PACIFIC CAPITAL BANCORP /CA/
Form 10-K
March 16, 2001

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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2000
COMMISSION FILE NUMBER 0-11113

PACIFIC CAPITAL BANCORP
(Exact Name of Registrant as Specified in its Charter)

CALIFORNIA (State or other jurisdiction of incorporation or organization)	95-3673456 (I.R.S. Employer Identification No.)
200 E. CARRILLO STREET, SUITE 300 SANTA BARBARA, CALIFORNIA (Address of principal executive offices)	93101 (Zip Code)

(805) 564-6298

(Registrant's telephone number, including area code)

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

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

Title of Class	Name of Each Exchange on Which Registered
COMMON STOCK, NO PAR VALUE	NOT LISTED

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

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

The aggregate market value of the voting stock held by non-affiliates of the registrant as of February 20, 2001, based on the sales prices reported to the registrant on that date of $29.50 per share:

Common Stock - $ 721,394,150*

*Based on reported beneficial ownership by all directors and executive officers and the registrant's Employee Stock Ownership Plan; however, this determination does not constitute an admission of affiliate status for any of these stockholders.

As of February 20, 2001, there were 26,530,202 shares of the issuer's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE: Portions of registrant's Proxy Statement for the Annual Meeting of Shareholders on April 24, 2001 are incorporated by reference into Parts I, II, and III.

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PART I

ITEM 1. BUSINESS

(a) General Development of the Business

Operations commenced as Santa Barbara National Bank with one office and 18 employees in 1960. In 1979, the Bank switched to a state charter and changed its name to Santa Barbara Bank & Trust ("SBB&T"). Santa Barbara Bancorp ("SBBancorp") was formed in 1982. In 1998, SBBancorp merged with Pacific Capital Bancorp ("PCB"), a bank holding company that was the parent of First National Bank of Central California ("FNB") and South Valley National Bank ("SVNB"). SBBancorp was the surviving company, but took the name Pacific Capital Bancorp. Unless otherwise stated, "Company" refers to this consolidated entity and to its subsidiary banks when the context indicates. "Bancorp" refers to the parent company only.

SBB&T has grown to 27 banking offices with loan, trust and escrow offices. Through 1988, banking activities were primarily centered in the southern coastal region of Santa Barbara County. Two banking offices were added in the merger with Community Bank of Santa Ynez Valley on March 31, 1989. Five offices in northern Santa Barbara County were added with the acquisition of First Valley Bank on March 31, 1997, and three offices in the Santa Clara River Valley region of Ventura County were added with the acquisition of Citizens State Bank on September 30, 1997. From 1995 through 1998, six banking offices were opened in western Ventura County and one in northern Santa Barbara County.

FNB has 10 banking offices in Monterey, Santa Cruz, Santa Clara, and San Benito Counties. The offices in the latter two counties use the name South Valley National Bank, which was a separate subsidiary of PCB until it merged with FNB shortly before PCB merged with SBBancorp. FNB added two additional offices in San Benito County as a result of the merger of San Benito Bank ("SBB") with the Company. The merger was completed at the end of July, 2000. FNB also provides trust and investment services to its customers.

A third subsidiary, Los Robles Bank ("LRB"), was acquired by the Company at the end of June, 2000, when the Company purchased all of the outstanding shares of Los Robles Bancorp, parent of LRB. LRB has three offices. It is intended that LRB will be merged with SBB&T in the second quarter of 2001.

A fourth subsidiary, Pacific Capital Commercial Mortgage Company ("PCCM"), was formed in 1988. This subsidiary, which is now primarily involved in mortgage brokering services and the servicing of brokered loans, was formerly known as

Sanbarco Mortgage Company.

There is a fifth subsidiary, Pacific Capital Services Corporation, which is inactive.

(b) Financial Information about Industry Segments

Information about industry segments is provided in Note 20 to the consolidated financial statements.

(c) Narrative Description of Business

Bancorp is a bank holding company, which as described above, has three bank subsidiaries and two non-bank subsidiaries, one of which is inactive. Bancorp provides support services to its subsidiary banks. These include executive management, personnel and benefits, risk management, data processing, strategic planning, legal, and accounting and treasury.

The banks offer a full range of commercial banking services to households, professionals, and small- to medium-sized businesses. These include various commercial, real estate and consumer loan, leasing and deposit products. The banks offer other services such as electronic fund transfers and safe deposit boxes to both individuals and businesses. In addition, services such as lockbox payment servicing, foreign currency exchange, letters of credit, and cash management are offered to business customers. The banks also offer trust and investment services to individuals and businesses. These include acting as trustee or agent for living and testamentary trusts, charitable remainder trusts, employee benefit trusts, and profit sharing plans, as well as executor or probate agent for estates. Investment management and advisory services are also provided.

Competition: For most of its banking products, the Company faces competition in its market area from branches of most of the major California money center banks, some of the statewide savings and loan associations, and other local community banks and savings and loans. For some of its products, the Company faces competition from other non-bank financial service companies, especially securities firms.

Employees: The Company's current workforce is approximately 1,200 full time equivalent employees. Additional employees would be added if new opportunities for geographic expansion or other business activities should occur.

(d) Financial Information about Foreign and Domestic Operations and Export Sales

The Company does not have any foreign business operations or export sales of its own. However, it does provide financial services including wire transfers, foreign currency exchange, letters of credit, and loans to other businesses involved in foreign trade.

ITEM 2. PROPERTIES

The Company maintains its executive and administrative offices in leased premises at 200 E. Carrillo St., Suite 300, Santa Barbara. Administrative functions are located in various leased premises in the Santa Barbara area.

Of the 43 branch banking offices, all or a portion of 65 are leased. The

building used by the Real Estate, Consumer Lending and Escrow departments of SBBT is owned. Commercial office space is leased for Trust and Investment Services

ITEM 3. LEGAL PROCEEDINGS

The Company is one of a number of financial institutions named as party defendants in a patent infringement lawsuit filed by an unaffiliated financial institution. The lawsuit generally relates to the Company's tax refund program.

The Company has retained outside legal counsel to represent its interest in this matter. The Company does not believe that it has infringed any patents as alleged in the lawsuit and intends to vigorously defend itself in this matter. The amount of alleged damages are not specified in the papers received by the Company. Therefore, Management cannot estimate the amount of any possible loss at this time in the event of an unfavorable outcome.

There are no other material legal proceedings pending.

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

There were no matters submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this report.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

(a) Market Information

The Company's common stock is traded on The Nasdaq Stock Market under the symbol SABB. At December 31, 2000, ten independent brokerage firms were registered as market makers in the Company's common stock. The following table presents the high and low closing sales prices of the Company's common stock for each quarterly period for the last two years as reported by The Nasdaq Stock Market:

	2000 Quarters				1999	
	4th	3rd	2nd	1st	4th	3rd
Range of stock prices:						
High	$ 28.63	$ 28.50	$ 29.29	$ 30.69	$ 34.75	$ 38.00
Low	$ 24.13	$ 25.06	$ 23.44	$ 23.75	$ 30.63	$ 29.63

(b) Holders

There were approximately 9,000 holders of stock as of December 31, 2000. This number includes an estimate of the number of shareholders whose shares are held in the name of brokerage firms or other financial institutions. The Company is not provided with the number or identities of these shareholders, but has estimated the number of such shareholders from the number of shareholder

documents requested by these firms for distribution to their customers.

(c) Dividends

Dividends are currently declared four times a year, and the Company expects to follow the same policy in the future. The following table presents cash dividends declared per share for the last two years:

	2000 Quarters				1999 Quarter		
	4th	3rd	2nd	1st	4th	3rd	
Cash dividends declared	$ 0.22	$ 0.22	$ 0.20	$ 0.20	$ 0.18	$ 0.18	$

The dividends paid to shareholders of the Company are funded primarily from dividends received by Bancorp from the banks. Reference should be made to Note 17 of the Consolidated Financial Statements on page 68 for a description of restrictions on the ability of the subsidiary banks to pay dividends to Bancorp.

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data should be read in conjunction with the Company's Consolidated Financial Statements and the accompanying notes presented in Item 8.

(amounts in thousands except per share amounts)	2000	Increase (Decrease)	1999	1998	
RESULTS OF OPERATIONS:					
Interest income	$ 290,916	$ 65,262	$ 225,654	$ 205,537	$
Interest expense	110,526	38,051	72,475	72,259	
Net interest income	180,390	27,211	153,179	133,278	
Provision for credit losses	14,537	7,462	7,075	9,313	
Other operating income	49,388	5,996	43,392	39,456	
Non-interest expense:					
Staff expense	67,204	11,847	55,357	52,380	
Other operating expense	64,656	2,620	62,036	59,572	
Income before income taxes and effect of accounting change	83,381	11,278	72,103	51,469	
Provision for income taxes	31,925	6,355	25,570	19,970	
Net income	$ 51,456	$ 4,923	$ 46,533	$ 31,499	$
DILUTED PER SHARE DATA: (1)					
Average shares outstanding	26,609	57	26,552	26,163	

Net income	$ 1.93	$ 0.18	$ 1.75	$ 1.20	$
Cash dividends declared	$ 0.84	$ 0.12	$ 0.72	$ 0.66	$
FINANCIAL CONDITION:					
Total assets	$3,677,625	$ 597,316	$3,080,309	$2,825,346	$2
Total deposits	$3,102,819	$ 481,362	$2,621,457	$2,488,032	$2
Long-term debt	$ 103,000	$ 17,983	$ 85,017	$ 42,926	$
Total shareholders' equity	$ 296,261	$ 43,220	$ 253,041	$ 230,495	$
OPERATING AND CAPITAL RATIOS:					
Average total shareholders' equity to average total assets	7.77%	(0.48)%	8.25%	8.50%	
Rate of return on average:					
Total assets	1.40%	(0.17)%	1.57%	1.20%	
Total shareholders' equity	18.06%	(0.94)%	19.00%	14.08%	

(1) Earnings per share are presented on a diluted basis.

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

Management's discussion and analysis of the financial condition and results of operation begins on the following page.

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

The following provides Management's comments on the financial condition and results of operations of Pacific Capital Bancorp (formerly Santa Barbara Bancorp) and its subsidiaries. Unless otherwise stated, the "Company" refers to this consolidated entity and to its subsidiaries when the context indicates. This discussion should be read in conjunction with the Company's consolidated financial statements and the notes to the consolidated financial statements that are presented on pages 44 through 79 of this Annual Report on Form 10-K. "Bancorp" will be used to refer to the parent company only. "PCB" will be used to refer to the former Pacific Capital Bancorp, which merged with Santa Barbara Bancorp ("SBBancorp") at the end of 1998. SBBancorp assumed the Pacific Capital Bancorp name. The subsidiary banks are Santa Barbara Bank & Trust ("SBB&T"), First National Bank of Central California ("FNB"), and Los Robles Bank ("LRB"). South Valley National Bank ("SVNB") and San Benito Bank ("SBB") were independent banks that merged with FNB and now operate under the same national bank charter as FNB. Pacific Capital Commercial Mortgage Corporation ("PCCM") is a non-bank subsidiary of Bancorp primarily involved in mortgage brokering and the servicing of brokered loans. The Company also has an inactive subsidiary, Pacific Capital Services Corporation. Terms with which the reader may not be familiar are printed in bold and defined the first time they occur or are defined in a note on pages 38 and 39.

The discussion is intended to provide insight into Management's assessment of

the operating trends over the last several years and its expectations for 2001. Such expressions of expectations are not historical in nature and are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are subject to risks and uncertainties that may cause actual future results to differ materially from those expressed in any forward-looking statement. Such risks and uncertainties with respect to the Company include those related to the economic environment, particularly in the regions in which the Company operates, the products and pricing of competitive financial institutions, government regulation, government monetary and fiscal policy, changes in prevailing interest rates, mergers and acquisitions and the integration of the merged or acquired businesses, credit quality, asset/liability management, and the availability of sources of liquidity at a reasonable cost. This discussion is also intended to assist readers of the accompanying financial statements by providing information on the strategies adopted by the Company to address these risks, and the results of these strategies.

The merger of PCB with SBBancorp and the merger of SBB with the Company were recorded using the "pooling-of-interests" method of accounting. As a result, all amounts in this discussion and in the consolidated financial statements have been restated to reflect the results of operations of PCB and SBB as if these mergers had occurred prior to the earliest period presented. In contrast, the acquisitions of First Valley Bank ("FVB") and Citizens State Bank ("CSB") during 1997, and the acquisition of LRB in 2000 (described in Note 19 to the consolidated financial statements), were accounted for as purchase transactions.

OVERVIEW OF EARNINGS PERFORMANCE

From 1996 through 2000, the Company's net income has increased at a compound average annual rate of 17.2%. Among the reasons for this favorable trend of substantial increase in net income have been: (1) the integration of eight new branch offices through the acquisition of FVB and CSB; (2) growth in the tax refund anticipation loan ("RAL") and refund transfer ("RT") programs; (3) strong loan demand during the last three years; and (4) continued growth in trust and investment service fees due to the strong stock market performance in the years prior to 2000 and the addition of new customers. During 1999, the Company realized cost savings from the merger with PCB. While these initial savings were more than offset in this first year by the expenses incurred to complete the integration of the two computer systems, in 2000 the Company realized the full benefit of the savings.

In 2000, the earnings for the Company were $51.5 million, or $1.93 per diluted share. This represents a 10.6% increase over the $46.5 million net income or $1.75 per diluted share reported for 1999. Reported earnings for 2000 were significantly impacted by expenses related to the acquisitions of SBB and LRB. Exclusive of these merger expenses, the Company's core or pro forma net operating income for 2000 was $56.8 million and diluted earnings per share for the year 2000 would have been $2.13. 2000 pro forma earnings exceeded 1999 earnings by 22.0%, and 2000 pro forma earnings per share exceeded the 1999 figure by 21.7%.

1999 net income of $46.5 million exceeded the $31.5 million of net income reported for 1998. The reported earnings for 1998 were significantly impacted by expenses related to the merger of SBBancorp with PCB. Exclusive of these merger expenses, the Company's net operating income for 1998 was $39.8 million and diluted earnings per share would have been $1.54. 1999 net income exceeded the 1998 pro forma net income by 16.8% and 1999 earnings per share exceeded the 1998

pro forma figure by 13.6%.

EXTERNAL FACTORS IMPACTING THE COMPANY

The major external factors impacting the Company include economic conditions, regulatory considerations, and trends in the banking and financial services industries.

Economic Conditions

From a national perspective, the most significant economic factors impacting the Company in the last three years have been the steady growth in the economy and the actions of the Federal Reserve Board ("the Fed") to manage the pace of that growth. After raising short-term interest rates in late 1997 to slow the pace of economic growth and forestall inflation, during late 1998, the Fed lowered rates to keep economic activity up in the face of recession in many other parts of the world. In late 1999, it again began to raise interest rates to slow economic growth and continued with periodic increases until mid-2000. Early in 2001, the Fed again began to lower rates, as the economy showed evidence of significant slowing. These changes impact the Company as market rates for loans, investments and deposits respond to the Fed's actions.

