements. SAB No. 108 was issued primarily to address diversity in the practice of quantifying financial statement misstatements and the potential under current practice to build up improper amounts on the balance sheet. This new guidance applies when uncorrected misstatements affect the current year. To eliminate diversity in practice, SAB No. 108 requires registrants to quantify misstatements using both the rollover and iron curtain methods, and then determine if either method results in a material error, as quantified in the existing guidance of Staff Accounting Bulletin No. 99 *Materiality* . SAB No. 108 is effective for errors identified during the year ended December 31, 2006. The adoption of SAB No. 108 did not have a material impact on our financial condition or operating results.

In February 2007, the FASB issued SFAS No. 159, which provides companies with an option to report selected financial assets and liabilities at fair value. This statement requires companies to display on the face of the balance sheet the fair value of those assets and liabilities for which they have chosen to use fair value. This standard also requires companies to provide additional information that will help investors and other users of financial statements to easily understand the effect on earnings of a company s choice to use fair value. SFAS No. 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. This statement is effective as of our fiscal year beginning January 1, 2008. It is required that we adopt SFAS No. 159 on January 1, 2008; however Management is evaluating the financial impact and may choose to adopt SFAS No. 159 effective January 1, 2007.

Reclassifications *Certain* amounts reflected in the 2005 and 2004 consolidated financial statements have been reclassified where practicable, to conform to the presentation for 2006. These classifications are of a normal recurring nature. The following table reflects the reclassification on the Company s consolidated balance sheet of restricted shares issued from other assets to additional paid-in capital.

	With reclassifications For Year Ended December 31, 2005	**Originally presented For Year Ended December 31, 2005**	**Net Change**
Other assets	$ 930	$ 967	$ (37)
All other assets	701,766	701,766	
TOTAL ASSETS	$ 702,696	$ 702,733	$ (37)
Additional paid-in capital	$ 67,161	$ 67,198	$ (37)
All other equity items	(16,619)	(16,619)	
TOTAL STOCKHOLDERS EQUITY	$ 50,542	$ 50,579	$ (37)

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The following tables reflect the reclassification on the Company s consolidated statement of stockholders equity of restricted shares issued from repurchase of common stock to issuance of restricted stock.

Common Stock Shares	With reclassifications For Year Ended December 31, 2005	Originally presented For Year Ended December 31, 2005	Net Change
Repurchase of common stock	(38,550)	(34,050)	(4,500)
Issuance of restricted stock	4,500		4,500
Exercise of stock options	3,750	3,750	
Total activity	(30,300)	(30,300)	

Common Stock Amount	With reclassifications For Year Ended December 31, 2005	Originally presented For Year Ended December 31, 2005	Net Change
Repurchase of common stock	(442)	(394)	(48)
Share-based compensation expense	11		11
Exercise of stock options	28	28	0
Total activity	(403)	(366)	(37)

The following table reflects the reclassification on the statement of Company s cash flows of repurchase of common stock from net cash used in investing activities to net cash provided by operating activities and share-based compensation expense and increase in accrued interest and other assets from repurchase of common stock.

	With reclassifications For Year Ended December 31, 2005	Originally presented For Year Ended December 31, 2005	Net Change
Share-based compensation expense	$ 11	$	$ 11
Increase in accrued interest receivable and other assets	(1,270)	(1,307)	37
All other operating activities	7,016	6,968	48
Net cash provided by operating activities	$ 6,574	$ 6,968	$ (394)
Repurchase of common stock	$	$ (394)	$ 394
All other investing activities	(139,034)	(139,034)	
Net cash used in investing activities	$ (139,034)	$ (139,428)	$ 394
Repurchase of common stock	$ (442)		(442)
All other financing activities	150,512	150,512	
Net cash used in financing activities	150,070	150,512	(442)

The following table reflects the reclassification on the Corporation s balance sheet of the issuance of restricted stock from accrued expenses and other liabilities to total stockholders equity.

	With reclassifications For Year Ended December 31, 2005	Originally presented For Year Ended December 31, 2005	Net Change
Accrued expenses and other liabilities	$ 345	$ 308	$ 37
All other liabilities	10,310	10,310	
TOTAL LIABILITIES	$ 10,655	$ 10,618	$ 37
TOTAL STOCKHOLDERS EQUITY	$ 50,542	$ 50,579	$ (37)

The following table reflects the reclassification on the statement of Corporation s cash flows of repurchase of common stock from net cash used in financing activities to net cash provided by operating activities and share-based compensation expense and increase (decrease) in accrued expenses and other liabilities from repurchase of common stock.

	With reclassifications For Year Ended December 31, 2005	Originally presented For Year Ended December 31, 2005	Net Change
Share-based compensation expense	$ 11	$	$ 11
Increase (decrease) in accrued expenses and other liabilities	91	54	37
All other operating activities	226	226	
Net cash provided by operating activities	$ 328	$ 280	$ 48
Purchase of common stock	$ (442)	$ (394)	$ (48)
All other financing activities	28	28	
Net cash used in financing activities	$ (414)	$ (366)	$ (48)

2. Regulatory Capital Requirements and Other Regulatory Matters

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 measures of the Bank s assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank s capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk- weighted assets (as defined) and of Tier I capital (as defined) to average assets (as defined). At periodic intervals, both the Office of Thrift Supervision and the Federal Deposit Insurance Corporation routinely examine the Bank s financial statements as part of their legally prescribed oversight of the savings and loan industry. Based on these examinations, the regulators can direct that the Bank s financial statements be adjusted in accordance with their findings.