The local economies in which the Company operates have continued to experience steady growth during the last three years, and the business climates in general remain healthy going into 2001. Tourism, which has long been important to the communities in the SBB&T market area, remains strong. Medical manufacturing and other "hi-tech" businesses have continued to grow. Several large retail and factory outlet complexes have been built in the last few years. SBB&T expanded its market areas in 1997 with the acquisitions of FVB and CSB and they now encompass communities more oriented to agricultural enterprises. This has helped to diversify the bank's customer base. In the region served by FNB, SVNB and SBB, significant growth has occurred in South Santa Clara County in both housing and in new businesses. Much of this growth has been a result of the continued economic expansion in the Silicon Valley, which is adjacent to the market area served by SVNB. In the Monterey area, tourism has remained strong. Agriculture-related industries in the market areas of both banks have continued to experience price pressure. Business activity in the Thousand Oaks/Westlake areas of Ventura County served by LRB has continued to be strong.

Regulatory Considerations

The Company is impacted by changes in the regulatory environment and by differences in practices by the various banking regulators. Bancorp, as a bank holding company, SBB&T, as a member of the Federal Reserve Bank (the "FRB"), and PCCM, as a non-bank subsidiary of a bank holding company, are all regulated by the FRB. FNB, as a nationally chartered bank, has the Office of the Comptroller of the Currency (the "OCC") as its primary regulator, but must also comply with FRB regulations. As a state-chartered commercial bank, SBB&T is also regulated by the California Department of Financial Institutions (the "CDFI"). As a state-chartered bank that is not a member of the FRB, LRB has the Federal Deposit Insurance Corporation (the "FDIC") as its primary federal regulator and is also regulated by the CDFI.

Changes in regulation impact the Company in different ways. The FRB requires that all banks maintain cash reserves equal to a percentage of their transaction deposits. The FRB may increase or decrease the percentage of deposits that must be held at the FRB to impact the amount of funds available to commercial banks to lend to their customers. This may be done as a means of stimulating or slowing economic activity, but it has not been used in the last decade as the Fed has favored changes in interest rates rather than liquidity to manage the economy.

The Company and its subsidiary banks are also impacted by minimum capital requirements. These rules are discussed below in the section entitled "Capital Adequacy." The actions which the various banking agencies can take with respect to financial institutions which fail to maintain adequate capital and comply with other requirements are discussed below in the section titled "Regulation."

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Competition

The Company faces competition from other financial institutions and from businesses in other industries that have developed financial products. Banks once had an almost exclusive franchise for deposit products and provided the majority of business financing. With deregulation in the 1980s, other kinds of financial institutions began to offer competing products. Also, increased competition in consumer financial products has come from companies not typically associated with the banking and financial services industry, such as AT&T, General Motors and various software developers. Similar competition is faced for commercial financial products from insurance companies and investment bankers. Community banks, including the Company, are working to offset this trend by developing new products that capitalize on the service quality that a local institution can offer. Among these are new loan and investment products. The latter are offered to the Company's retail customers through the Trust & Investment Management Services Divisions at each bank. The Company's primary competitors are different for each specific product and market area. While this offers special challenges for the marketing of our products, it offers protection from one competitor dominating the Company in its market areas.

RISK MANAGEMENT

The Company sees the process of addressing the potential impacts of the external factors listed above as part of its management of risk. In addition to common business risks such as disasters, theft, and loss of market share, the Company is subject to special types of risk due to the nature of its business. New and sophisticated financial products are continually appearing with different types of risk which need to be defined and managed if the Company chooses to offer them to its customers. Also, the risks associated with existing products must be reassessed periodically. The Company cannot operate risk-free and make a profit. Instead, the process of risk definition and assessment allows the Company to select the appropriate level of risk for the anticipated level of reward and then decide on the steps necessary to manage this risk. The process of addressing these risks is led by the Company's Director of Risk Management and the other members of its Senior Leadership Team under the direction and oversight of the Board of Directors.

The special risks related to financial products are CREDIT RISK and INTEREST RATE RISK. Credit risk relates to the possibility that a debtor will not repay according to the terms of the debt contract. Credit risk is discussed in the sections related to loans. Interest rate risk relates to the adverse impacts of changes in interest rates. The types of interest rate risk will be explained in the next section. The effective management of these and the other risks mentioned above is the backbone of the Company's business strategy.

NET INTEREST MARGIN AND CHANGES IN THE RELATIVE PROPORTIONS OF ASSETS AND LIABILITIES

The Company earns income from two sources. The primary source is through the management of its financial assets and liabilities and the second is by charging fees for services provided. The first involves functioning as a FINANCIAL INTERMEDIARY; that is, the Company accepts funds from depositors or obtains funds from other creditors and then either lends the funds to borrowers or invests those funds in securities or other financial instruments. The second, fee income, is discussed in other sections of this analysis, specifically in "Other Operating Income" and "Tax Refund Anticipation Loans and Refund Transfers."

NET INTEREST INCOME is the difference between the interest and fees earned on loans and investments (the Company's EARNING ASSETS) and the interest expense paid on deposits and other liabilities. The amount by which interest income will exceed interest expense depends on two factors: (1) the volume or balance of earning assets compared to the volume or balance of interest-bearing deposits and liabilities, and (2) the interest rate earned on those interest earning assets compared with the interest rate paid on those interest-bearing deposits and liabilities. The Company's 2000 TAX EQUIVALENT (Note C) net interest income of $186.6 million was $27.5 million, or 17.3% greater than the $159.1 million of net interest income for 1999. The 1999 amount in turn was $20.0 million, or 14.4%, greater than the $139.0 million of net interest income for 1998.

NET INTEREST MARGIN is net interest income (tax equivalent) expressed as a percentage of average earning assets. It is used to measure the difference between the average rate of interest earned on assets and the average rate of interest that must be paid on liabilities used to fund those assets. To maintain its net interest margin, the Company must manage the relationship between interest earned and paid. The Company's 2000 net interest margin was 5.47% compared to 5.75% and 5.65% for 1999 and 1998, respectively. The increase from 1998 to 1999 occurred as a result of the Fed's decision to raise rates in 1999 due to concerns about an

overheated economy. The Company's variable rate loans repriced along with the rise in external rates, but it was not necessary to increase rates on deposit accounts as much in order to stay competitive. This created a larger spread between the rates earned and paid which resulted in an increase in the margin. The decrease from 1999 to 2000 occurred for three reasons: (1) as the Fed continued to raise interest rates, rates on deposits eventually had to be increased; (2) the continued high loan demand required the Company to make increasing use of funding sources other than deposits, and these were more expensive; and (3) the rapid growth in the Company's refund loan program required a large amount of short term funding which had to be raised by using brokered CDs, a more expensive form of deposits.

The net interest margin is subject to the following types of risks that are related to changes in interest rates: MARKET RISK, MISMATCH RISK, and BASIS RISK.

Market Risk Relating to Fixed-Rate Instruments

MARKET RISK results from the fact that the market values of assets or liabilities on which the interest rate is fixed will increase or decrease with changes in market interest rates. If the Company invests funds in a fixed-rate long-term security and then interest rates rise, the security is worth less than a comparable security just issued because the older security pays less interest than the newly issued security. If the older security had to be sold before

maturity, the Company would have to recognize a loss. Conversely, if interest rates decline after a fixed-rate security is purchased, its value increases, because it is paying at a higher rate than newly issued securities. The fixed-rate liabilities of the Company, like certificates of deposit and borrowings from the Federal Home Loan Bank ("FHLB"), also change in value with changes in interest rates. As rates drop, they become more valuable to the depositor and hence more costly to the Company. As rates rise, they become more valuable to the Company. Therefore, while the value changes regardless of which direction interest rates move, the adverse impacts of market risk to the Company's fixed-rate ASSETS are due to RISING interest rates and for the Company's fixed-rate liabilities they are due to falling rates.

In general, for a given change in interest rates, the amount of the change in value up or down is larger for instruments with longer remaining maturities. Therefore, the exposure to market risk from assets is lessened by managing the amount of fixed-rate assets and by keeping maturities relatively short. However, these steps must be balanced against the need for adequate interest income because variable rate and shorter term fixed-rate securities generally earn less interest than fixed-rate and longer term securities.

Note 14 to the consolidated financial statements discloses the carrying amounts and fair values of the Company's financial assets and liabilities, its NET FINANCIAL ASSETS, as of the end of 2000 and 1999. There is a relatively small difference between the carrying amount of the assets and their fair value due to credit quality issues. However, the primary difference between the carrying amount and the fair value of the Company's financial assets is essentially a measure of how much changes in interest rates have made the assets more or less valuable to the Company at December 31, 2000 and 1999 than when acquired. The excess of the carrying amounts of the financial assets over their fair value at the end of 2000 was $32.7 million compared with an excess of carrying amount over fair value of $39.2 million at the end of 1999. Most of this change is due to decreases in market rates at the end of 2000.

Because the amount of the Company's fixed-rate liabilities is significantly less than its fixed-rate assets, and because the average maturity of the fixed-rate liabilities is substantially less than for the fixed-rate assets, the market risk relating to liabilities is not as great as for assets. The difference between the carrying amount and the fair value in the table in Note 14 shows the impact of changing rates on the Company's liabilities that have fixed-rates. They are worth $6.3 million more to customers or lenders to the Company at December 31, 2000, than they were when issued, because on a weighted average basis, they are paying rates that are slightly higher than current market rates.

Mismatch Risk

The second interest-related risk, MISMATCH RISK, arises from the fact that when interest rates change, the changes do not occur equally in the rates of interest earned and paid because of differences in the contractual terms of the assets and liabilities held. A difference in the contractual terms, a mismatch, can cause adverse impacts on net interest income.

The Company has a large portion of its loan portfolio tied to the national prime rate. If these rates are lowered because of general market conditions, e.g., the prime rate decreases in response to a rate decrease by the Fed, these loans will be repriced. If the Company were at the same time to have a large proportion of its deposits in longer-term fixed-rate certificates, interest earned on loans

would decline while interest expense would remain at higher levels for a period of time until the certificates matured. Therefore net interest income would decrease immediately. A decrease in net interest income could also occur with rising interest rates if the Company had a large portfolio of fixed-rate loans and securities that was funded by deposit accounts on which the rate is steadily rising.

This exposure to mismatch risk is managed by attempting to match the maturities and repricing opportunities of assets and liabilities. This may be done by varying the terms and conditions of the products that are offered to depositors and borrowers. For example, if many depositors want shorter-term certificates while most borrowers are requesting longer-term fixed rate loans, the Company will adjust the interest rates on the certificates and loans to try to match up demand for similar maturities. The Company can then partially fill in mismatches by purchasing securities or borrowing funds from the FHLB with the appropriate maturity or repricing characteristics.

Basis Risk

The third interest-related risk, BASIS RISK, arises from the fact that interest rates rarely change in a parallel or equal manner. The interest rates associated with the various assets and liabilities differ in how often they change, the extent to which they change, and whether they change sooner or later than other interest rates. For example, while the repricing of a specific asset and a specific liability may occur at roughly the same time, the interest rate on the liability may rise one percent in response to rising market rates while the asset increases only one-half percent. While the Company would appear to be evenly matched with respect to the maturities of the specific asset and liability, it would suffer a decrease in net interest income. This exposure to basis risk is the type of interest risk least able to be managed, but is also the least dramatic. Avoiding concentration in only a few types of assets or liabilities is the best means of increasing the chance that the average interest received and paid will move in tandem. The wider diversification means that many different rates, each with their own volatility characteristics, will come into play.

Net Interest Income and Net Economic Value Simulations

To quantify the extent of all of these risks both in its current position and in transactions it might take in the future, the Company uses computer modeling to simulate the impact of different interest rate scenarios on net interest income and on NET ECONOMIC VALUE. Net economic value or the MARKET VALUE OF PORTFOLIO EQUITY is defined as the difference between the market value of financial assets and liabilities. These hypothetical scenarios include both sudden and gradual interest rate changes, and interest rate changes in both directions. This modeling is the primary means the Company uses for interest rate risk management decisions.

Each quarter, the Company models how sudden, hypothetical changes in interest rate, called SHOCKS, if applied to its asset and liability balances would impact net interest income and net economic value. The results of this modeling indicate how much of the Company's net interest income and net economic value are "at risk" (deviation from the base level) from various sudden rate changes. Although interest rates normally would not change in this sudden manner, this exercise is valuable in identifying risk exposures and in comparing the Company's interest rate risk profile with those of other financial institutions. The results for the Company's December 31, 2000, balances indicate that the Company's net interest income at risk over a one-year period and net economic value at risk from 2% shocks are within normal expectations for such sudden changes.

	Shocked by -2%	Shocked by +2%
Net interest income	(3.72)%	+3.65%
Net economic value	+12.71%	(11.71)%

For the modeling, the Company has made certain assumptions about the duration of its non-maturity deposits that are important in determining net economic value at risk. The Company engaged an outside consultant to gather and study data on its non-maturity deposits, and it has also compared its assumptions

with those used by other financial institutions. The conclusions from these actions have been incorporated into these models.

In addition to applying scenarios with sudden interest rate shocks, net interest income simulations are prepared at least twice a year using various interest rate projections. Reflecting the prevailing interest rate environment and the recent moves by the Fed to decrease interest rates, the Company's projection for the most likely scenario includes generally declining interest rates. In addition, the Company runs simulations based on additional interest rate projections including a more sharply declining rate scenario, and a stable or less declining scenario. These interest rate scenarios are applied to expected asset and liability balances over the next year, and the differences in the results indicate the amount of net interest income at risk. The projections anticipate more normal yield curves (Note F) than were experienced in 2000. As the year progresses, the models are revised to make use of the latest available projections.

The interest rate simulation reports are dependent upon assumptions relating to the shape of the interest rate curves, the volatility of the interest rate scenarios selected, and the rates that would be paid on the Company's ADMINISTERED rate deposits as external yields change. Administered rate deposit accounts like NOW, money market deposit accounts ("MMDA"), and savings, are those products which the institution can reprice at its option based on competitive pressure and need for funds.

Under these more realistic scenarios, as in the case of the sudden rate shock model, the Company's net interest income at risk in 2001 is still well within normal expectations should either of the two less likely interest rate scenarios occur. The change in the average expected Fed funds rate is also shown to give perspective as to the extent of the interest rate changes assumed by the two scenarios.

	Rates Lower Than Most Likely	Rates Higher Than Most Likely
Change in net interest income compared to most likely scenario	(2.23)%	+0.65%
Change in average Fed funds rate	(0.36)%	+0.78%

Asset/Liability Management

The Company monitors asset and deposit levels, developments and trends in interest rates, liquidity, capital adequacy and marketplace opportunities. It responds to all of these to protect and enhance net interest income while managing risks within acceptable levels as set by the Company's policies. In addition, alternative business plans and contemplated transactions are analyzed for their impact. This process, known as ASSET/LIABILITY MANAGEMENT, is carried out by changing the maturities and relative proportions of the various types of loans, investments, deposits and other borrowings in the ways described above. The Management staff responsible for asset/liability management provides regular reports to the Asset/Liability Committee for each bank's Board of Directors and obtains approvals for major actions or occasional exceptions to policy.

As an example of this asset/liability management process, the Company determined in 1999 that it would need to take actions to manage increasing market and mismatch risk. The additional risk was due to more customers requesting fixed rate loans than had been the case in prior years. The Company was concerned about the prospect of rising rates. If rates increased, interest income on the loans would be fixed while interest expense on deposits would likely go up. A plan was approved and executed that involved obtaining additional fixed rate funds from the FHLB and entering into variable for fixed interest rate swaps. If interest rates in fact rose, the fixed rate on the borrowings would maintain the profitable spread on the loans funded with the borrowings. The interest rate swaps permitted the Company to convert a portion of its interest income from fixed to variable.

With this conversion, if interest rates rise, so would interest income.

As fixed rate loans remained in demand with borrowers during 2000, the Company took further actions to prevent exposure to mismatch risk. It purchased another $28.9 million interest rate swap that paid fixed and received variable to specifically hedge a fixed-rate loan of the same amount and term. In addition, the Company borrowed fixed-rate funds from the FHLB, with terms from 2 to 6 years.

Changes in the dollar amount of interest earned or paid may vary from one year to the next because of changes in the average balances ("volume") of the various earning assets and interest-bearing liability

accounts and changes in the interest rates applicable to each category. However, because of overall growth of the Company, interest income, interest expense and net interest income are all generally higher each year.

Table 1, "Distribution of Average Assets, Liabilities and Shareholders' Equity and Related Interest Income, Expense and Rates," sets forth the AVERAGE DAILY BALANCES (Note B) for the major asset and liability categories, the related income or expense where applicable, and the resultant yield or cost attributable to the average earning assets and interest-bearing liabilities. Changes in the average balances and the rates received or paid depend on market opportunities, how well the Company has managed interest rate risks, product pricing policy, product mix, and external trends and developments.

Overall Trends in the Balances of Assets and Liabilities

Beginning in late 1998, the Company's loan portfolio began increasing at a rate

significantly higher than deposits. This was due in part to increased residential real estate sales activity as well as the continued strong business economy in the markets served by the Company. As shown in Table 1, average loans increased $422 million or 28.4% from 1998 to 1999, compared to an increase in average deposits of $251 million or 8.09%. The Company's research indicates that the lower rate of deposit growth compared to loan growth during these years is not primarily due to account closings, but rather to customers holding smaller balances in their accounts. In 1999, with the stock market indices hitting numerous all-time highs, the great attention paid by the media to internet stocks, and the popularity of 401(k) and other tax-deferred retirement alternatives, bank deposits increasingly began to be seen as only one of many vehicles for investments.

Because deposits increased less than loans in 1999 compared to 1998, a portion of the loan growth had to be funded by sources other than deposits. Three sources of funding were used for this. First, almost all of the proceeds from maturing securities were made available for loan funding rather than being used to purchase new securities. The average balance of securities decreased by $19.2 million from 1998 to 1999. The second source was the large balances of overnight money market investments. In 1999, the Company carried average balances in these overnight instruments that were $97.4 million less than in 1998. Lastly, the Company borrowed funds from other financial institutions. The average balance of other borrowings was $45.8 million more in 1999 than in 1998.

This shift in the relative size of the major balance sheet categories has had some impact on net interest income and net interest margin. To the extent that funds invested in securities can be repositioned into loans, earnings increase because of the higher rates paid on loans. However, additional credit risk is incurred with loans compared to the very low risk of loss on securities, and the Company must carefully monitor the underwriting process to ensure that the benefit of the additional interest earned is not offset by additional credit losses. As shown in Table 1, the average rate paid on the other borrowings in 1999 was 5.48% compared to the average rate paid on deposits of 3.28%. This implies that if the growth in loans is not funded by additional deposits with their lower interest rates, the Company must ensure that the rate earned on loans funded by other borrowings is high enough to justify the additional cost of funds.

In 2000, with falling stock markets and significant losses for holders of many internet stocks, depositors seemed less inclined to withdraw funds from banks to place in equity investments. Average loans increased $481 million or 25.2% in 2000 over 1999, while average deposits increased $569 million or 22.1%. While the rate of increase for deposits in 2000 was again less than for loans, the dollar amount of average deposits increased more than the dollar amount of average loans. The timing of cash inflows from deposit growth cannot always be precisely matched with the cash outflows resulting from making loans. Therefore, while the additional dollars of deposit growth compared to loans permitted increases in both the average balance of securities and short-term money market instruments, additional borrowings in 2000 were required compared to 1999.

Each of the major categories of assets and liabilities is discussed in various sections below. In each of these sections, there is a description of the reason for significant changes in the balances, how the changes impacted the net interest income and margin, and how the categories fit into the overall asset/liability strategy for managing risk.

As shown in Table 1, the net interest margin of 5.75% in 1999 was higher than the 5.65% net interest margin in 1998. As indicated above, this primarily reflects the increased proportion of higher yielding loans. The Fed increased interest rates several times during 1999 and the Company's subsidiary banks raised their lending rates accordingly. This increased income from variable rate loans. Deposit rates tend to lag market rates because time deposits reprice only

upon maturity. Due to the lowering of rates in 1997 and 1998, many of the Company's

TABLE 1 -- DISTRIBUTION OF AVERAGE ASSETS, LIABILITIES, AND SHAREHOLDERS' EQUITY AND RELATED INTEREST INCOME, EXPENSE, AND RATES

(dollars in thousands)	2000	
	BALANCE	INTEREST
Assets:		
Loans (Note D):		
Commercial	$ 616,467	$ 64,713
Real estate	1,439,019	119,077
Consumer	333,254	45,610
Total loans	2,388,740	229,400
Securities:		
Taxable	638,272	38,814
Non-taxable	166,210	16,340
Equity	13,525	952
Total securities	818,007	56,106
Money market instruments:		
BAs and Commercial paper	24,386	1,602
Federal funds sold	172,227	9,870
Interest bearing deposits	2,186	111
Total money market instruments	198,799	11,583
Total earning assets	3,405,546	297,089
Non-earning assets	260,869	
Total assets	$3,666,415	
Liabilities and shareholders' equity:		
Borrowed funds:		
Repurchase agreements and Federal funds purchased	$ 76,197	4,247
Other borrowings	130,354	7,986
Total borrowed funds	206,551	12,233
Interest bearing deposits:		
Savings and interest bearing transaction accounts	1,289,779	33,956
Time deposits	1,148,023	64,337

Total interest bearing deposits	2,437,802	98,293
Total interest bearing liabilities	2,644,353	110,526
Demand deposits	703,531	
Other liabilities	33,657	
Shareholders' equity	284,874	
Total liabilities and shareholders' equity	$3,666,415	
Interest income/earning assets		
Interest expense/earning assets		
Net interest margin		186,563
Provision for credit losses charged to operations/earning assets		14,440
Net interest margin after provision for credit losses on tax equivalent basis		172,123
Less: tax equivalent income included in interest income from non-taxable securities and loans		6,173
Net interest income		$ 165,950

time deposits maturing in 1999 renewed at lower rates than they had been previously receiving. This trend started to reverse in 1999, but the average rate paid on deposits was still substantially lower than in 1998.

While net interest income increased from $159.1 million in 1999 to $186.6 million in 2000 due to the overall growth of the Company, the net interest margin of 5.47% in 2000 was lower than the margin for 1999. As indicated in the prior paragraph, deposit rates started to increase in late 1999, and this continued into 2000. Also as indicated above, the Company had to make increasing use of nondeposit funding which comes at a higher cost. The average rate earned on assets increased from 8.37% in 1999 to 8.72% in 2000

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1999			1998		
Balance	Interest	Rate	Balance	Interest	Rate
$ 523,563	$ 54,939	10.49%	$ 436,332	$ 44,760	10.
1,155,811	91,880	7.95	837,877	76,327	9.
228,853	28,568	12.48	212,059	26,359	12.
1,908,227	175,387	9.19	1,486,268	147,446	9.

610,918	36,493	5.97	632,568	38,186	6.
145,089	14,810	10.21	142,800	14,690	10.
9,674	527	5.45	9,486	518	5.
765,681	51,830	6.77	784,854	53,394	6.
5,800	336	5.79	15,543	937	6.
83,246	4,033	4.84	168,420	9,190	5.
2,894	155	5.36	5,364	307	5.
91,940	4,524	4.92	189,327	10,434	5.
2,765,848	231,741	8.38%	2,460,449	211,274	8.
201,599			171,282		
$2,967,447			$2,631,731		
$ 37,397	1,766	4.72%	$ 23,120	1,098	4.
82,714	4,815	5.82	36,894	2,256	6.
120,111	6,581	5.48	60,014	3,354	5.
1,138,854	24,465	2.15	1,073,606	27,391	2.
868,415	41,429	4.77	783,384	41,514	5.
2,007,269	65,894	3.28	1,856,990	68,905	3.
2,127,380	72,475	3.41%	1,917,004	72,259	3.
565,525			464,952		
29,515			26,028		
245,028			223,748		
$2,967,448			$2,631,732		
		8.38%			8.
		2.62			2.
	159,266	5.76		139,015	5.
	7,043	0.25		9,313	0.
	152,223	5.51%		129,702	5.
	6,087			5,737	
	$ 146,136			$ 123,965	

as average loans increased slightly as a percentage of the balance sheet and as market rates rose with the Fed action. However the increase in the average rate earned was not sufficient cover the increase in the average cost of funds, and the net interest margin declined.

Table 2, "Volume and Rate Variance Analysis of Net Interest Income," analyzes the changes in net interest income from 1998 to 1999 and from 1999 to 2000. The analysis shows the impact of volume and rate changes on the major

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TABLE 2--VOLUME AND RATE VARIANCE ANALYSIS OF NET INTEREST INCOME (TAXABLE EQUIVALENT BASIS -- NOTES C & E)

(in thousands)	2000 over 1999			
	VOLUME	RATE	TOTAL	Volume
Increase (decrease) in:				
Interest income:				
Loans				
Commercial loans	$ 9,722	$ 52	$ 9,774	$ 9,153
Real estate loans	23,359	3,838	27,197	26,199
Consumer loans	14,055	2,987	17,042	2,102
Total loans	47,136	6,877	54,013	37,454
Investment and other securities				
Taxable investment securities	1,644	677	2,321	(1,265)
Non-taxable investment securities	2,096	(566)	1,530	235
Equity	245	180	425	10
Total investment securities	3,985	291	4,276	(1,020)
Money market investments				
BAs and Commercial Paper	1,215	51	1,266	(565)
Federal funds sold	4,980	857	5,837	(4,212)
Money market funds	(36)	(8)	(44)	(134)
Total money market investments	6,159	900	7,059	(4,911)
Total earning assets	57,280	8,068	65,348	31,523
Liabilities:				
Repurchase agreements and federal funds purchased	2,477	4	2,481	668
Other borrowings	2,903	268	3,171	2,671
Total borrowed funds	5,380	272	5,652	3,339
Interest bearing deposits:				
Savings and interest bearing transaction accounts	3,536	5,955	9,491	1,581

Time certificates of deposit	14,871	8,037	22,908	4,278
Total interest bearing deposits	18,407	13,992	32,399	5,859
Total interest bearing liabilities	23,787	14,264	38,051	9,198
Net interest margin	$ 33,493	$ (6,196)	$ 27,297	$ 22,325

categories of assets and liabilities from one year to the next. The table explains how much of the difference or variance in interest income or expense from one year to the next for each major category of assets or liabilities is due to changes in the balances (volume) or to changes in rates. For example, Table 1 shows that for 1999, savings and interest-bearing transaction accounts averaged $1,139 million, interest expense was $24.5 million and the average rate paid was 2.15%. For 2000, the average balance was $1,290 million, interest expense was $34.0 million, and the average rate paid was 2.63%. Table 2 shows that of the $9.5 million increase in interest expense, $3.5 million was due to the increase in balances and $6.0 million was due to the increase in rates.

There is always action that the Company can take to increase its net interest income and margin. Tactics may include increasing the average maturity of its securities portfolios because longer term instruments normally earn a higher rate; emphasizing fixed-rate loans because they earn more than variable rate loans; or purchasing lower rated securities or lending to less creditworthy borrowers to earn higher rates. However, as noted above, banking is a process of balancing risks, and each of these alternative tactics involves more risk. The first two involve more market risk, the third more credit risk. Management intends to continue to use a balanced approach. A fifth tactic, as discussed on page 31, is limiting the amount of nonearning assets.

SECURITIES

The major components of the Company's earning asset base are the securities portfolio, the loan portfolio and its holdings of money market instruments. The Investment Committee has overall responsibility for the management of the securities portfolios and the money market instruments. The structure and detail within these portfolios are very significant to an analysis of the financial condition of the Company. The loan and money market instrument portfolios will be covered in later sections of this discussion.

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Securities Portfolios

The Company classifies its securities into three portfolios: the "Liquidity Portfolio" (available-for-sale), the "Discretionary Portfolio" (available-for-sale), and the "Earnings Portfolio" (held-to-maturity).

The Liquidity Portfolio's primary purpose is to provide liquidity to meet cash flow needs. The portfolio consists of U.S. Treasury and agency securities. These securities are purchased with maturities up to three years with an average maturity of between one and two years.

The Discretionary Portfolio's primary purposes are to provide income from

available funds, to hold earning assets that can be managed as part of overall asset/liability management, and to support the development needs of communities within the Bank's marketplace. The Discretionary Portfolio consists of U.S. Treasury and agency securities, COLLATERALIZED MORTGAGE OBLIGATIONS ("CMOs"), ASSET-BACKED SECURITIES, MORTGAGE-BACKED SECURITIES (Note H), and municipal securities.

The Earnings Portfolio's primary purposes are to provide income from available funds and to support the development needs of communities within the Bank's marketplace. The Earnings Portfolio consists of long-term tax-exempt obligations, and U.S. Treasury and agency securities.

Maintaining adequate liquidity is one of the highest priorities for the Company. Therefore, available funds are first used to purchase securities for the Liquidity Portfolio. So long as there are sufficient securities in that portfolio to meet its purposes, available funds are then used to purchase securities for the Discretionary Portfolio. It is the Company's current intention to allow existing securities in the Earnings Portfolio to mature, then reposition the matured proceeds into either of the two "available-for-sale" portfolios. Accordingly, the balance of the Earnings Portfolio is expected to decline.

Additional Purposes Served by the Securities Portfolios

The securities portfolios of the Company serve additional purposes: 1) to act as collateral for the deposits of public agencies and trust customers that must be secured by certain securities owned by the Company; 2) to be used as collateral for borrowings that the Company occasionally utilizes for liquidity purposes; and 3) to support the development needs of the communities within its marketplace.

Collateral for deposits: The legal requirements for securing specific deposits may only be satisfied by pledging certain types of the Company's securities. A large proportion of these deposits may be secured by state and municipal securities, but some can only be secured by U.S. Treasury securities, so holding a minimum amount of these securities will always be necessary.

Collateral for borrowing: As covered in other sections of this discussion, the Company occasionally borrows funds from other financial institutions to manage its liquidity position. Certain amounts may be borrowed unsecured, i.e. without collateral, but by pledging some of its securities as collateral, the Company may borrow more and/or at lower rates.

Community Development: The Company searches actively for investments that support the development needs of communities within its marketplace. During 2000, for example, the Company purchased five mortgage-backed securities totaling $9.8 million that consisted of real estate loans to borrowers in its market areas who have incomes of less than 80% of median area income. In 1999, 1998 and 1997, the Company invested as a limited partner in an affordable housing fund. The Company also holds several bonds of school districts within its market areas.

Amounts and Maturities of Securities

As discussed above, the average balance of securities decreased from 1998 to 1999 in order to fund loan growth, but increased from 1999 to 2000. Table 3 sets forth the amounts and maturity ranges of the securities at December 31, 2000. Because many of the securities included in the Earnings Portfolio are state or municipal bonds, much of the income from this portfolio has the additional advantage of being tax-exempt. Therefore, the tax equivalent weighted average yields of the securities are shown in Table 3. The average yields on the taxable securities are significantly lower than the average rates earned from loans as

shown in Table 1. Because of this, taxable securities are purchased for earnings only when loan demand is weak.

Other Securities Disclosures

Turnover: The accompanying Consolidated Statements of Cash Flows on page 48, shows there is a relatively large turnover in the securities portfolios. This is due to the purchase of relatively short-term securities for asset/liability management purposes, as explained above.