As of the most recent formal notification form the OTS, the Bank was categorized as well capitalized under the regulatory framework for prompt corrective action. The Bank s actual capital amounts and ratios are presented in the table below:

	Actual		To be adequately capitalized		To be well capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
At December 31, 2006	(dollars in thousands)					
Total Capital (to risk-weighted assets)	$ 64,124	11.55 %	$ 44,407	8.00 %	$ 55,508	10.00 %
Tier 1 Capital (to adjusted tangible assets)	60,747	8.38 %	29,012	4.00 %	36,265	5.00 %
Tier 1 Capital (to risk-weighted assets)	60,747	10.94 %	22,203	4.00 %	33,305	6.00 %

	Actual		To be adequately capitalized		To be well capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
At December 31, 2005	(dollars in thousands)					
Total Capital (to risk-weighted assets)	$ 57,135	11.78 %	$ 38,793	8.00 %	$ 48,492	10.00 %
Tier 1 Capital (to adjusted tangible assets)	54,376	7.79 %	27,935	4.00 %	34,919	5.00 %
Tier 1 Capital (to risk-weighted assets)	54,376	11.21 %	19,397	4.00 %	29,095	6.00 %

3. Investment Securities

The amortized cost and estimated fair value of securities were as follows at December 31:

	December 31, 2006 Amortized Cost (in thousands)	Unrealized Gain	Unrealized Loss	Estimated Fair Value
Securities available for sale:				
Mortgage-backed securities	$ 35,271	$ 12	$ (202)	$ 35,081
Mutual Funds	27,719		(984)	26,735
Total securities available for sale	$ 62,990	$ 12	$ (1,186)	$ 61,816
Securities held to maturity:				
FHLB Stock	$ 15,328	$	$	$ 15,328
Total securities held to maturity	$ 15,328	$	$	$ 15,328
Total securities	$ 78,318	$ 12	$ (1,186)	$ 77,144

	December 31, 2005 Amortized Cost (in thousands)	Unrealized Gain	Unrealized Loss	Estimated Fair Value
Securities available for sale:				
Mortgage-backed securities	$ 9,171	$	$ (112)	$ 9,059
Mutual Funds	27,719		(928)	26,791
Total securities available for sale	$ 36,890	$	$ (1,040)	$ 35,850
Securities held to maturity:				
FHLB Stock	$ 13,945	$	$	$ 13,945
Total securities held to maturity	$ 13,945	$	$	$ 13,945
Total securities	$ 50,835	$	$ (1,040)	$ 49,795

The weighted average interest rates on total investment securities were 4.98% and 4.05% at December 31, 2006 and 2005, respectively.

At December 31, 2006, $35.1 million in mortgage-backed securities mature in excess of 10 years, no mortgage-backed securities mature in 5 to 10 years, $26.8 million in mutual funds are redeemable with a one-day notice unless pledged for borrowings and the FHLB stock is redeemable five years after FHLB receives written notice from the Bank and only if the Bank has excess stock at the time of redemption. At December 31, 2006, the mutual funds were pledged as collateral on a credit line.

The table below shows the Company s investment securities gross unrealized losses and fair value by investment category and length of time that individual securities have been in a continuous loss position, at December 31, 2006. The Company reviewed individual securities classified as available for sale to determine whether a decline in fair value below the amortized cost basis is other-than-temporary. If it is probable that the Company will be unable to collect all amounts due according to contractual terms of the debt security not impaired at acquisition, an other-than-temporary impairment shall be considered to have occurred. If an other-than-temporary impairment occurs, the cost basis of the security would have been written down to its fair value as the new cost basis and the write down accounted for as a realized loss.

	December 31, 2006 Less than 12 months		12 months or Longer		Total	
	Fair Value (in thousands)	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses
Mortgage-backed securities	$ 21,006	$ (113)	$ 8,512	$ (89)	$ 29,518	$ (202)
Mutual Funds			26,735	(984)	26,735	(984)
Total	$ 21,006	$ (113)	$ 35,247	$ (1,073)	$ 56,253	$ (1,186)

The table below shows the Company s investment securities gross unrealized losses and fair value by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2005.

	December 31, 2005					
	Less than 12 months		12 months or Longer		Total	
	Gross Unrealized Fair Value (in thousands)	Gross Unrealized Holding Losses	Gross Unrealized Fair Value	Holding Losses	Fair Value	Holding Losses
Mortgage-backed securities	$	$	$ 9,059	$ (112)	$ 9,059	$ (112)
Mutual Funds			26,791	(928)	26,791	(928)
Total	$	$	$ 35,850	$ (1,040)	$ 35,850	$ (1,040)

4. Loans Held for Investment

Loans held for investment consisted of the following at December 31:

	2006 (in thousands)	2005
Real estate		
Residential:		
One-to-four family	$ 12,825	$ 16,079
Multi-family	357,275	459,714
Commercial	169,752	123,364
Other loans:		
Loans secured by deposit accounts	20	
Commercial owner occupied	39,629	2,062
Commercial and industrial	22,762	3,248
SBA	4,517	
Unsecured consumer loans	43	27
Total gross loans held for investment	606,823	604,494
Plus (less):		
Deferred loan origination costs-net	1,125	1,618
Discounts	(101)	(125)
Allowance for estimated loan losses	(3,543)	(3,050)
Loans held for investment, net	$ 604,304	$ 602,937

From time to time, the Bank may purchase or sell loans in order to manage concentrations, maximize interest income, change risk profiles, improve returns and generate liquidity.

The Bank grants residential and commercial loans held for investment to customers located primarily in Southern California. Consequently, a borrower s ability to repay may be impacted by economic factors in the region.

The following summarizes activity in the allowance for loan losses for the year ended December 31:

	2006	2005	2004
	(in thousands)		
Balance, beginning of year	$ 3,050	$ 2,626	$ 1,984
Provision for loan losses	531	349	705
Recoveries	228	291	337
Charge-offs	(266)	(216)	(400)
Balance, end of year	$ 3,543	$ 3,050	$ 2,626

It is the Bank s policy not to accrue interest on loans 90 days or more past due. The Company had nonaccrual and nonperforming loans at December 31, 2006, 2005, and 2004 of $634,000, $1.7 million, and $2.4 million, respectively. If such loans had been performing in accordance with their original terms, the Bank would have recorded additional loan interest income of $106,000, $310,000 and $317,000 for a total of $41.4 million, $32.0 million, and $20.0 million, respectively, instead of loan interest income actually recognized of $41.3 million, $31.7 million, and $19.7 million, respectively, for the years ended December 31, 2006, 2005, and 2004.