Maturity profile: The Company does not have a trading portfolio. That is, it does not purchase securities on the speculation that interest rates will decrease and thereby allow subsequent sale at a gain. Instead, if the purposes mentioned above are to be met, purchases must be made throughout interest rate cycles. Rather than anticipate the direction of changes in interest rates, the Company's investment practice with respect to securities in the Liquidity and Discretionary Portfolios is to purchase securities so that the maturities are approximately equally spaced by quarter within the portfolios. The periodic spacing of maturities provides the Company with a steady source of cash for liquidity purposes. If the cash is not needed, this steady source minimizes REINVESTMENT RISK, which is having too much cash available all at once that must be

TABLE 3--MATURITY DISTRIBUTION AND YIELD ANALYSIS OF THE SECURITIES PORTFOLIOS

As of December 31, 2000 (dollars in thousands)	One year or less	After one year to five years	After five years to ten years	Over ten years
MATURITY DISTRIBUTION:				
Available-for-sale:				
U.S. Treasury obligations	$ 57,655	$ 101,146	$ --	$ --
U.S. agency obligations	88,936	159,584	--	--
Collateralized mortgage obligations	6,135	133,781	12,582	6,565
Asset-backed securities	--	8,952	4,939	--
State and municipal securities	2,400	8,967	3,811	62,143
Equity securities	--	--	--	--
Subtotal	155,126	412,430	21,332	68,708
Held-to-maturity:				
U.S. Treasury obligations	12,492	--	--	--
U.S. agency obligations	5,000	15,990	7,968	--
Collateralized mortgage obligations	823	7,822	--	--
State and municipal securities	13,554	23,813	10,264	41,568

Subtotal	31,869	47,625	18,232	41,568
Total	$ 186,995	$ 460,055	$ 39,564	$ 110,276
WEIGHTED AVERAGE YIELD				
(Tax equivalent--Note C):				
Available-for-sale:				
U.S. Treasury obligations	5.32%	6.17%	--	
U.S. agency obligations	6.02%	6.44%	--	
Collateralized mortgage obligations	6.19%	6.50%	7.01%	7
Asset-backed securities		6.64%	6.79%	
State and municipal securities	4.32%	4.43%	5.81%	5
Equity securities	--	--	--	
Weighted average	5.74%	6.35%	6.75%	5
Held-to-maturity:				
U.S. Treasury obligations	6.37%	--	--	
U.S. agency obligations	5.45%	6.09%	6.18%	
Collateralized mortgage obligations	7.00%	6.53%	--	
State and municipal securities	8.15%	8.23%	6.04%	6
Weighted average	7.00%	7.23%	6.10%	6
Overall weighted average	5.96%	6.44%	6.45%	6

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invested perhaps when rates are low. The Company generally purchases municipal securities with maturities of 18-25 years because, in the Company's judgment, they have the best ratio of rate earned to the market risk incurred in purchasing these fixed rate securities.

Securities gains and losses: Occasionally, the Company will sell securities prior to maturity to reposition the funds into a better yielding asset. This usually results in a loss. The Company does not follow a practice of selling securities to realize gains because future income is thereby reduced by the difference between the higher rates that were being earned on the sold securities and the lower rates that can be earned on new securities purchased with the proceeds. Gains are occasionally recognized when (1) securities are called by the issuer; (2) the Company needs to reposition the maturities of securities to manage mismatch risk; or (3) the Company needs to change the risk-weighting profile of its assets to manage its capital position (see the section below titled "Capital Resources").

Hedges, Derivatives, and Other Disclosures

The Company has policies and procedures that permit limited types and amounts of off-balance sheet hedges to help manage interest rate risk.

In early 1999, the Company's interest rate risk modeling indicated that it was liability sensitive, i.e., net income would be lessened by a rise in interest rates. This was primarily due to the increased balance of fixed rate loans. The Company therefore entered into several interest rate swap contracts with another financial institution whereby it trades a portion of the fixed rate interest payments it receives for payments that would vary based on changes in interest rates. If interest rates increase, the payments received from the other

institution increase thereby lessening the interest rate risk incurred in lending funds at fixed rates. Two of the contracts are loosely associated with real estate loans that had been added to the Company's balance sheet. The third is specifically associated with a relatively large commercial loan.

As mentioned above, in 2000, the Company purchased an additional interest rate swap from another financial institution to hedge a large, fixed-rate loan.

The Company has not purchased any securities arising out of a highly leveraged transaction, and its investment policy prohibits the purchase of any securities of less than investment grade or so-called "junk bonds."

MARKET INSTRUMENTS--FEDERAL FUNDS SOLD, SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL, BANKERS' ACCEPTANCES AND COMMERCIAL PAPER

Cash in excess of amounts immediately needed for operations is generally lent to other financial institutions as Federal funds sold or as securities purchased under agreements to resell (for brevity termed "reverse repos"). Both transactions are overnight loans. Federal funds sold are unsecured; reverse repos are secured.

Excess cash expected to be available for longer periods is generally used to purchase short-term U.S. Treasury securities, BANKERS' ACCEPTANCES, or COMMERCIAL PAPER (Note G). As a percentage of average earning assets, the amount of these instruments tends to vary based on changes and differences in short-term market rates. The amount is also impacted in the first quarter of the year by the large cash flows associated with the tax refund loan and transfer programs.

As discussed above, the average balances invested by the Company in these instruments decreased from 1998 to 1999 to fund loan growth, and then increased from 1999 to 2000, as deposit growth provided more cash inflow than was used to fund loan growth.

The one-day term of the Federal funds sold and reverse repos means that they are obviously highly liquid as the funds are returned to the Company the next day and are not subject to market risk. Bankers' acceptances and commercial paper are highly liquid as there are active markets for them should the Company desire to sell before their maturity. However, they are subject to market risk, should interest rates change while they are held by the Company. As discussed below in "Liquidity," the Company has developed and maintains numerous other sources of liquidity than these overnight and short-term funds.

In the years prior to 1998, the Company purchased bankers' acceptances rather than commercial paper because the yields were more attractive relative to the risk. Acceptances of only highly rated financial

institutions are utilized. The only banks issuing these instruments that had both a high credit rating and sufficient incremental yield were Japanese banks. During 1997, as economic troubles began to adversely impact the ratings of the Japanese banks, the Company reduced its purchases and discontinued them after January 1998. The last acceptance matured in July 1998.

In place of bankers' acceptances, in 1998 the Company began purchasing commercial paper issued by highly rated domestic companies.

LOAN PORTFOLIO

Table 4 sets forth the distribution of the Company's loans at the end of each of the last five years.

The amounts shown in the table for each category are net of the deferred or unamortized loan origination, extension, and commitment fees and the deferred origination costs for loans in that category. These deferred net fees and costs included in the loan totals are shown for information at the bottom of the table. These deferred amounts are amortized over the lives of the loans to which they relate.

The year-end balance for all loans had increased about $420 million from the end of 1998 to the end of 1999 and about $427 million from the end of 1999 to the end of 2000.

Reflective of the strong economy, all of the major categories of loans showed significant growth during the last year with the exception of construction and development loans. The Company offers a wide variety of loan types and terms to customers along with very competitive pricing and quick delivery of the credit decision.

The Company makes both adjustable rate and fixed rate 1-4 family adjustable rate mortgage loans. In general, the Company retained the adjustable loans and sold the fixed rate loans to minimize market risk. In the last several years, the Company has retained some of the fixed rate loans, hedging a portion of them with the interest rate swaps mentioned above. The adjustable loans generally have low initial "teaser" rates. While these loans have interest rate "caps," all are repriced to a market rate of interest within a reasonable time. A few loans have payment caps that would result in negative amortization if interest rates rise appreciably.

Consumer loans grew $24.4 million or 18.8% in 1999 and $51.6 million or 33.4% in 2000. This growth in consumer loans reflects an expanded product line and continued efforts to make auto loans through dealers. During the last four years, the Company has entered into indirect financing agreements with a number of automobile dealers whereby the Company purchases loans dealers have made to customers. While automobile dealers frequently provide financing to customers through manufacturers' finance subsidiaries, some customers prefer loan terms that are not included in the standard dealer packages. Other customers are purchasing used cars not covered by the manufacturers' programs. Based on parameters agreed to by the Company, the dealer makes the loan to the customer and then sells the loan to the Company. This

TABLE 4--LOAN PORTFOLIO ANALYSIS BY CATEGORY

(in thousands)	December 31,			
	2000	1999	1998	
Real estate:				
Residential	$ 586,904	$ 494,540	$ 376,871	$
Nonresidential	564,556	457,575	496,050	
Construction and development	172,331	200,804	131,912	
Commercial, industrial, and agricultural	775,365	614,897	388,262	
Home equity lines	71,289	49,902	47,123	

Consumer	205,992	154,381	129,957	
Leases	129,159	97,005	84,198	
Municipal tax-exempt obligations	4,102	12,530	9,286	
Other	7,406	8,399	6,619	
	$2,517,104	$2,090,033	$1,670,278	$1
Net deferred fees	$ 5,813	$ 5,240	$ 5,002	$

TABLE 5--Maturities and Sensitivities of Selected Loan Types to Changes in Interest Rates

(in thousands)	Due in one year or less	Due after one year to five years	Due a five
Commercial, industrial, and agricultural			
Floating rate	$496,316	$ --	$
Fixed rate	89,067	99,624	90
Real estate--construction and development			
Floating rate	156,631	--	
Fixed rate	9,150	2,745	3
Municipal tax-exempt obligations	986	1,744	1
	$752,149	$104,113	$ 95

program is neither a factoring nor a flooring arrangement. The individual customers, not the dealers, are the borrowers and thus there is no large concentration of credit risk. In addition, there is a review of underwriting practices of a dealer prior to acceptance into the program. This is done to ensure process integrity, to protect the Company's reputation, and to monitor compliance with consumer loan laws and regulations. There were approximately $139.1 million of such loans included in the consumer loan total above for December 31, 2000, as compared with $99.0 at December 31, 1999. In early January, 2001, the Company sold approximately $57 million of these loans through a securitization for the purposes of capital management as described in the section below titled "Capital Resources."

Although approximately two-thirds of the loans held by the Company have floating rates of interest tied to the Company's base lending rate or to another market rate indicator so that they may be repriced as interest rates change, fixed rate loans still make up a significant portion of the portfolio. The same interest rate and liquidity risks that apply to securities are also applicable to lending activity. Fixed-rate loans are subject to market risk: they decline in value as interest rates rise. The Company's loans that have fixed rates generally have relatively short maturities or amortize monthly, which effectively lessens the market risk. Nonetheless, the table in Note 14 to the consolidated financial statements shows that at December 31, 1999, the carrying amount of loans, i.e., their face value, is about $43.4 million or 2.2% more than their fair value,

reflecting the recent increases in market rates during the latter part of 1999. At the end of 2000, the carrying value of loans exceeded their fair value by $41.5 million or 1.7%.

Table 5 shows the maturity of selected loan types outstanding as of December 31, 2000, and shows the proportion of fixed and floating rate loans for each type. The table does not include residential and non-residential mortgage loans. Net deferred loan origination, extension, and commitment fees are also not shown in the table. There is no maturity or interest sensitivity associated with the fees because they have been collected in advance.

The amortization and short maturities generally present in the Company's fixed rate loans also help to maintain the liquidity of the portfolio and reduce credit risk, but they result in lower interest income if rates are falling. At present, except for the specific market risk incurred by the decision to hold some of the fixed-rate residential and non-residential real estate mortgages (which are not included in the table above), Management prefers to incur market risk from longer maturities in the securities portfolios, and avoid such risk in the loan portfolio. The reason for this preference is that there are more limited secondary markets for longer-term loans than for longer-term securities. In the event that the Company should want to sell such loans for either liquidity or capital management reasons when interest rates are above the original issue rates, the loss taken would be greater than for the sale of securities with comparable maturities.

Potential Problem Loans: From time to time, Management has reasons to believe that certain borrowers may not be able to repay their loans within the parameters of the present repayment terms, even though, in some cases, the loans are current at the time. These loans are regarded as potential problem loans, and a portion of the allowance is allocated, as discussed below, to cover the Company's exposure to loss should the borrowers indeed fail to perform according to the terms of the notes. This class of loans does not include loans in a nonaccrual status or 90 days or more delinquent but still accruing, which are shown in Table 8.

At year-end 2000, these loans amounted to $58.7 million or 2.3% of the portfolio. The corresponding amounts for 1999 and 1998 were $76.9 million or 2.9% of the portfolio and $92.0 million or 5.5% of the portfolio, respectively. The 2000 amount is comprised of loans of all types.

Other Loan Portfolio Information

Other information about the loan portfolio that may be helpful to readers of the financial statements follows.

Foreign Loans: The Company does not assume foreign credit risk through either loan or deposit products. However, the Company does make loans to borrowers that have foreign operations and/or have foreign customers. Economic and currency developments in the international markets may therefore affect our domestic customers' activities.

Participations: Occasionally, the Company will sell or purchase a portion of a loan to or from another bank. The usual reasons that banks sell a portion of a loan are (1) to stay within their regulatory maximum limit for loans to any one borrower; (2) to reduce the concentration of lending activity to a particular industry or geographical area; and (3) to manage regulatory capital ratios.

Occasionally, a portion of another bank's loan may be purchased by the Company when the originating bank is unable to lend the whole amount under its regulatory lending limit to its borrower. However, this would be done only if the loan represents a good investment for the Company and the borrower or project is in one of the Company's market areas. In these cases, the Company conducts its own independent credit review and formal approval prior to committing to purchase.

Loan to Value Ratio: The Company follows a policy of limiting the loan to collateral value ratio for real estate construction and development loans. Depending on the type of project, policy limits range from 60-90% of the appraised value of the collateral. For permanent real estate loans, the policy limits generally are 75% of the appraised value for commercial property loans and 80% for residential real estate property loans. Mortgage insurance is generally required on most residential real estate loans with a loan to value ratio in excess of 80%. Such loans, which can reach up to 90% loan to appraised value, are strictly underwritten according to mortgage insurance standards. The above policy limits are sometimes exceeded when the loan is being originated for sale to another institution that does lend at higher ratios and the sale is immediate; when the exception is temporary; or when other special circumstances apply. There are other specific loan to collateral limits for commercial, industrial and agricultural loans which are secured by non-real estate collateral. The adequacy of such limits is generally established based on outside asset valuations and/or by an assessment of the financial condition and cash flow of the borrower, and the purpose of the loan. Consumer loans which are secured by collateral also have loan to collateral limits which are based on the loan type and amount, the nature of the collateral, and other financial factors on the borrower.

Loan Concentrations: The concentration profile of the Company's loans is discussed in Note 18 to the accompanying consolidated financial statements.

Loan Sales and Mortgage Servicing Rights: The Company sells or brokers some of the fixed-rate single family mortgage loans it originates as well as other selected portfolio loans. While originated by the Company, they are sold if the loan terms are not favorable enough to offset the market risk inherent in fixed-rate assets. Most of those sold are sold "servicing released" and the purchaser takes over the collection of the payments. However, some are sold with "servicing retained" and the Company continues to receive the payments from the borrower and forwards the funds to the purchaser. The Company earns a fee for this service. The sales are made without recourse, that is, the purchaser cannot look to the Company in the event the borrower does not perform according to the terms of the note. GAAP requires companies engaged in mortgage banking activities to recognize the rights to service mortgage loans for others as separate assets. For loans originated for sale, a portion of the investment in the loan is ascribed to the right to receive this fee for servicing and this value is recorded as a separate asset.

TAX REFUND ANTICIPATION LOAN AND REFUND TRANSFER PROGRAMS

As indicated in the overall summary at the beginning of this discussion, one of the reasons for the upward trend in earnings has been the Refund Anticipation Loan ("RAL") and Refund Transfer ("RT") programs. The Company is one of three financial institutions providing over 90% of these products on a national basis. The Company provides these services to taxpayers who file their returns electronically. RALs are a loan product; RTs are strictly an electronic transfer service.

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For the RAL product, a taxpayer requests a loan from the Company through a tax preparer, with the anticipated tax refund as the source of repayment. The application is subject to an automated credit review process by the Company. If the application passes this review, the Company advances to the taxpayer the amount of the refund due on the taxpayer's return up to specified amounts based on certain criteria less the loan fee due to the Company. Each taxpayer signs an agreement permitting the Internal Revenue Service (the "IRS") to remit their refund directly to the Company instead of to the taxpayer. The refund received from the IRS is used by the Company to pay off the loan. Any amount due the taxpayer above the amount of the RAL is then sent by the Company to the taxpayer. The fee is withheld by the Company from the advance, but the fee is recognized as income only after the loan is collected from the IRS payment. The fee varies based on the amount of the loan, but it does not vary with the length of time the loan is outstanding. Nonetheless, because the taxpayer must sign a loan document, the advance refund is considered a loan and the fee is classified as interest income.

Total fees earned on the RAL product were $19.0 million in 2000, compared to $8.1 million in 1999 and $6.8 million in 1998.

Losses are higher for RALs than for most other loan types because the IRS may reject or partially disallow the refund. The tax preparers participating in the program are located across the country and few of the taxpayers have any customer relationships with the Company other than their RAL. Many taxpayers make use of the service because they do not have a permanent mailing address at which to receive their refund. Therefore, if a problem occurs with the return, collection efforts may be less effective than with local customers.

The Company has taken several steps to minimize losses from these loans. Preparers are screened before they are allowed to submit their electronic filings; procedures have been defined for the preparers to follow to ensure that the agreement signed by the taxpayer is a valid loan; and the preparers' IRS reject rates are monitored very carefully. If a preparer's rejects are above normal, he or she may be dropped from the program. If rejects are below expectations, the preparer may be paid an incentive fee.

In addition, the Company has entered into cooperative agreements with the other banks with RAL programs. Under those agreements, if a taxpayer owing money to one bank from a prior year applies for a loan from another bank, the second bank repays the delinquent amount to the first bank before remitting the refund to the taxpayer. As shown in Table 7, these cooperative agreements result in a relatively high rate of recovery on the prior year's losses.

Total net charge-offs in 2000 were $3.2 million compared to $2.7 million in 1999 and $4.9 million in 1998. A significant portion of the 2000 charged-off loans are expected to be collected in 2001 under the continuing cooperative agreement between the banks providing this product.

The IRS closely scrutinizes returns where a major portion of the refund is based on a claim for Earned Income Tax Credit ("EIC"). The Company closely monitors and, in many cases, does not lend on those returns where EIC represents an overly large portion of the refund. Many taxpayers not qualifying for loans or not desiring to pay the loan fee still choose to receive their refunds more quickly by having the refund sent electronically by the IRS to the Company. The Company then prepares a check or authorizes the tax preparer to issue a check to the taxpayer. This service is termed a refund transfer.

The Company earned approximately $7.3 million, $6.6 million, and $4.8 million in fees for 2000, 1999, and 1998, respectively for this refund transfer service. There is no credit risk associated with the RT product because funds are not

sent to the customer until received by the Company from the IRS.

As indicated by the larger relative increase in RAL fees from 1999 to 2000 compared to the increase in RT fees, there was a substantial shift in the mix of the two products in 2000. The reason for this is the notification from the IRS to the banks providing the service of any delinquent amounts for taxes or other debts owed by the taxpayer to the Federal government. This debt indicator, which had been provided in a similar form prior to 1995, was instituted as a means of assisting the taxpayer and the tax preparer. It also assists the banks with their credit review. With this indicator, losses for the banks would be expected to be significantly reduced and consequently loan fees reduced. The fees were reduced and increased numbers of taxpayers availed themselves of the loans. This was the intended result of the IRS action, because it is under a Congressional mandate to significantly increase the proportion of the returns filed electronically.

The increased volume of loans during a relatively brief portion of the year required the Company to issue approximately $415 million in brokered certificates of deposit in the first quarter of the year and to make use of credit facilities it had established with other financial institutions to provide the funding for the loans. A portion of the cost of this funding is charged to the program. Similarly, it is usually several days after the RT checks are given to customers before they clear. A portion of the interest earned on these funds is credited to the program.

In 2000, the total pre-tax earnings for these programs was $16.7 million compared with $9.4 million for 1999 and $4.5 million for 1998.

The balances outstanding during each tax filing season are included in the average balance for consumer loans shown in Table 1, but there are no such loans included in the Consolidated Balance Sheets as of December 31, 2000 and 1999, because all loans not collected from the IRS are charged-off at June 30 of each year. The fees earned on the loans are included in the accompanying Consolidated Income Statements for 2000, 1999 and 1998 within interest and fees on loans. The fees earned on the refund transfers are included in other service charges, commissions, and fees.

The Company expects that the programs will continue to increase in volume because the IRS wants to encourage more taxpayers to file electronically.

ALLOWANCE FOR CREDIT LOSSES

Credit risk is inherent in the business of extending loans and leases to individuals, partnerships, and corporations. The Company sets aside an allowance or reserve for credit losses through charges to earnings. These charges are shown in the Consolidated Income Statements as provision for credit losses. All specifically identifiable and quantifiable losses are immediately charged off against the allowance. However, for a variety of reasons, not all losses that have occurred are immediately made known to the Company and of those that are known, the full extent of the loss may not be able to be quantified. In this discussion, "loans" include the lease contracts purchased and originated by the Company.

Determination of the Adequacy of the Allowance for Credit Losses and the Allocation Process

The Company formally determines the adequacy of the allowance on a quarterly

basis. This determination is based on the periodic assessment of the credit quality or "grading" of loans. Loans are initially graded when originated. They are re-graded as they are renewed; when there is a new loan to the same borrower; when identified facts demonstrate heightened risk of nonpayment; or if they become delinquent. Re-grading of larger problem loans will occur at least quarterly. Confirmation of the quality of the grading process is obtained both by independent credit reviews conducted by firms specifically hired by the Company for this purpose and by banking examiners.

After reviewing the gradings in the loan portfolio, the second step is to allocate or assign a portion of the allowance to groups of loans and to individual loans to cover Management's estimate of their potential loss. Allocation is related to the grade and other factors, and is done by the methods discussed below.

The last step is to compare the amounts allocated for estimated losses to the current available allowance. To the extent that the current allowance is insufficient to cover the estimate of unidentified losses, Management records additional provision for credit loss. If the allowance is greater than appears to be required at that point in time, provision expense is adjusted accordingly.

The Components of the Allowance for Credit Losses

Consistent with generally accepted accounting principles ("GAAP") and with the methodologies used in estimating the unidentified losses in the loan portfolio, the allowance is comprised of several components.

First, the allowance includes a component resulting from the application of the measurement criteria of Statements of Financial Accounting Standards No. 114, Accounting by Creditors for Impairment of a Loan ("SFAS 114") and No. 118, Accounting by Creditors for Impairment of a Loan--Income Recognition and Disclosures ("SFAS 118"). The amount of this component is disclosed in Note 3 to the consolidated financial statements that accompany this discussion.

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The second component is statistically-based and is intended to provide for losses that have occurred in large groups of smaller balance loans, the individual credit quality of which is impracticable to re-grade at each period end. These loans would include 1-4 family residential real estate, installment and overdraft lines for consumers, and loans to small businesses generally of $100,000 and less. The amount allocated is determined by applying loss estimation factors to outstanding loans. The loss factors are based primarily on the Company's historical loss experience tracked over a five-year period and accordingly will change over time. Because historical loss experience varies for the different categories of loans, the loss factors applied to each category also differ. In addition, there is a greater chance that the Company has suffered a loss from a loan that was graded less than satisfactory at its most recent grading than if the loan was last graded satisfactory. Therefore, for any given category, a larger loss estimation factor is applied to less than satisfactory loans than to those that the Company last graded as satisfactory. The statistical component is the sum of the allocations determined in this manner.

The third component is needed to address specific characteristics of individual loans that are not addressed in the statistically determined historical loss factors that would ordinarily apply. These characteristics might relate to a variety of factors such as the size of the loan, the industry of the borrower, or the terms of the loan. When situations warrant, Management will increase the

allocation that would be indicated by the applicable loss estimation factor to an amount adequate to absorb the probable loss that has occurred. The specific component is made up of the sum of these specific allocations.

The Unallocated Component

The fourth or "unallocated" component of the allowance for credit losses is a component that is intended to absorb losses that may not be provided for by the other components.

There are several primary reasons that the other components discussed above might not be sufficient to absorb the losses present in portfolios. The unallocated portion of the allowance is used to provide for the losses that have occurred because of these reasons.

The first is that there are limitations to any credit risk grading process. The volume of loans makes it impracticable to re-grade every loan every quarter. Therefore, it is possible that some currently performing loans not recently graded will not be as strong as their last grading and an insufficient portion of the allowance will have been allocated to them. Grading and loan review often must be done without knowing whether all relevant facts are at hand. Troubled borrowers may inadvertently or deliberately omit important information from reports or conversations with lending officers regarding their financial condition and the diminished strength of repayment sources.

The second is that the loss estimation factors are based on historical loss totals. As such, the factors may not give sufficient weight to such considerations as the current general economic and business conditions that affect the Company's borrowers and specific industry conditions that affect borrowers in that industry. The factors might also not give sufficient weight to current trends in credit quality and collateral values and the long duration of the current business cycle. Specifically, in assessing how much unallocated allowance needed to be provided at December 31, 2000, Management considered the following:

- With respect to loans to the agriculture industry, Management considered the effects on borrowers of weather conditions and overseas market conditions for exported products;

- With respect to loans to the construction industry, Management considered the market absorption rates for developed properties; the availability of permanent financing to replace the construction loan; construction delays, increased costs, and financial difficulties of contractors, subcontractors, and suppliers resulting from weather; and the significant concentration in construction lending in the market area served by FNB;

- With respect to loans to borrowers who are influenced by trends in the local tourist industry, Management again considered the effects of weather conditions, tourist preferences, and the competition faced by borrowers from other resort destinations and tourist attractions;

- With respect to all loans, Management considered the potential for disruption of the normal grading process through diversion of efforts and attention resulting from the additions to the portfolio of the

loans from SBB and LRB with the need to integrate different grading

systems, and by the need for the credit risk assessment process to encompass different markets that could be influenced by unique factors.

Third, neither the loss estimation factors nor the review of specific individual loans give consideration to loan concentrations, yet this could impact the magnitude of losses inherent in the portfolios. Specifically, as disclosed in Note 18 to the consolidated financial statements, there are certain concentrations with respect to geographical area, industry, and type of collateral among the loans that the Company has outstanding. Because economic factors could impact these borrowers as a group, losses inherent in the portfolio could be greater and more volatile than would be expected if the Company simply used the loss estimation factors.

Fourth, the loss estimation factors do not give consideration to the seasoning of the portfolios. Seasoning is relevant because losses are less likely to occur in loans that have been performing satisfactorily for several years than in loans that are more recent. In addition, while term loans have payments of principal and interest scheduled usually for each month, most loans and lines of credit in the commercial loan portfolio have short-term maturities and frequently require only interest payments until maturity. With a term loan, a missed or late payment gives an immediate signal of a decline in credit quality. Many of the Company's loans are commercial loans that do not require periodic payments of principal. Because they have shorter maturities and lack regular principal amortization, the process of seasoning does not occur and the signaling of the missed principal payment is not available.

Lastly, the loss estimation factors do not give consideration to the interest rate environment. Most obviously, borrowers with floating-rate loans may be less able to manage their debt service if interest rates rise. However, there can also be an indirect impact. For example, a rise in interest rates may adversely impact the amount of home mortgage lending. This will cause a reduction in the amount of home building initiated by developers, and this will have an impact on the credit quality of loans to building contractors in the commercial segment of the portfolio.

Each of these considerations could be addressed by developing additional loss estimation factors for smaller, discrete groups of loans. However, the factors are used precisely so that the losses in smaller loans do not have to be individually estimated. Segmenting the loan portfolio and then developing and applying separate factors becomes impracticable and, with the smaller groups, the factors themselves become less statistically valid. Even for experienced reviewers, grading loans and estimating possible losses involves a significant element of judgment regarding the present situation with respect to individual loans and the portfolio as a whole. Therefore, Management regards it as both a more practical and prudent practice to assign allowance for the above risk elements in addition to the allowance allocated by specific or historical loss factors.

Allocation Table

Table 6 shows the amounts allocated for the last three years to each loan type disclosed in Table 4. It also shows the percentage of balances for each loan type to total loans. In general, it would be expected that those types of loans which have historically more loss associated with them will have a proportionally larger amount of the allowance allocated to them than do loans which have less risk.

It would also be expected that the amount allocated for any particular type of loan will increase or decrease proportionately to both the changes in the loan balances and to increases or decreases in the estimated loss in loans of that type. In other words, changes in the risk profile of the various parts of the loan portfolio should be reflected in the allowance allocation.

Generally the changes in the allowance allocated to the other loan categories are approximately proportional to the growth in balances for those categories. Occasionally, however, changes in the amount allocated to a specific loan category will vary from changes in the total loan balance for that category due to the impact of the changes in credit rating for larger individual loans.

There is no allocation of allowance to RALs at December 31 because all loans unpaid are charged-off prior to year-end. At the bottom of Table 6 is the ratio of the allowance for credit losses to total loans for each year.

CREDIT LOSSES

Table 7, "Summary of Credit Loss Experience," shows the additions to, charge-offs against, and recoveries for the Company's allowance for credit losses. Also shown is the ratio of charge-offs to average loans for

TABLE 6--ALLOCATION OF THE ALLOWANCE FOR CREDIT LOSSES

(dollars in thousands)	DECEMBER 31, 2000		December 31, 1999		
	AMOUNT	PERCENT OF LOANS TO TOTAL LOANS	Amount	Percent of Loans to Total Loans	
Real estate:					
Residential	$ 1,870	23.3%	$ 2,601	23.7%	$
Nonresidential	2,789	22.4%	3,038	21.9	
Construction and development	892	6.8%	935	9.6	
Commercial, industrial, and agricultural	14,616	30.8%	10,851	29.4	
Home equity lines	290	2.8%	343	2.4	
Consumer	3,288	8.2%	2,954	7.4	
Leases	3,371	5.1%	1,739	4.6	
Municipal tax-exempt obligations	--	0.2%	--	0.6	
Other	730	0.3%	663	0.4	
Not specifically allocated	7,279		7,330		
Total allowance	$ 35,125	100.0%	$ 30,454	100.0%	$
Allowance for credit loss as a percentage of year-end loans	1.40%		1.46%		
Year-end loans	$2,517,104		$2,090,033		

each of the last five years.

There are only two other banks in the country that have national RAL programs. Therefore, for comparability, net charge-off ratios for the Company are shown

both with and without the RAL net charge-offs. The corresponding ratios for the Company's FDIC peers are 0.63% for 2000, 0.68% for 1999, 1.08% for 1998, 1.03% for 1997, and 0.89% for 1996 (Note A).