The following summarizes information related to the Bank s impaired loans at December 31:

	2006	2005	2004
	(in thousands)		
Total impaired loans	$ 659	$ 1,750	$ 2,258
Related general reserves on impaired loans	73	60	85
Related specific reserves on impaired loans	60	291	299
Average impaired loans for the year	889	1,657	2,216
Total interest income recognized on impaired loans	43	82	120

The Bank is not committed to lend additional funds to debtors whose loans have been modified.

The Bank is subject to numerous lending-related regulations. Under applicable laws and regulations, the Bank may not make real estate loans to one borrower in excess of 15% of its unimpaired capital and surplus except for loans not to exceed $500,000. This 15% limitation results in a dollar limitation of $9.7 million at December 31, 2006. At December 31, 2006, the Bank s largest aggregate outstanding balance of loans-to-one borrower was $8.7 million.

Total loans and participations serviced for others were $96.6 million and $44.9 million as of December 31, 2006 and 2005, respectively.

The Bank made two loans to the partnership of McKennon Wilson & Morgan LLP in March of 2006. One loan is a fixed rate commercial loan at the rate of 7.00% and the other is a commercial line of credit with a variable rate of Prime + 75 basis points (9.00% as December 31, 2006). The balances of the loans were $67,000 and $175,000, respectively, as of December 31, 2006. Both loans were made at terms that were available to the general public at the time of origination. It is the belief of management that these loans neither involve more than the normal risk of collectability nor present other unfavorable features. There were no loans to or activity with directors and executive officers during the year ended December 31, 2005. The following table shows the activity of loans to Officers and Directors for the date specified:

	2006
Balance, beginning of year	$
Originations / advances	555
Principal payments	313
Balance, end of year	$ 242

5. Premises and Equipment

Premises and equipment consisted of the following at December 31:

	2006	**2005**
	(in thousands)	
Land	$ 1,410	$ 1,410
Premises	5,452	4,338
Leasehold improvements	1,246	1,146
Furniture, fixtures and equipment	3,688	2,343
Automobiles	82	25
Subtotal	11,878	9,262
Less: accumulated depreciation	(3,256)	(3,278)
Total	$ 8,622	$ 5,984

Depreciation expense was $532,000, $344,000, and $446,000 for the years ended December 31, 2006, 2005 and 2004, respectively.

6. Foreclosed Real Estate

The following summarizes the activity in the real estate owned, net of the allowance, for the years ended December 31:

	2006	**2005**
	(in thousands)	
Balance, beginning of year	$ 211	$ 351
Additions foreclosures	509	237
Sales	(525)	(259)
Write downs	(57)	(118)
Balance, end of year	$ 138	$ 211

7. Deposit Accounts

Deposit accounts and weighted average interest rates consisted of the following at December 31:

	2006 Balance (dollars in thousands)	Weighted Average Interest Rate	2005 Balance	Weighted Average Interest Rate
Transaction accounts				
Checking accounts:				
Noninterest-bearing	$ 33,607	0.00 %	$ 21,803	0.00 %
Interest-bearing	21,654	1.41 %	24,248	1.16 %
Passbook accounts	2,109	0.75 %	3,410	0.23 %
Money market accounts	39,391	3.64 %	32,355	2.96 %
Total transaction accounts	96,761	1.55 %	81,816	1.55 %
Certificate accounts:				
Under $100,000	122,830	4.88 %	117,822	3.72 %
$100,000 and over	119,858	5.07 %	128,298	3.72 %
Total certificate accounts	242,688	4.97 %	246,120	3.72 %
Total Deposits	$ 339,449	4.07 %	$ 327,936	3.17 %

The aggregate annual maturities of certificate accounts at December 31 are approximately as follows:

	2006 (in thousands)	2005
Within one year	$ 228,250	$ 219,857
One to two years	8,936	15,549
Two to three years	3,574	6,067
Three to four years	913	3,023
Four to five years	328	888
Thereafter	687	736
	$ 242,688	$ 246,120

Interest expense on deposit accounts for the years ended December 31 is summarized as follows:

	2006 (in thousands)	2005	2004
Checking accounts	$ 241	$ 307	$ 327
Passbook accounts	14	9	12
Money market accounts	1,415	869	473
Certificate accounts	10,184	7,148	4,670
	$ 11,854	$ 8,333	$ 5,482

8. Advances from Federal Home Loan Bank and Other Borrowings

The Bank had $300.3 million and $296.8 million borrowings with the FHLB at of December 31, 2006 and 2005, respectively. Advances from the FHLB and/or the line of credit are collateralized by certain real estate loans with an aggregate principal balance of $480.2 million and $456.3 million, and FHLB stock of $15.3 million and $13.9 million at December 31, 2006 and 2005, respectively.

The following table summarizes activities in advances from the FHLB for the periods indicated:

	Years Ended December 31, 2006	2005	2004
	(dollars in thousands)		
Average balance outstanding	$ 297,441	$ 234,243	$ 95,601
Maximum amount outstanding at any month-end during the year	319,200	296,835	178,000
Balance outstanding at end of year	300,300	296,835	178,000
Weighted average interest rate during the year	4.79 %	3.12 %	1.99 %

The maturities of FHLB advances are as follows:

	December 31, 2006 Amount	Weighted Average Interest Rate
	(dollars in thousands)	
Due in one year	$ 150,300	5.48 %
Due in two years	150,000	4.94 %
	$ 300,300	

In March 2004, the Bank established a $100.0 million credit facility which is secured by investments pledged to Salomon Brothers. At December 31, 2006, the Bank had borrowed $10.0 million against the line. In addition, the Bank has established a credit facility, secured by the mutual funds pledged to Pershing LLC. The Bank is able to borrow up to 70% of the valuation of the pledged mutual funds at a cost of the current federal funds rate plus 75 basis points. The Bank had borrowed $1.0 million and $1.0 million against the line as of December 31, 2006 and 2005, respectively.