The Company's concentration in loans secured by real estate--specifically loans secured by nonresidential properties--and other larger loans in the commercial category may cause a higher level of volatility in credit losses than would otherwise be the case. Large pools of loans made up of numerous smaller loans tend to have consistent loss ratios. A group consisting of a smaller number of larger loans in the same industry is statistically less consistent and losses may tend to occur at roughly the same time. Because the amount of loss is not consistent period to period, the estimate of loss and therefore the amount of allowance adequate to cover losses inherent in the portfolio cannot be determined simply by reference to net charge-offs in the prior year or years.

The lower net charge-offs to average loans ratios experienced by the Company in the years 1996 through 1998 were in large part due to the high levels of recoveries. At the end of each of the years 1995 through 1998, the Company had a number of previously charged-off loans that it reasonably had hopes of recovering, and which were in fact recovered. With these recoveries, net charge-offs for 1996 through 1998 were relatively low in proportion to the allowance for credit loss. As of year end 1999, there were few such potential recoveries aside from RALs, and Management indicated that it expected that in 2000 recoveries would be less and that net charge-offs consequently might be higher than in prior years. As expected, the ratio of net charge-offs to total loans (exclusive of RALs) did increase from 0.23% in 1999 to 0.33% in 2000, but the 2000 figure is still only slightly more than one half that of the Company's peers. The Company has one loan of approximately $7 million, most of which was charged-off in 1999 and 2000, for which it has some prospect of recovery. Recovery of some portion of this loan could substantially reduce net charge-offs in 2001 and consequently would also reduce provision expense.

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TABLE 7--SUMMARY OF CREDIT LOSS EXPERIENCE

(dollars in thousands)	Year Ended December 31		
	2000	1999	1998
Balance of the allowance for credit losses at beginning of year	$ 30,454	$ 30,499	$ 26,526
Charge-offs:			
Real estate:			
Residential	112	10	369
Non-residential	107	252	177
Construction and development	--	--	--
Commercial, industrial, and agricultural	8,118	4,924	1,893
Home equity lines	--	30	--
Tax refund anticipation	6,226	5,518	7,221
Other consumer	1,910	1,729	1,701
Total charge-offs	16,473	12,463	11,361

Recoveries:			
Real estate:			
Residential	65	175	329
Non-residential	184	35	1,341
Construction and development	--	6	--
Commercial, industrial, and agricultural	1,255	1,162	1,192
Home equity lines	26	35	--
Tax refund anticipation	3,059	2,857	2,288
Other consumer	976	1,105	871
Total recoveries	5,565	5,375	6,021
Net charge-offs	10,908	7,088	5,340
Allowance for credit losses recorded in acquisition transactions	1,139	--	--
Provision for credit losses refund anticipation loans	2,726	2,816	4,941
Provision for credit losses all other loans	11,714	4,227	4,372
Balance at end of year	$ 35,125	$ 30,454	$ 30,499
Ratio of net charge-offs to average loans outstanding	0.46%	0.37%	0.36%
Ratio of net charge-offs to average loans outstanding exclusive of RALs	0.33%	0.23%	0.03%
Average Loans	$ 2,388,740	$ 1,908,746	$ 1,486,696
Average RALs	(60,437)	(12,391)	(9,169)
Average Loans, net of RALs	$ 2,328,303	$ 1,896,355	$ 1,477,527
Net Charge-offs	$ 10,908	$ 7,088	$ 5,340
RAL Net Charge-offs	3,167	2,661	4,933
Net Charge-offs, exclusive of RALs	$ 7,741	$ 4,427	$ 407

NONACCRUAL, PAST DUE, AND RESTRUCTURED LOANS

Table 8 summarizes the Company's nonaccrual and past due loans for the last five years.

Past Due Loans: Included in the amounts listed below as 90 days or more past due are commercial and industrial, real estate, and a diversity of secured consumer loans. These loans are well secured and in the process of collection. These figures do not include loans in nonaccrual status.

Nonaccrual Loans: If there is reasonable doubt as to the collectibility of principal or interest on a loan, the loan is placed in nonaccrual status, i.e., the Company stops accruing income from the interest on the loan and reverses any uncollected interest that had been accrued but not collected. These loans may or may not be collateralized. Collection efforts are being pursued on all nonaccrual loans. Consumer loans are an exception to this reclassification. They are charged-off when they become delinquent by more than 120 days if unsecured and 150 days if secured. Nonetheless, collection efforts are still pursued.

Restructured Loans: The Company's restructured loans have generally been classified as nonaccrual even after the restructuring. Consequently, they have been included with other nonaccrual loans in Table 8. The only restructured loans the Company has had at the end of the last five years that have not been classified as nonaccrual are reported in Table 8 on a separate line.

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TABLE 8--NONACCRUAL AND PAST DUE LOANS

(dollars in thousands)	December 31,		
	2000	1999	1998
Nonaccrual	$ 15,975	$ 15,626	$ 8,855
90 days or more past due	2,427	715	78
Restructured Loans	0	10	0
Total noncurrent loans	$ 18,402	$ 16,351	$ 8,933
Total noncurrent loans as percentage of the total loan portfolio	0.73%	0.78%	0.53%
Allowance for credit losses as a percentage of noncurrent loans	191%	186%	341%

TABLE 9--FOREGONE INTEREST

in thousands)	Year Ended December 31,		
	2000	1999	1998
Interest that would have been recorded under original terms	$2,934	$1,636	$ 96
Gross interest recorded	1,467	772	66
Foregone interest	$1,467	$ 864	$ 29

Total nonperforming loans increased during 1997 to $12.7 million because of noncurrent loans acquired in the FVB and CSB transactions, but as a percentage of total loans, noncurrent loans slightly decreased. The total was reduced during 1998 due principally to a reclassification of a large loan out of nonaccrual status and to rigorous collection efforts. The total rose again at the end of 1999 and 2000 with the classification of a few larger loans as nonaccrual during both years. Some of the loans reclassified in 2000 were acquired in the SBB and LRB transactions. While amounts in the Company's financial statements have been restated to include SBB amounts, the loans had not been classified as nonaccrual by SBB or LRB. As indicated in the above discussion, it is generally the classification of such larger loans that impacts the noncurrent total.

Table 9 sets forth interest income from nonaccrual loans in the portfolio at year-end that was not recognized.

DEPOSITS

An important component in analyzing net interest margin and, therefore, the results of operations of the Company is the composition and cost of the deposit base. Net interest margin is improved to the extent that growth in deposits can be focused in the lower cost core deposit accounts -- demand deposits, NOW accounts, and savings. The average daily amount of deposits by category and the average rates paid on such deposits is summarized for the periods indicated in Table 10.

TABLE 10--DETAILED DEPOSIT SUMMARY

(dollars in thousands)	Year Ended December 31,			
	2000		1999	
	AVERAGE BALANCE	RATE	Average Balance	Rate
NOW accounts	$ 358,921	0.75%	$ 321,652	0.64%
Money market deposit accounts	707,063	3.85	586,349	3.03
Savings accounts	223,795	1.81	230,853	1.65
Time certificates of deposit for	--			
less than $100,000 and IRAs	497,230	5.34	478,377	4.28
Time certificates of deposit for	--			
$100,000 or more	650,793	5.81	390,038	4.43
Interest-bearing deposits	2,437,802	4.03%	2,007,269	3.05%
Demand deposits	703,531		565,525	
	$3,141,333		$2,572,794	

The average rate paid on all deposits, which had decreased from 3.49% in 1998 to 3.05% in 1999, increased in 2000 to 4.03%. The decrease from 1998 to 1999 was primarily due to the decline in market rates in the latter half of 1998. The average rates that are paid on deposits generally trail behind money market rates because financial institutions do not try to change deposit rates with each small increase or decrease in short-term rates. This trailing characteristic is stronger with time deposits, such as certificates of deposit that pay a fixed rate for some specified term, than with deposit types that have administered rates.

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With time deposit accounts, even when new offering rates are established, the average rates paid during the quarter are a blend of the rates paid on individual accounts. Only new accounts and those that mature and are renewed will bear the new rate.

The increase in the average deposit rate paid in 2000 compared to 1999 is due to market rates increasing in the second half of 1999 and most of 2000. With the

Fed having already lowered rates in early 2001 and more rate decreases expected, it is anticipated that the average deposit rates will be lower in 2001 than in 2000.

Table 11 discloses the distribution of maturities of CD's of $100,000 or more at the end of each of the last three years.

TABLE 11--MATURITY DISTRIBUTION OF TIME CERTIFICATES OF DEPOSIT OF $100,000 OR MORE

(in thousands)	December 31, 2000	1999	1998
Three months or less	$198,325	$192,347	$178,061
Over three months through six months	171,800	121,058	85,969
Over six months through one year	141,109	98,430	74,353
Over one year	23,079	16,225	18,242
	$534,312	$428,060	$356,625

SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE AND FEDERAL FUNDS PURCHASED

Securities sold under agreements to repurchase ("repos") are a form of borrowing that is secured by securities owned by the borrower. Banks use these agreements to borrow from other banks in order to provide temporary liquidity and they may also be used to provide business customers with a secured alternative to deposits in excess of the $100,000 insured amount. Prior to 1999, the Company had almost exclusively used repos for the latter "retail" purpose. Most of the retail agreements are for terms of a few weeks to 90 days. Like the rate paid on Federal funds purchased, the interest rate paid on repos is tied to the Federal funds sold rate. As discussed on page 13, in 2000 and 1999, funds were needed to make loans in an amount substantially in excess of the amount generated by deposit growth. Overnight borrowing from other banks was frequently used to provide this liquidity until securities matured or term borrowings could be arranged.

Information about the balances and rates paid is shown in Note 10 to the consolidated financial statements. The average rate paid of 4.66% in 1999 was higher than the 1998 rate of 4.44%. While market rates on average were lower in 1999 than in 1998, the repurchase agreements with other banks bear higher interest rates than that paid on the retail repos with customers. The higher average balance for 1999 also is reflective of their use in 1999 for liquidity management. The increase in the average rate during 2000 over that paid in 1999 reflects the higher market rates in 2000 for short-term financial instruments compared to the prevailing rates for 1999.

Federal funds purchased are a second form of overnight borrowing from other banks. Prior to 1999, the Company primarily used this borrowing to accommodate other local community financial institutions on the Central Coast that had excess cash to invest overnight. However, the Company occasionally purchased additional funds from money center banks to meet liquidity needs, especially during the RAL season. In 1999, there was an increasing use of this source of funds to manage short-term liquidity. Information on the balances and rates paid for these funds is also disclosed in Note 10 to the consolidated financial statements. Because these are overnight borrowings, the average rate paid to various parties on any one day may vary substantially from the average rate for

the year, and typically, the Federal funds rate is quite volatile on the last day of the year. The lower rates at the end of 1998 compared to the average rate for the year was due more to declining rates during the latter part of the year than to abnormal rates on the last day. The higher rate at the end of 1999 was due to rising interest rates during the latter part of that year. The higher average rate for 2000 compared to the average rate for 1999 was due to increases in the targeted Fed funds rates announced by the Fed several times during 2000.

OTHER REAL ESTATE OWNED

Real property owned by the Company that was acquired in foreclosure proceedings is termed Other Real Estate Owned. As explained in Note 1 to the consolidated financial statements, the Company held some

properties at December 31, 2000 and 1999, but had written their carrying value down to zero to reflect the uncertainty of realizing any net proceeds from their disposal.

As part of the loan application process, the Company reviews real estate collateral for possible problems from contamination by hazardous waste. This is reviewed again before any foreclosure proceedings are initiated.

NONEARNING ASSETS

For a bank, nonearning assets are those assets like cash reserves, equipment, and premises that do not earn interest. The ratio of nonearning assets to total assets is watched carefully by Management because it represents the efficiency with which funds are used. Tying up funds in nonearning assets either lessens the amount of interest that may be earned or it requires the investment of the smaller earning asset base in higher yielding but riskier assets to achieve the same income level. Management therefore believes that a low level of nonearning assets is part of a prudent asset/liability management strategy to reduce volatility in the earnings of the Company.

The ratio of nonearning assets to total assets has increased during the last three years with an average of 6.51% in 1998, 6.79% in 1999, and 7.12% in 2000. Some of the increase in nonearning assets in 1999 was due to holding extra amounts of cash on hand during November and December in case there was a large demand for currency as 2000 approached. Also, subsequent to the fire that destroyed the Company's Administrative Center, additional costs have been incurred for leasehold improvements and furniture related to the new center. The Company has also completed its move into a new Operations Center and begun construction of its new Executive Headquarters. The space available in the old operations center (initially rented when the Company had assets of less than $500 million) was inadequate to handle the increasing volume of transactions. The new Executive Headquarters, when complete in May or June of 2001, will also house SBB&T's Trust and Investment Services division which has also outgrown its current facilities. These construction projects coming within a relatively short space of time have added to the average balance of nonearning assets, and this will increase in 2001. In addition, the Company added approximately $19 million in nonearning assets due to the goodwill recognized in the LRB acquisition. As of September 30, 2000, the average ratio of nonearning assets to total assets for bank holding companies of comparable size was 8.13%.

OTHER OPERATING INCOME

Fees earned by the Trust and Investment Services Division remain the largest

component of other operating income, reaching $13.8 million in 2000. Fees increased by $695,000 or 5% over fees for 1999 which were in turn $1.4 million more than fees in 1998. The market value of assets under administration on which the majority of fees are based increased from $2.0 billion at the end of 1998 to $2.4 billion at the end of 1999, but decreased to $2.1 billion at the end of 2000. The majority of fees are based on the market value of the assets under administration. Most of these assets are held in equity securities, and the declining stock markets in 2000 reduced the value of the assets. Most of the reduction in assets came in accounts for which the Company does not manage the accounts, i.e. does not have investment authority, but is only the custodian. Included within total fees in 2000 were $1,125,000 for trusteeship of employee benefit plans and $910,000 from the sales of mutual funds and annuities. The Company provides assistance to customers to determine what investments best match their financial goals and helps the customers allocate their funds according to the customers' risk tolerance and need for diversification. The mutual funds and annuities are not operated by the Company, but instead are managed by registered investment companies. The Division also provides investment management services to individuals and organizations.

Included within other service charges, commissions and fees are service fees arising from the processing of merchants' credit card deposits, escrow fees, and a number of other fees charged for special services provided to customers. A significant source of income in this category is tax refund transfer fee income which totaled $7.3 million in 2000 compared to $6.6 million in 1999 and $4.8 million in 1998. As explained in the previous discussion on the tax refund programs, many of the taxpayers not qualifying for loans still had their refunds sent by the IRS to the Company which then issued the refund check more quickly than the IRS. The Company began earning substantial fees for this service in 1995. Management expects that this will continue to provide a significant source of income in 2000 and beyond.

The Company continues to work on increasing other income and fees due to its importance as a potential contributor to profitability.

OTHER OPERATING EXPENSES

Total other operating expenses have increased over the last three years as the Company has grown. These expenses are often calculated as a proportion of average assets as a means of providing comparisons with other financial institutions. As a percentage of average assets, these expenses have declined during the last three years. The ratios were 4.25% in 1998, 3.96% in 1999, and 3.60% in 2000.