At December 31, 2006, the Bank had unsecured lines of credit with four banks for a total amount of $30.0 million. Total borrowings against these lines were $5.0 million at December 31, 2006 and $10.0 million at December 31, 2005. The following summarizes activities in other borrowings:

	Year Ended December 31, 2006	2005
	(dollars in thousands)	
Average balance outstanding	$ 1,833	$ 9,870
Maximum amount outstanding at any month-end during the year	16,191	35,500
Balance outstanding at end of year	16,191	11,000
Weighted average interest rate during the year	5.86 %	3.16 %

9. Subordinated Debentures

On March 25, 2004 the Corporation issued $10,310,000 of Floating Rate Junior Subordinated Deferrable Interest Debentures (the Debt Securities) to PPBI Trust I, a statutory trust created under the laws of the State of Delaware. The Debt Securities are subordinated to effectively all borrowings of the Corporation and are due and payable on April 7, 2034. Interest is payable quarterly on the Debt Securities at three-month LIBOR plus 2.75% for a rate of 8.12% and 6.90% as of December 31, 2006 and 2005, respectively. The Debt Securities may be redeemed, in part or whole, on or after April 7, 2009 at the option of the Corporation, at par. The Debt Securities can also be redeemed at par if certain events occur that impact the tax treatment or the capital treatment of the issuance. The Corporation also purchased a 3% minority interest totaling $310,000 in PPBI Trust I. The balance of the equity of PPBI Trust I is comprised of mandatorily redeemable preferred securities (Trust Preferred Securities) and is included in

other assets. PPBI Trust I sold $10,000,000 of Trust Preferred Securities to investors in a private offering. The Corporation contributed $5.0 million of the proceeds of the Debt Securities offering to the Bank as additional capital to support the planned growth of the Bank.

10. Income Taxes

Income taxes for the year ended December 31 consisted of the following:

	2006 (in thousands)	2005	2004
Current tax provision:			
Federal	$ 2,419	$ 2,380	$ 823
State	(220)	560	455
Total current tax provision	2,199	2,940	1,278
Deferred tax benefit:			
Federal	(1,799)	(1,090)	(276)
State	50	(414)	(30)
Total deferred tax benefit	(1,749)	(1,504)	(306)
Total income tax provision	$ 450	$ 1,436	$ 972

A reconciliation from statutory federal income taxes to the Company s effective income taxes for the year ended December 31 is as follows:

	At December 31, 2006 (in thousands)	2005	2004
Statutory federal taxes	$ 2,447	$ 2,680	$ 2,360
State taxes, net of federal income tax benefit	638	680	771
Change in valuation allowance	(2,424)	(1,605)	(1,426)
Other	(211)	(319)	(733)
Total	$ 450	$ 1,436	$ 972

Deferred tax assets (liabilities) were comprised of the following at December 31:

	2006 (in thousands)	2005
Deferred tax assets:		
Accrued expenses	$ 111	$ 91
Depreciation	263	284
Net operating loss	5,940	6,358
Allowance for loan losses	1,592	1,368
Loans held for sale		13
Unrealized losses on available for sale securities	483	428
Other	57	94
Total deferred tax assets	8,446	8,636
Deferred tax liabilities:		
State taxes	(146)	(163)
Federal Home Loan Bank Stock	(939)	(587)
Restricted stock	(136)	
Other	(233)	(274)
Total deferred tax liabilities	(1,454)	(1,024)
Total deferred tax	6,992	7,612
Less valuation allowance		(2,424)
Net deferred tax asset	$ 6,992	$ 5,188

At December 31, 2006, there was no valuation allowance against the net operating loss deferred tax asset. The Company has a net operating loss carryforward of approximately $15.4 million for federal income tax purposes which expires in 2023. In addition, the Bank has a net operating loss carryforward of approximately $6.0 million for state franchise tax purposes, which expires in 2013. With the completion of the secondary offering in October 2003, the Company had an ownership change as defined under Internal Revenue Code Section 382. Under Section 382, which has also been adopted under California law, if during any three-year period there is more than a 50 percentage point change in the ownership of the Company, then the future use of any pre-change net operating losses or built-in losses of the Company may be subject to an annual percentage limitation based on the value of the company at the ownership change date. The ownership change reduced the Federal and State net operating loss carryforward by $5.8 million and $3.3 million, respectively. The annual usable net operating loss carryforward going forward is approximately $932,000 per year.

11. Commitments, Contingencies and Concentrations of Risk

Legal Proceedings *In* February 2004, the Bank was named in a class action lawsuit titled, James Baker v. Century Financial, et al , alleging various violations of Missouri s Second Mortgage Loans Act by charging and receiving fees and costs that were either wholly prohibited by or in excess of that allowed by the Act relating to origination fees, interest rates, and other charges. The class action lawsuit was filed in the Circuit Court of Clay County, Missouri. The complaint seeks restitution of all improperly collected charges and interest plus the right to rescind the mortgage loans or a right to offset any illegal collected charges and interest against the principal amounts due on the loans. The Bank s motion for dismissal due to limitations was denied by the trial court without comment in 2005 and our motion to dismiss due to federal preemption of state law because the Bank is a federal savings bank was denied in August 2006. The lawsuit is now in the preliminary phase of discovery. The Company intends to appeal the trial court s ruling on the limitations as the loans in questions were originated no later than 1997 and Missouri has a six year statute of limitations.

The Company and the Bank are not involved in any other pending legal proceedings other than legal proceedings occurring in the ordinary course of business. Management believes that none of these legal proceedings, individually or in the aggregate, will have a material adverse impact on the results of operations or financial condition of the Company or the Bank.

Lease Commitments *The* Company leases a portion of its facilities from non-affiliates under operating leases expiring at various dates through 2007. The following schedule shows the minimum annual lease payments, excluding any renewals and extensions, property taxes, and other operating expenses, due under these agreements (in thousands):

Year ending December 31,	
2007	$ 625
2008	603
2009	621
2010	629
2011	642
Thereafter	3,476
	$ 6,596

Rental expense under all operating leases totaled $677,000, $429,000, and $274,000 for the years ended December 31, 2006, 2005, and 2004, respectively.

Employment Agreements *The* Corporation and the Bank have negotiated an employment agreement with their Chief Executive Officer. This agreement provides for the payment of a base salary, a bonus

based upon the individual performance and overall performance of the Bank and Company, provides a vehicle for the use of the CEO, and the payment of severance benefits upon termination.

Availability of Funding Sources *The* Company funds substantially all of the loans, which it originates or purchases through deposits, internally generated funds, or borrowings. The Company competes for deposits primarily on the basis of rates, and, as a consequence, the Company could experience difficulties in attracting deposits to fund its operations if the Company does not continue to offer deposit rates at levels that are competitive with other financial institutions. To the extent that the Company is not able to maintain its currently available funding sources or to access new funding sources, it would have to curtail its loan production activities or sell loans earlier than is optimal. Any such event could have a material adverse effect on the Company s results of operations, financial condition and cash flows.

12. Benefit Plans

401(k) Plan *The* Bank maintains an Employee Savings Plan (the 401(k) Plan) which qualifies under section 401(k) of the Internal Revenue Code. Under the 401(k) Plan, employees may contribute from 1% to 50% of their compensation. In 2004, 2005 and 2006, the Bank matched 100% of contributions for the first three percent contributed and 50% on the next two percent contributed. The amounts of contributions made to the 401(k) Plan by the Bank were approximately $155,000, $143,000, and $138,000 for the years ended December 31, 2006, 2005 and 2004, respectively.

Pacific Premier Bancorp, Inc. 2004 Long-Term Incentive Plan (the Plan) *The* Plan was approved by the Shareholders in May 2004. The Plan authorizes the granting of options equal to 525,500 shares of the common stock for issuances to executives, key employees, officers, and directors. The Plan will be in effect for a period of ten years from February 25, 2004, the date the Plan was adopted. Options granted under the Plan will be made at an exercise price equal to the fair market value of the stock on the date of grant. Awards granted to officers and employees may include incentive stock options, nonstatutory stock options and limited rights, which are exercisable only upon a change in control of the Company. The options granted pursuant to the Plan originally vested at a rate of 33.3% per year. On March 4, 2005 the Company chose to accelerate the vesting on all outstanding options. The following is a summary of activity in the Company s 2000 Stock Option Plan and the Company s 2004 Stock Option Plan for the years ended December 31, 2006, 2005, and 2004, respectively.

The total intrinsic value of options exercised in 2006 was $39,000. The weighted average remaining contractual term and aggregate intrinsic value of options outstanding was 6.5 years and $1.6 million at December 31, 2006.

	2006		**2005**		**2004**	
	Shares	**Weighted average exercise price**	**Shares**	**Weighted average exercise price**	**Shares**	**Weighted average exercise price**
Options outstanding at the beginning of the year	376,147	$ 11.43	387,347	$ 11.40	183,122	$ 10.86
Granted					212,225	11.69
Exercised	(6,500)	8.79	(3,750)	7.44	(3,666)	5.05
Forfeited & Expired	(34,422)	13.65	(7,450)	11.70	(4,334)	6.93
Options outstanding at the end of the year	335,225	$ 11.26	376,147	$ 11.43	387,347	$ 11.40
Options exercisable at the end of the year	335,225		376,147		276,750	
Weighted average remaining contractual life of options outstanding at end of year	6.5 Years		7.1 Years		8.6 Years	

The fair value of options granted under the 2004 Option Plan and 2000 Option Plan during 2004 was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted

average assumptions used: no dividend yield for any year, volatility rate of 44.70%, risk-free interest rate of 4.51%, and expected average lives of 10 years. In 2004, options were granted at an average exercise price of $11.69 per share, with an average fair market value at date of grant of $7.38 per share. There were no options granted in 2005 or 2006.

During 2006 restricted stock awards were granted for 35,050 shares of Pacific Premier Bancorp, Inc. Common Stock. These shares vest with respect to each employee over a three-year period from the date of grant, provided the individual remains in the employment of the Company as of the vesting date. Additionally, these shares (or a portion thereof) could vest earlier in the event of a change in control of the Company. Compensation expense relating to these grants was $122,000 in 2006 and $11,000 in 2005. At December 31, 2006, restricted stock awards for 34,300 shares of Pacific Premier Bancorp, Inc. Common Stock remained outstanding. The table below summarizes the Restricted Stock award activity.

	2006	
Restricted stock awards	**Shares**	**Weighted Average Grant Price**
Outstanding unvested grants at January 1, 2006	4,500	$ 10.74
Share obligations assumed through acquisition		
Granted	35,050	11.70
Vested	(1,500)	10.74
Cancelled	(3,750)	11.73
Outstanding unvested grants at December 31, 2006	34,300	$ 11.62

	2005	
	Shares	**Weighted Average Grant Price**
Outstanding unvested grants at January 1, 2005		$
Share obligations assumed through acquisition		
Granted	4,500	10.74
Vested		
Cancelled		
Outstanding unvested grants at December 31, 2005	4,500	$ 10.74

Salary Continuation Plan *The* Bank implemented in 2006 a non-qualified supplemental retirement plan for certain executive officers of the Bank. The Salary Continuation Plan is unfunded. The amount expensed in 2006 under this plan amounted to $74,000. As of December 31, 2006, $74,000 was recorded in other liabilities on the consolidated statements of condition for this plan. The Salary Continuation Plan was accounted for in accordance with SFAS No. 158 as of December 31, 2006.

Long-Term Care Insurance Plan *The* Bank implemented in September 2006 a Long-Term Care Insurance Plan for the executive officers and directors of the Bank. The non-employee directors may elect not to participate in the insurance plan. For those who opt out, the amount of the insurance premium, up to $4,000 annually, will be recorded each month to their deferred compensation account with interest. The expense for 2006 was $7,000 for this plan.

Directors Deferred Compensation Plan *The* Bank created a Directors Deferred Compensation Plan in September 2006 which allows directors to defer board of directors fees. The deferred compensation is credited with interest by the Bank at prime plus one percent and the accrued liability is payable upon retirement or resignation. The Directors Deferred Compensation Plan is unfunded. The Company is under no obligation to make matching contributions to the plan. As of December 31, 2006, the liability for the plan was $8,000 and the expense for 2006 was $8,000.

13. Financial Instruments with Off Balance Sheet Risk

The Company is a party to 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 in the form of originating loans or providing funds under existing lines of credit. These instruments involve, to varying degrees; elements of credit and interest rate risk in excess of the amount recognized in the accompanying consolidated statements of financial condition.