The larger amount in 1998 is primarily due to expenses related to the merger with PCB. The Company incurred $11.7 million in other expenses for the merger. The nature of these expenses is explained in the section of this Discussion titled "Merger with Pacific Capital Bancorp." Without these expenses, the ratio of other operating expense to average assets for 1998 would have been 3.81%. While the ratio for 1998 was impacted by the merger expenses, the ratios for 1999 and 2000 were also impacted by unusual expenses. In 1999, substantial consulting expenses were incurred to integrate PCB's processing system into the Company's system and to address the century date change ("Y2K") issue. In 2000, the Company incurred $4.5 million in transaction costs, included in other expenses, to complete the SBB and LRB transactions. Therefore, while these unusual expenses in 1999 and 2000 had less of an impact on the other expense to average asset ratio than did the merger expenses in 1998, the ratios still show a downward trend when the large, unusual expenses in each of the years are

excluded.

Another ratio that is used to compare the Company's expenses to those of other financial institutions is the operating efficiency ratio. This ratio takes into account the fact that for many financial institutions much of their income is not asset-based, i.e., it is based on fees for services provided rather than income earned from a spread between the interest earned on assets and interest paid on liabilities. The operating efficiency ratio measures how much noninterest expense is spent in earning a dollar of revenue irrespective of whether the revenue is asset-based or fee-based. The Company spent 55.9 cents in 2000 for each dollar of revenue compared to 58.5 cents for its holding company peers. In 1999, the ratios were 57.9 cents for the Company and 61.2 cents for its peers. In 1998, the ratios were 62.8 cents for the Company and 62.3 cents for its peers. Without the merger expenses of 2000 and 1998, the Company's ratios would have been 54.0 cents for 2000, 57.9 cents for 1999, and 56.2 cents for 1998.

Within the whole category of other operating expense, salary and benefit expenses increased 28.1% from 1998 to 2000 compared to a 38.4% increase in average earning assets and a 39.1% growth in total revenues (exclusive of gains or losses on securities) for the same period.

Net occupancy and equipment expense increased from 1998 to 2000 by 13.9% because of some branch office renovation; increases in lease expense; upgrading of equipment to handle increased transaction volumes and to maintain technological competitiveness; the addition of new branch offices; and the increase in depreciation relating to the new administrative and operations buildings.

CAPITAL RESOURCES

As of December 31, 2000, under current regulatory definitions, the Company and its bank subsidiaries are "well-capitalized," the highest rating of the five categories defined under the Federal Deposit Insurance Corporation Improvement Act ("FDICIA").

Capital Adequacy Standards

The primary measure of capital adequacy for regulatory purposes is based on the ratio of total risk-based capital to risk-weighted assets. This method of measuring capital adequacy is meant to accomplish several objectives: 1) to establish capital requirements that are more sensitive to the differences in risk associated with various assets; 2) to explicitly take into account off-balance sheet exposure in assessing capital adequacy; and, 3) to minimize disincentives to holding liquid, low-risk assets.

The Company, as a bank holding company, is required by the FRB to maintain a total risk-based capital to risk-weighted asset ratio of at least 8.0%. At the end of 2000, the Company's ratio was 10.4%. The Company also must maintain a Tier 1 capital to risk-weighted asset ratio of 6% and a Tier 1 capital to average

assets of 5% to be considered well-capitalized. The minimum levels established by the FRB, the minimum levels necessary to be considered well-capitalized by regulatory definition and the Company's ratios as of December 31, 2000 are presented in Note 17. It is Management's intent to maintain capital in excess of the well-capitalized requirement, and as of year-end all ratios exceed this threshold. SBB&T, FNB, and LRB are also required to maintain a total risk-based

capital to risk-weighted asset ratio of 8.0% to be considered well-capitalized. SBB&T's ratio at the end of 2000 was 10.3%, FNB's was 10.6%, and LRB's was 11.4%. PCCM has no minimum capital requirements.

The risk-based capital ratio is impacted by three factors: (1) the growth in assets compared to the growth in capital; (2) the relative size of the various asset categories; and (3) the composition of the securities and money market portfolios. The Company's ratio decreased from 11.8% for year-end 1999 to 10.4% for year-end 2000. This occurred first as the result of assets growing by 19.4% from year-end 1999 to year-end 2000 while capital increased by 17.1%. Secondly, securities, cash and overnight funds decreased as a percentage of total assets from 28.7% to 27.3%. Some of these funds (generally risk-weighted at less than 100%) were used to pay for the increase in nonearning assets (all of which are risk-weighted at 100%). These two factors, which tended to decrease the capital ratios, were offset by a change in the composition of the securities portfolios. At the end of 2000, the Company held a slightly higher proportion of cash and U.S. Treasury securities to total securities, money market funds, and cash compared to its holdings at the end of 1999. Cash and Treasuries are assigned a zero risk weighting while other instruments, such as U.S. agency securities, state and municipal securities, and Federal funds sold, have a 20% risk weighting.

Future Sources and Uses of Capital and Expected Ratios

Over the last five years, the Company's assets have been increasing at a compound annual growth rate of 12.5%. To maintain its capital ratios, the Company must continue to increase capital at the same rate. Net income, the major source of capital growth for the Company, has been increasing at a compound annual growth rate of 17.2%, but 35%-40% of net income has been distributed to shareholders in the form of dividends. Together with some share repurchases, this has resulted in capital increasing at a compound annual growth rate of 9.8%.

During the last several years, the Company has experienced strong loan demand and expects this to continue. This will require the Company to more closely monitor its capital position than was necessary in prior years when the challenge was to effectively utilize excess capital.

The process of managing the capital ratios to remain classified as well capitalized involves three primary considerations. First, it is essential that management avoid alternating between being able to make loans and not able to make loans. Customers are attracted to the Company's subsidiary banks because of the relationship that is built with the customer, not the individual transaction. This requires the Company to be able to meet the credit needs of the borrower when they need to borrow.

The second consideration is that to maintain the ability to provide for those customers, the Company must be prepared to sell some of the loans it originates. This involves structuring loans to meet the purchase requirements of secondary markets, or charging an interest rate premium for those loans that cannot be sold. As mentioned above, in 2000 and early 2001, the Company has already sold loans as a means of limiting the rate of asset increase and will continue to do so in 2001.

The third consideration is that raising additional capital is likely to be necessary. Because the capital ratios are a regulatory issue, it is not necessary for the Company to issue more common stock. It is more likely that the Company would use other forms of regulatory capital like subordinated debt or Trust Preferred Stock. Interest would need to be paid on this capital, but the current shareholders would not have their ownership diluted by additional shares. The Company has had preliminary discussions with investment bankers regarding the issuance of such capital and has been informed that it could be

accomplished with relative ease.

In addition to the capital generated from the operations of the Bank, over the years a secondary source of capital growth has been the exercise of employee and director stock options. The extent of the growth from this source in any one year depends on a number of factors. These include the current stock price in relation to the price at the time options were granted and the number of options that would expire if not exercised during the year.

The net increase to capital from the exercise of options is lessened by the ability of option holders to pay the exercise price of options by trading shares of stock they already own, termed "swapping". In 2000, the increase to capital from the exercise of options (net of shares surrendered as payment for exercises and taxes) was $1.4 million or 3.2% of the net growth in shareholders' equity in the year. This was less than the $11,345,000 or 44.5% percent of capital growth due to option exercises in 1998. In that year, a larger number of options would have expired if not exercised than would have expired in 1999 if not exercised. At December 31, 2000, there were approximately 954,000 options outstanding and exercisable at less than the then-current market price, with an average exercise price of $20.43. This represents a potential addition to capital of $19.5 million, if all options were exercised with cash. Because many options are likely to be exercised by swapping, some amount less than the $19.5 million in new capital will result from the exercise of options, and the options are likely to be exercised over a number of years.

In any case, Management intends to take the actions necessary to ensure that the Company and the subsidiary banks will continue to exceed the capital ratios required for well-capitalized institutions.

Share Repurchases

In prior years, the Company occasionally repurchased shares of its common stock to offset the increased number of shares issued as a result of the exercise of employee stock options. In 1998, because the merger with PCB was accounted for as a pooling-of-interests, the Company suspended purchases at the initiation of the merger discussions and repurchased only 150,000 shares compared to the issuance of 807,000 shares resulting from the exercise of stock options. In 1999, the Company repurchased 68,000 shares to partially offset the issuance of 413,000 shares resulting from the exercise of stock options. There were no repurchases of shares in 2000.

There are no material commitments for capital expenditures or "off-balance sheet" financing arrangements as of the end of 2000, except as reported in Note 18 to the consolidated financial statements. Legal limitations on the ability of the subsidiary banks to declare dividends to the Bancorp are discussed in Note 17.

REGULATION

The Company is strongly impacted by regulation. The Company and its subsidiaries may engage only in lines of business that have been approved by their respective regulators, and cannot open, close, or relocate offices without their approval. Disclosure of the terms and conditions of loans made to customers and deposits accepted from customers are both heavily regulated as to content. FDICIA, effective in 1992, required banks to meet new capitalization standards, follow stringent outside audit rules, and establish stricter internal controls. There were also new requirements to ensure that the Audit Committee of the Board of

Directors is independent.

The subsidiary banks are required by the provisions of the federal Community Reinvestment Act ("CRA"), to make significant efforts to ensure that access to banking services is available to every segment of the community. They are also required to comply with the provision of various other consumer legislation and regulations. The Company and the banks must file periodic reports with the various regulators to keep them informed of their financial condition and operations as well as their compliance with all the various regulations.

The four regulatory agencies--the FRB for the Company and SBB&T, the California Department of Financial Institutions for SBB&T and LRB, the OCC for FNB, and the FDIC for LRB--conduct periodic examinations of the Company and its subsidiary banks to verify that their reporting is accurate and to ascertain that they are in compliance with regulations.

A banking agency may take action against a bank holding company or a bank should it find that the financial institution has failed to maintain adequate capital. This action has usually taken the form of restrictions on the payment of dividends to shareholders, requirements to obtain more capital from investors, and restrictions on operations. The FDIC may also take action against a bank which is not acting in a safe and sound manner. Given the strong capital position and performance of the Company and the banks, Management does not expect to be impacted by these types of restrictions in the foreseeable future.

The Gramm-Leach-Bliley Act was enacted as Federal legislation in late 1999 with an effective date of March 11, 2000. The provisions of the act permit banking organizations to enter into areas of business from

which they were previously restricted. Similarly, other kinds of financial organizations are permitted to conduct business provided by banks. Management expects that over the next several years the Company will develop new opportunities for business and will face increased competition as a result of the passage of this act.

IMPACT OF INFLATION

Inflation has been minimal for the last several years and has had little or no impact on the financial condition and results of operations of the Company during the periods discussed here.

LIQUIDITY

Liquidity is the ability to raise funds on a timely basis at an acceptable cost in order to meet cash needs. Adequate liquidity is necessary to handle fluctuations in deposit levels, to provide for customers' credit needs, and to take advantage of investment opportunities as they are presented in the market place.

The Company's objective is to ensure adequate liquidity at all times by maintaining liquid assets, by being able to raise deposits and liabilities, and by having access to funds via capital markets. Having too little liquidity can result in difficulties in meeting commitments and lost opportunities. Having too much liquidity can result in less income because liquid assets usually do not earn as high an interest rate as less liquid assets.

As indicated in the Consolidated Statements of Cash Flows principal sources of

cash for the Company have included proceeds from the maturity or sale of securities, and the growth in deposits and other borrowings.

To manage the Company's liquidity properly, however, it is not enough to merely have large cash inflows; they must be timed to coincide with anticipated cash outflows. Also, the available cash on hand or cash equivalents must be sufficient to meet the exceptional demands that can be expected from time to time relating to natural catastrophes such as flood, earthquakes, and fire.

The Company manages its liquidity adequacy by monitoring and managing its immediate liquidity, intermediate liquidity, and long term liquidity. Immediate liquidity is the ability to raise funds today to meet today's cash obligations. Sources of immediate liquidity include cash on hand, the prior day's Federal funds sold position, unused Federal funds and repurchase agreement lines and facilities extended by other banks and major brokers to the Company, access to the Federal Home Loan Bank ("FHLB") for short-term advances, and access to the FRB's Discount Window. The Company has established a target amount for sources of available immediate liquidity. This amount is increased during certain periods to accommodate any liquidity risks of special programs like RALs.

As discussed in various sections above, continued strong loan demand in 1999 outpaced the deposit growth and required the Company to rely more on overnight borrowing to maintain immediate liquidity than had been the case in prior years. The rate paid on these borrowings is more than would be paid for deposits, but aside from this, there have been no adverse consequences from relying more on borrowing ability than on holding liquid assets in excess of the immediate amounts needed. The Company's strong capital position and earnings prospects have meant that these sources of borrowing have been readily available. In 2000, deposit growth in dollars kept pace with loan growth.

Intermediate liquidity is the ability to raise funds during the next few months to meet cash obligations over those next few months. Sources of intermediate liquidity include maturities or sales of bankers' acceptances and securities, term repurchase agreements, and term advances from the FHLB. The Company monitors the cash flow needs of the next few months and determines that the sources are adequate to provide for these cash needs.

Long-term liquidity is the ability to raise funds over the entire planning horizon to meet cash needs anticipated due to strategic balance sheet changes. Long-term liquidity sources include: initiating special programs to increase core deposits in expanded market areas; reducing the size of securities portfolios; taking long-term advances from the FHLB, securitizing loans; and accessing capital markets. The fixed-rate loans the Company borrowed from FHLB to fund the retention of a portion of the 30-year fixed rate residential real estate loans is an example of coordinating a source of long term liquidity with asset/liability management.

INCOME TAX EXPENSE

Income tax expense is the sum of two components: the CURRENT TAX EXPENSE or provision and the DEFERRED EXPENSE or provision. Current tax expense is the result of applying the current tax rate to taxable income.

The deferred tax provision is intended to account for the fact that income on which the Company pays taxes with its returns differs from pre-tax income in the accompanying Consolidated Income Statements. Some items of income and expense are recognized in different years for income tax purposes than in the financial

statements. For example, the Company is only permitted to deduct from Federal taxable income actual net loan charge-offs, irrespective of the amount of provision for credit loss (bad debt expense) recognized in its financial statements. This causes what is termed a "temporary difference" because eventually, as loans are charged-off, the Company will be able to deduct for tax purposes what has already been recognized as an expense in the financial statements. Another example is the ACCRETION of discount on certain securities. Accretion is the recognition as interest income of the excess of the par value of a security over its cost at the time of purchase. For its financial statements, the Company recognizes income as the discount is accreted. For its tax return, however, the Company can defer the recognition of that income until the cash is received at the maturity of the security. The first example causes a deferred tax asset to be created because the Company has recognized as an expense for its current financial statements an item that it will be able to deduct from its taxable income in a future year's tax return. The second example causes a deferred tax liability, because the Company has been able to delay until a subsequent year the paying of tax on an item of current year financial statement income.

The Company measures all of its deferred tax assets and liabilities at the end of each year. The difference between the net asset or liability at the beginning of the year and the end of the year is the deferred tax provision for the year.

Most of the Company's temporary differences involve recognizing substantially more expenses in its financial statements than it has been allowed to deduct for taxes in the return for the year. This results in a net deferred tax asset. Deferred tax assets are dependent for realization on past taxes paid, against which they may be carried back, or on future taxable income, against which they may be offset. If there were a question about the Company's ability to realize the benefit from the asset, then it would have to record a valuation allowance against the asset to reflect the uncertainty. Given the amount and nature of the Company's deferred assets, the past taxes paid, and the likelihood of future taxable income, realization is assured for the full amount of the net deferred tax asset and no valuation allowance is needed.