The Company s exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual or notional amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates and may require payment of a fee. Since many commitments are expected to expire, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer s credit worthiness on a case-by-case basis. The Company s commitments to extend credit at December 31, 2006 and 2005 totaled $18.9 million and $2.2 million, respectively. In addition to these commitments, the Company had commercial and standby letters of credit of $8,000 and $165,000, respectively at December 31, 2006 and zero and $50,000, respectively, at December 31, 2005.

14. Fair Value of Financial Instruments

The following disclosures of the estimated fair value of financial instruments are made in accordance with the requirements of SFAS No. 107, Disclosures About Fair Value of Financial Instruments. The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is necessarily required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

	At December 31, 2006	
	Carrying Amount (in thousands)	**Estimated Fair Value**
Assets:		
Cash and cash equivalents	$ 17,040	$ 17,040
Securities available for sale	61,816	61,816
FHLB Stock, at cost	15,328	15,328
Loans held for sale, net	795	795
Loans held for investment, net	604,304	608,525
Accrued interest receivable	3,764	3,764
Liabilities:		
Deposit accounts	339,449	329,311
FHLB Advances	300,300	299,467
Other Borrowings	16,191	16,191
Subordinated debentures	10,310	10,232
Accrued interest payable	1,443	1,443

	At December 31, 2005	
	Carrying Amount	Estimated Fair Value
	(in thousands)	
Assets:		
Cash and cash equivalents	$ 34,055	$ 34,055
Securities available for sale	35,850	35,850
FHLB Stock, at cost	13,945	13,945
Participation Contract		
Loans held for sale, net	456	456
Loans held for investment, net	602,937	609,723
Accrued interest receivable	3,007	3,007
Liabilities:		
Deposit accounts	327,936	323,267
FHLB Advances	296,835	296,473
Other Borrowings	11,000	11,000
Subordinated debentures	10,310	12,007
Accrued interest payable	1,238	1,238

Cash and Cash Equivalents *The* carrying amount approximates fair value.

Securities Available for Sale *Fair* values are based on quoted market prices.

FHLB Stock *The* carrying value approximates the fair value based upon the redemption provisions of the stock.

Loans Held for Sale *Fair* values are based on quoted market prices or dealer quotes.

Loans Held for Investment *The* fair value of gross loans receivable has been estimated using the present value of cash flow method, discounted using the current rate at which similar loans would be made to borrowers with similar credit ratings and for the same maturities, and giving consideration to estimated prepayment risk and credit loss factors.

Accrued Interest Receivable/Payable *The* carrying amount approximates fair value.

Deposit Accounts *The* fair value disclosed for checking, passbook and money market accounts is the amount payable on demand at the reporting date. The fair value of certificates of deposit accounts is estimated using a discounted cash flow calculation based on interest rates currently offered for CDs of similar remaining maturities.

Other Borrowings *The* carrying amount approximates fair value as the interest rate, based on risk, currently approximates market.

Subordinated Debentures *The* fair value of subordinated debentures is estimated by discounting the balance by the current 3 month LIBOR rate plus the current market spread. The fair value is determined assuming that we will call them on their next callable date.

The fair value estimates presented herein are based on pertinent information available to management as of December 31, 2006 and 2005.

15. Earnings Per Share

A reconciliation of the numerators and denominators used in basic and diluted earnings per share computations is presented in the table below. Excluded from the diluted earnings per share calculation were options of 81,725, 93,897, and 110,597 for the years ended December 31, 2006, 2005, and 2004, as the exercise price exceeded the stock price at the end of the period.

	Income (numerator)	Shares (denominator)	Per Share Amount
	(dollars in thousands, except share data)		
For the year ended December 31, 2006:			
Net income applicable to earnings per share	$ 7,428		
Basic earnings per share			
Income available to common stockholders	7,428	5,261,897	$ 1.41
Effect of dilutive securities			
Warrants and stock option plans		1,423,018	
Diluted earnings per share			
Income available to common stockholders	$ 7,428	6,684,915	$ 1.11

	Income (numerator)	Shares (denominator)	Per Share Amount
	(dollars in thousands, except share data)		
For the year ended December 31, 2005:			
Net income applicable to earnings per share	$ 7,221		
Basic earnings per share			
Income available to common stockholders	7,221	5,256,906	$ 1.37
Effect of dilutive securities			
Warrants and stock option plans		1,401,334	
Diluted earnings per share			
Income available to common stockholders	$ 7,221	6,658,240	$ 1.08

	Income (numerator)	Shares (denominator)	Per Share Amount
	(dollars in thousands, except share data)		
For the year ended December 31, 2004:			
Net income applicable to earnings per share	$ 6,741		
Basic earnings per share			
Income available to common stockholders	6,741	5,256,334	$ 1.28
Effect of dilutive securities			
Warrants and stock option plans		1,366,401	
Diluted earnings per share			
Income available to common stockholders	$ 6,741	6,622,735	$ 1.02

16. Parent Company Financial Information

PACIFIC PREMIER BANCORP, INC.
(Parent company only)

STATEMENTS OF FINANCIAL CONDITION

	At December 31, 2006 (in thousands)	2005
Assets:		
Cash and cash equivalents	$ 2,245	$ 2,463
Loans held for investment		61
Investment in subsidiaries	61,578	55,205
Income Tax Receivable	130	133
Deferred income taxes	4,441	3,004
Other assets	324	331
Total Assets	$ 68,718	$ 61,197
Liabilities:		
Subordinated debentures	$ 10,310	$ 10,310
Accrued expenses and other liabilities	370	345
Total Liabilities	10,577	10,618
Total Stockholders Equity	58,038	50,542
Total Liabilities and Stockholders Equity	$ 68,718	$ 61,197

PACIFIC PREMIER BANCORP, INC.
(Parent company only)

STATEMENTS OF OPERATIONS:

	For the Years Ended December 31, 2006 (in thousands)	2005	2004
Income:			
Interest Income	$ 75	$ 80	$ 2,102
Noninterest Income	173	1,262	2,654
Total income	248	1,342	4,756
Expense:			
Interest Expense	801	622	340
Noninterest Expense	436	436	844
Total expense	1,237	1,058	1,184
(Loss) Income Before Income Tax Provision	(989)	284	3,572
Income (Benefit) Tax Provision	(1,966)	(470)	66
Net income (parent only)	977	754	3,506
Equity In Net Earnings Of Subsidiaries	6,451	6,467	3,235
Net income	$ 7,428	$ 7,221	$ 6,741

PACIFIC PREMIER BANCORP, INC.
(Parent company only)

SUMMARY STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,		
	2006	2005	2004
	(in thousands)		
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 7,428	$ 7,221	$ 6,741
Adjustments to reconcile net income (loss) to cash provided by (used in) operating activities:			
Share-based compensation expense	122	11	
Gain on sale of Participation Contract			(2,410)
Net accretion on Participation Contract			(1,964)
Equity in net earnings of subsidiaries	(6,451)	(6,467)	(3,235)
Increase (decrease) in accrued expenses and other liabilities	25	91	(335)
Increase in current and deferred taxes	(1,434)	(554)	(233)
Decrease (increase) in other assets	7	26	(343)
Net cash (used in) provided by operating activities	(303)	328	(1,779)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Investment in subsidiaries			(19,000)
Proceeds from sale and principal payments on loans held for investment	61	167	26
Purchase and origination of loans held for investment		(61)	
Proceeds from Participation Contract			1,503
Proceeds from sale of Participation Contract			8,848
Net cash provided by (used in) investing activities	61	106	(8,623)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repurchase of common stock	(33)	(442)	
Proceeds from exercise of stock options	57	28	18
Proceeds from issuance of subordinated debentures			10,310
Net cash provided by (used in) financing activities	24	(414)	10,328
Net (Decrease) Increase In Cash And Cash Equivalents	(218)	20	(74)
Cash And Cash Equivalents, Beginning Of Year	2,463	2,443	2,517
Cash And Cash Equivalents, End Of Year	$ 2,245	$ 2,463	$ 2,443

17. Quarterly Results of Operations (Unaudited)

The following is a summary of quarterly results for the years ended December 31:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(dollars in thousands, except per share data)			
2006				
Interest income	$ 10,374	$ 10,736	$ 11,336	$ 11,683
Interest expense	5,755	6,505	7,250	7,494
Provision for estimated loan losses		104		427
Noninterest income	946	1,220	2,185	2,163
Noninterest expense	3,674	3,738	3,922	3,896
Income tax provision (benefit)	151	(1,298)	845	752
Net income	$ 1,740	$ 2,907	$ 1,504	$ 1,277
Earnings per share:				
Basic	$ 0.33	$ 0.55	$ 0.29	$ 0.24
Diluted	$ 0.26	$ 0.43	$ 0.23	$ 0.19
2005				
Interest income	$ 7,207	$ 8,061	$ 8,740	$ 9,699
Interest expense	3,081	3,809	4,432	5,249
Provision for estimated loan losses	145	90	56	58
Noninterest income	626	1,280	1,056	1,168
Noninterest expense	2,817	2,887	3,077	3,479
Income tax provision	156	502	398	380
Net income	$ 1,634	$ 2,053	$ 1,833	$ 1,701
Earnings per share:				
Basic	$ 0.31	$ 0.39	$ 0.35	$ 0.32
Diluted	$ 0.24	$ 0.31	$ 0.27	$ 0.25

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

None

ITEM 9A. CONTROLS AND PROCEDURES

As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the Company s management, including its President and Chief Executive Officer along with its Executive Vice President and Chief Financial Officer, of the effectiveness of the design and operation of the Company s disclosure controls and procedures pursuant to Rule 13a-15(b) under the Exchange Act. Based upon that evaluation, the Company s President and Chief Executive Officer along with its Executive Vice President and Chief Financial Officer concluded that the Company s disclosure controls and procedures are effective in timely alerting the Company to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company s periodic SEC filings. There has not been any change in the Company s internal control over financial reporting that occurred during its most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

Disclosure controls and procedures are controls and other procedures of the Company that are designed to ensure that information required to be disclosed by the Company in the reports that the

Company files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that the Company files or submits under the Exchange Act is accumulated and communicated to the Company s management, including its President and Chief Executive Officer and Executive Vice President and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

There were no changes in the Company s internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

ITEM 9B. OTHER INFORMATION.

None

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

Information required by this Item with respect to the Company s directors, executive officers, certain family relationships, and compliance by the Company s directors, executive officers and certain beneficial owners of the Company s common stock with Section 16(a) of the Exchange Act is incorporated by reference to all information under the captions entitled Transactions with Certain Related Persons and Section 16(a) Beneficial Ownership Reporting Compliance from our Proxy Statement relating to the Annual Meeting of Shareholders to be held on May 23, 2007 (Proxy Statement).

The information regarding our Audit Committee, including our audit committee financial expert, and our director nomination process is incorporated herein by reference to all information under the caption entitled Audit Committee Financial Expertise included in our Proxy Statement.

The Company adopted a Code of Ethics that applies to its principal executive officer, principal financial officer, principal accounting officer or controller or persons performing similar functions. Our Code of Ethics is available on our Internet website at www.ppbi.net. The Company intends to disclose future amendments to, or waivers from, the provisions of its Code of Ethics that apply to the specified officers or persons performing similar functions on its website within five business days following the date of any such amendment or waiver.

ITEM 11. EXECUTIVE COMPENSATION

The information relating to executive compensation and directors compensation is incorporated herein by reference to the information under the caption Executive Compensation included in our Proxy Statement.

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

The information relating to security ownership of certain beneficial owners and management is incorporated herein by reference to the information under the caption Security Ownership of Directors and Executive Officers included in our Proxy Statement.

EQUITY COMPENSATION PLAN INFORMATION

The following table provides information as of December 31, 2006, with respect to options outstanding and available under the Company s 2000 Stock Option Plan and the Company s 2004 Stock Option Plan.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options/Warrants	Weighted-Average Exercise Price of Outstanding Options/Warrants	Number of Securities Remaining Available for Future Issuance
Equity compensation plans approved by security holders:			
2000 & 2004 Stock Option Plans	371,025	$ 11.29	342,759
Equity compensation plans not approved by security holders:			
Total Equity Compensation plans	371,025	$ 11.29	342,759

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item is incorporated herein by reference to the information under the captions Corporate Governance and Related Transactions and Other Matters included in our Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information regarding principal accountant fees and services is incorporated herein by reference to the information under the caption Item 2. Ratification of Appointment of Independent Auditors included in our Proxy.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Documents filed as part of this report.

(1) The following financial statements are incorporated by reference from Item 8 hereof:

Independent Auditors Report.

Consolidated Statements of Financial Condition as of December 31, 2006 and 2005.

Consolidated Statements of Income for the Years Ended December 31, 2006, 2005 and 2004.

Consolidated Statement of Stockholders Equity and Other Comprehensive Income for the Years Ended December 31, 2006, 2005 and 2004.

Consolidated Statements of Cash Flows for the Years Ended December 31, 2006, 2005 and 2004.

Notes to Consolidated Financial Statements.

(2) All schedules for which provision is made in the applicable accounting regulation of the SEC are omitted because they are not applicable or the required information is included in the consolidated financial statements or related notes thereto.

(3) The following exhibits are filed as part of this Form 10-K, and this list includes the Exhibit Index.

Exhibit No.	Description
3.1.0	Certificate of Incorporation of Pacific Premier Bancorp, Inc.(1)
3.1.1	First Certificate of Amendment to Certificate of Incorporation of Pacific Premier Bancorp, Inc.(2)
3.1.2	Second Certificate of Amendment to Certificate of Incorporation of Pacific Premier Bancorp, Inc.(2)
3.1.3	Third Certificate of Amendment to Certificate of Incorporation of Pacific Premier Bancorp, Inc.(2)
3.1.4	Fourth Certificate of Amendment to Certificate of Incorporation of Pacific Premier Bancorp, Inc.(3)
3.2	Bylaws of Pacific Premier Bancorp, Inc., as amended.(1)
4.1	Specimen Stock Certificate of Pacific Premier Bancorp, Inc.(4)
4.2	Form of Warrant to Purchase 1,166,400 Shares of Common Stock of Pacific Premier Bancorp, Inc.(5)
4.3	Indenture from PPBI Trust I.(8)

10.1	2000 Stock Incentive Plan.(6)*
10.2	Purchase of Certain Residual Securities and Related Servicing Letter Agreement by and among Pacific Premier Bank, Bear, Stearns & Co. Inc. and EMC Mortgage Corporation, dated December 31, 1999.(7)
10.3	Note and Warrant Purchase Agreement between Pacific Premier Bancorp, Inc. and New Life Holdings, LLC, dated as of November 20, 2001.(5)
10.4	Pledge and Security Agreement between Pacific Premier Bancorp, Inc. and New Life Holdings, LLC, dated as of November 20, 2001.(5)
10.5	Employment Agreement between Pacific Premier Bancorp, Inc. and Steven Gardner dated January 2, 2004.(9)*
10.6	Employment Agreement between Pacific Premier Bank and Steven Gardner dated January 2, 2004.(9)*
10.7	Pacific Premier Bank Purchase Agreement for Corporate Offices, dated April 3, 2002.(2)
10.8	Amended and Restated Declaration of Trust from PPBI Trust I.(8)
10.9	Guarantee Agreement from PPBI Trust I.(8)
10.10	2004 Stock Incentive Plan.(10)*
10.11	Salary Continuation Agreements between Pacific Premier Bank and Messrs. Gardner and Shindler.(11)*
10.12	Form of Pacific Premier Bancorp, Inc. 2004 Long-Term Incentive Plan Agreement.
21	Subsidiaries of Pacific Premier Bancorp, Inc. (Reference is made to Item 1. Business for the required information.)
23	Consent of Vavrinek, Trine, Day and Co., LLP.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act.
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act.

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(1) Incorporated by reference from the Registrant s Form 10-K filed with the Securities and Exchange Commission (SEC) on March 31, 2003.

(2) Incorporated by reference from the Registrant s Form 10-K/A filed with the SEC on August 28, 2003.

(3) Incorporated by reference from the Registrant s Form 10-Q filed with the SEC on August 14, 2003.

(4) Incorporated by reference from the Registrant s Registration Statement on Form S-1 (Registration No. 333-20497) filed with the SEC on January 27, 1997.

(5) Incorporated by reference from the Registrant s Proxy Statement filed with the SEC on December 14, 2001.

(6) Incorporated by reference from the Registrant s Proxy Statement filed with the SEC on May 1, 2001.

(7) Incorporated by reference from the Registrant s Form 10-K/A filed with the SEC on May 1, 2001.

(8) Incorporated by reference from the Registrant s Form 10-Q filed with the SEC on May 3, 2004.

(9) Incorporated by reference from the Registrant s Form 10-K filed with the SEC on March 15, 2004.

(10) Incorporated by reference from the Registrant s Proxy Statement filed with the SEC on April 23, 2004.

(11) Incorporated by reference from the Registrant s Form 8-K filed with the SEC on May 19, 2006.

* Management contract or compensatory plan or arrangement.

SIGNATURES

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

PACIFIC PREMIER BANCORP, INC.

By: /s/ STEVEN R. GARDNER
Steven R. Gardner
President and Chief Executive Officer

DATED: April 2, 2007

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

Signature	Title	Date
/s/ STEVEN R. GARDNER Steven R. Gardner	President and Chief Executive Officer (principal executive officer)	April 2, 2007
/s/ JOHN SHINDLER John Shindler	Executive Vice President and Chief Financial Officer (principal financial and accounting officer)	April 2, 2007
/s/ RONALD G. SKIPPER Ronald G. Skipper	Chairman of the Board of Directors	April 2, 2007
/s/ JOHN D. GODDARD John D. Goddard	Director	April 2, 2007
/s/ MICHAEL L. MCKENNON Michael L. McKennon	Director	April 2, 2007
/s/ KENNETH BOUDREAU Kenneth Boudreau	Director	April 2, 2007
/s/ JEFF C. JONES Jeff C. Jones	Director	April 2, 2007