The amounts of the current expense and deferred benefit, the amounts of the various deferred tax assets and liabilities, and the tax effect of the principal temporary differences between taxable income and pre-tax financial statement income are shown in Note 8 to the accompanying consolidated financial statements.

COMMON STOCK PRICES AND DIVIDENDS

Stock prices and cash dividends declared for the last eight quarters are shown on page 5. The Company's stock is listed on the Nasdaq National Market System. The trading symbol is SABB. Stock prices represent trading activity through the National Market System.

For the years 2000, 1999, and 1998, the Company has declared cash dividends which were 41.8%, 39.0%, and 48.5%, respectively, of its net income. The Company's policy is to pay dividends of approximately 35%-40% of the last 12 months earnings. Because earnings were significantly reduced in 1998 and 2000 by the one-time merger expenses, the ratios for 1998 and 2000 are higher than usual. The most recent information for the Company's peers shows an average payout ratio of 29.8%. The Board of Directors periodically increases the dividend rate in acknowledgment that earnings have been increasing by a sufficient amount to ensure adequate capital and also provide a higher return to shareholders. The last increase was declared in the third quarter of 2000.

MERGERS AND ACQUISITION

On December 30, 1998, SBBancorp completed its merger with PCB and assumed the

name of its merger partner to most clearly reflect the broad geography of the new multi-bank organization.

The agreement provided for PCB shareholders to receive 1.935 shares of SBBancorp stock in exchange for each of their shares. Based on the closing price of SBBancorp stock as of the date of the merger, the value of the merger was approximately $216 million, 2.8 times the book value of PCB. The transaction was accounted for as a pooling of interests. As such, all financial results for periods prior to the merger are reported as if the merger occurred at the beginning of the earliest period presented.

After the close of business June 30, 2000, the Company completed its acquisition of Los Robles Bancorp. The shareholders of Los Robles Bancorp were paid cash in the amount of $23.12 per share for their stock for a total transaction amount of $32.5 million. The Company recognized goodwill of $20.0 million in the transaction for the excess of the purchase price over the fair value of the net assets obtained.

The only subsidiary of Los Robles Bancorp, LRB, became a subsidiary of the Company. It is anticipated that in the second quarter of 2001, LRB will be merged into SBB&T.

After the close of business July 31, 2000, the Company completed its merger with SBB. The merger agreement provided for SBB shareholders to receive 0.605 shares of the Company's stock in exchange for each of their shares. Based on the closing price of the Company's stock as of the date of the merger, the value of the merger was approximately $43.8 million, 2.8 times the book value of SBB. The transaction was accounted for as a pooling of interests. As such, all financial results for periods prior to the merger are reported as if the merger occurred at the beginning of the earliest period presented.

CENTURY DATE CHANGE ("Y2K")

In the years leading up to December 31, 2000, the Company took the required actions to prepare its computer and other electronic systems for Y2K. As a result of these preparations, no significant problems were encountered with the Company's critical systems and the Company is not aware of any significant problems encountered by its customers or the other financial institutions with which it does business. The Company did not become aware of any significant impact on its customers' abilities to repay loans due to problems with their systems.

The total cost of the project was approximately $2,652,000, which included the cost of outside contract programmers, software and hardware purchased specifically to be ready for Y2K, and the rental of a generator and other special equipment for the period surrounding year end. Of this amount, approximately $1,741,000 was expensed in 1999, with the balance having been expensed in 1997 and 1998.

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

NOTE A

In various places throughout this discussion, comparisons are made between ratios for the Company and for its holding company or FDIC peers.

The holding company peer is a group of 66 companies with an asset size of $3 billion to $10 billion. The peer information is reported in the Bank Holding Company Performance Report received from the FRB for the 3rd Quarter of 2000, the latest quarter for which the report has been distributed as of this writing.

The FDIC peer group comprises 300+ banks with an asset size of $1 billion to $10 billion, and the information set forth above is reported in or calculated from information reported in the FDIC Quarterly Banking Profile, Third Quarter 2000, which is the latest issue available. The publication does not report some of the statistics cited in this report by the separate size-based peer groups. In these instances, the figure cited is for all FDIC banks regardless of size.

The particular peer group used for comparison depends on the nature of the information in question. Company data like capital ratios and dividend payout are compared to other holding companies, because capital is generally managed at the holding company level and dividends to shareholders are paid from the holding company, not the individual banks. Expense and revenue ratios are also compared to other holding company data because many holding companies provide significant services to their subsidiary banks and may also provide services to customers as well. These items would not be included in FDIC bank-level data. Credit information relates to what is generally a bank-level activity, the making of loans, and the FDIC data in this area is more pertinent.

NOTE B

When comparing interest yields and costs year to year, the use of average balances more accurately reflects trends since these balances are not significantly impacted by period-end transactions. The amount of interest earned or paid for the year is also directly related to the average balances during the year and not to what the balances happened to be on the last day of the year. Average balances are daily averages, i.e., the average is computed using the balances for each day of the year, rather than computing the average of the first and last day of the year.

NOTE C

For Tables 1 and 3, the yield on tax-exempt state and municipal securities and loans has been computed on a tax equivalent basis. To compute the tax equivalent yield for these securities one must first add to the actual interest earned an amount such that if the resulting total were fully taxed, the after-tax income would be equivalent to the actual tax-exempt income. This tax equivalent income is then divided by the average balance to obtain the tax equivalent yield. The dollar amount of the adjustment is shown at the bottom of Table 1 as "Tax equivalent income included in interest income from nontaxable securities and loans."

NOTE D

For purposes of Table 1, loans in a nonaccrual status are included in the computation of average balances in their respective loan categories.

NOTE E

For purposes of the amounts in Table 2 relating to the volume and rate analysis of net interest margin, the portion of the change in interest earned or paid that is attributable to changes in rate is computed by multiplying the change in

interest rate by the prior year's average balance. The portion of the change in interest earned or paid that is attributable to changes in volume is computed by multiplying the change in

average balances by the prior year's interest rate. The portion of the change that is not attributable either solely to changes in volume or changes in rate is prorated on a weighted basis between volume and rate.

NOTE F

A yield curve is a graphic representation of the relationship between the interest rate and the maturity term of financial instruments. Generally, interest rates on shorter maturity financial instruments are less than those for longer term instruments. For example, at December 31, 1999, 1 year U.S. Treasury notes sold at a price that yielded 5.96% while 30 year notes sold at a price that yielded 6.48%. A line drawn that plots this relationship for a whole range of maturities will be "steeper" when the rates on long-term maturities are substantially higher than those on shorter term maturities. The curve is said to be "flatter" when there is not as much of a difference. At December 31, 2000, the shape of the curve was partially "inverted" in that 10 year notes sold at a lower price than either 1 year or 30 year notes. 1 year U.S. Treasury notes sold at a price that yielded 5.36%, 10 year U.S. Treasury notes sold at a price that yielded 5.11%, and 30 year notes sold at a price that yielded 5.46%.

NOTE G

Banker's acceptances generally result from the financing of a shipment of goods between a particular purchaser and seller, in financial markets they function as a negotiable short-term debt instrument. Commercial paper instruments are short-term notes issued by companies. They are actively traded among investors after issuance.

NOTE H

A large number of home mortgage loans may be grouped together by a financial institution into a pool. This pool may then be securitized and sold to investors. The payments received from the borrowers on their mortgages are used to pay the investors. The mortgage instruments themselves are the security or backing for the investors and the securities are termed mortgage-backed.

Collateralized mortgage obligations are like mortgage-backed securities in that they involve a pool of mortgages. However, payments received from the borrowers are not equally paid to investors. Instead, investors purchase portions of the pool that have different repayment characteristics. This permits the investor to better time the cash flows that will be received.

Asset-backed securities are like mortgage-backed securities except that loans other than mortgages are the source of repayment. For instance, these might be credit card loans or auto loans.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Audited consolidated financial statements and related documents required by this item are included in this Annual Report on Form 10-K on the pages indicated:

Management's Responsibility for Financial Reporting

Report of Independent Public Accountants--Arthur Andersen LLP

Independent Auditors' Report--Deloitte & Touche LLP

Consolidated Balance Sheets as of December 31, 2000 and 1999

Consolidated Statements of Income for the years ended December 31, 2000, 1999, and 199

Consolidated Statements of Comprehensive Income for the years ended December 31, 2000,

Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2000, 1999, and 1998

Consolidated Statements of Cash Flows for the years ended December 31, 2000, 1999, and

Notes to Consolidated Financial Statements

The following unaudited supplementary data is included in this Annual Report on Form 10-K on the page indicated:

Quarterly Financial Data

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The Management of Pacific Capital Bancorp (the "Company") is responsible for the preparation, integrity, and fair presentation of the Company's annual consolidated financial statements and related financial data contained in this report. With the exception that some of the information in Management's Discussion and Analysis of Financial Condition and Results of Operations is presented on a tax-equivalent basis to improve comparability, all information has been prepared in accordance with accounting principles generally accepted in the United States and, as such, includes certain amounts that are based on Management's best estimates and judgments.

The consolidated financial statements presented on pages 44 through 48 have been audited by Arthur Andersen LLP, who have been given unrestricted access to all financial records and related data, including minutes of all meetings of shareholders, the Board of Directors, and committees of the Board. Management believes that all representations made to Arthur Andersen LLP during the audit were valid and appropriate.

Management is responsible for establishing and maintaining an internal control

structure over financial reporting. Two of the objectives of this internal control structure are to provide reasonable assurance to Management and the Board of Directors that transactions are properly authorized and recorded in our financial records, and that the preparation of the Company's financial statements and other financial reporting is done in accordance with generally accepted accounting principles.

Management has made its own assessment of the effectiveness of the Company's internal control structure over financial reporting as of December 31, 2000, in relation to the criteria described in the report, Internal Control--Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission.

There are inherent limitations in the effectiveness of any internal control structure, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even an effective internal control structure can provide only reasonable assurance with respect to reliability of financial statements. Furthermore, the effectiveness of any internal control structure can vary with changes in circumstances. Nonetheless, based on its assessment, Management believes that as of December 31, 2000, Pacific Capital Bancorp's internal control structure was effective in achieving the objectives stated above.

The Board of Directors is responsible for reviewing and monitoring the policies and practices employed by Management in preparing the Company's financial reporting. This is accomplished through its Audit Committee, which is comprised of directors who are not officers or employees of the Company. The Committee reviews accounting policies, control procedures, internal and independent audit reports, and regulatory examination reports with Management, the Company's internal auditors, and representatives of Arthur Andersen LLP. Both the Company's internal auditors and the representatives of Arthur Andersen LLP have full and free access to the Committee to discuss any issues which arise out of their examinations without Management present.

/s/ DAVID W. SPAINHOUR	/s/ WILLIAM S. THOMAS, JR.	/s/ DO
David W. Spainhour Chairman of the Board and Pacific Capital Bancorp	William S. Thomas, Jr. President and Chief Executive Officer Pacific Capital Bancorp	Donald L Executiv Chief Fi Pacific

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PACIFIC CAPITAL BANCORP
AND SUBSIDIARIES

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Shareholders and the Board of Directors
of Pacific Capital Bancorp:

We have audited the accompanying consolidated balance sheets of Pacific Capital Bancorp (a California corporation) and Subsidiaries as of December 31, 2000 and

1999, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of Pacific Capital Bancorp's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of San Benito Bank for fiscal years prior to its acquisition during 2000 by Pacific Capital Bancorp, in a transaction accounted for as a pooling of interests, as discussed in Note 19 to the accompanying consolidated financial statements. Such statements are included in the accompanying consolidated financial statements of Pacific Capital Bancorp and reflect total assets of 7 percent for 1999 and net income of 5 percent and 6 percent for 1999 and 1998, respectively, of the related consolidated totals. These statements were audited by other auditors whose report has been furnished to us and our opinion, insofar as it relates to amounts included for San Benito Bank prior to the acquisition, is based solely upon the report of the other auditors.

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

In our opinion, based on our audits and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Pacific Capital Bancorp and Subsidiaries as of December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States.

/s/ ARTHUR ANDERSEN LLP

ARTHUR ANDERSEN LLP
Los Angeles, California
February 2, 2001

PACIFIC CAPITAL BANCORP
AND SUBSIDIARIES

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders,
Pacific Capital Bancorp:

We have audited the balance sheet of San Benito Bank as of December 31, 1999 and the related statements of income, stockholders' equity, and cash flows for the two years ended December 31, 1999 and 1998 (not presented herein). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on

our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 San Benito Bank at December 31, 1999, and the results of its operations and its cash flows for the two years ended December 31, 1999 and 1998, in conformity with accounting principles generally accepted in the United States of America.

/s/ DELOITTE & TOUCHE LLP

Deloitte & Touche LLP
Hollister, California
January 24, 2000

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PACIFIC CAPITAL BANCORP
AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands except stated value)	Dece 2000
ASSETS:	
Cash and due from banks (Note 5)	$ 176,274
Federal funds sold	19,500
Money market funds	--
Total cash and cash equivalents	195,774
Securities (approximate market value of $818,073 in 2000 and $744,886 in 1999) (Note 2):	
Held-to-maturity	139,294
Available-for-sale	669,631
Total securities	808,925
Loans (Note 3)	2,517,104
Less: allowance for credit losses (Note 4)	35,125
Net loans	2,481,979
Premises and equipment, net (Note 6)	53,013
Accrued interest receivable	25,945
Other assets (Notes 8 & 19)	111,989
Total assets	$ 3,677,625

LIABILITIES:	
Deposits (Note 7):	
Noninterest bearing demand deposits	$ 709,348
Interest bearing deposits	2,393,471
Total deposits	3,102,819
Securities sold under agreements to repurchase and Federal funds purchased (Note 10)	105,658
Long-term debt and other borrowings (Note 11)	129,658
Accrued interest payable and other liabilities (Notes 8, 13, and 15)	43,229
Total liabilities	3,381,364
Commitments and contingencies (Note 18)	
SHAREHOLDERS' EQUITY (Notes 9, 13 and 17):	
Common stock -- no par value, $0.33 stated value; shares authorized: 60,000; shares issued and outstanding: 26,481 in 2000 and 26,279 in 1999	8,828
Preferred stock-- no par value; shares authorized: 1,000 shares issued and outstanding: none	--
Surplus	115,664
Accumulated other comprehensive income (loss) (Note 1)	4,472
Retained earnings	167,297
Total shareholders' equity	296,261
Total liabilities and shareholders' equity	$ 3,677,625

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

PACIFIC CAPITAL BANCORP
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except for per share data)	Year Ended December 31 2000	1999
INTEREST INCOME:		
Interest and fees on loans (Note 3)	$ 229,014	$ 174,539
Interest on securities:		
U.S. Treasury obligations	8,925	10,650
U.S. agency obligations	17,032	12,712
State and municipal securities	10,553	9,570
Collateralized mortgage obligations	11,179	12,284
Asset-backed securities	1,678	848
Equity securities	952	527
Interest on Federal funds sold and securities purchased under agreement to resell	9,870	4,033

Interest bearing deposits	111	184
Interest on commercial paper and bankers' acceptances	1,602	307
Total interest income	290,916	225,654
INTEREST EXPENSE:		
Interest on deposits (Note 7)	98,293	65,894
Interest on securities sold under agreements to repurchase and Federal funds purchased (Note 10)	4,247	1,766
Interest on long-term debt and other borrowings (Note 11)	7,986	4,815
Total interest expense	110,526	72,475
NET INTEREST INCOME	180,390	153,179
Provision for credit losses (Notes 1 and 4)	14,440	7,043
Net interest income after provision for credit losses	165,950	146,136
OTHER OPERATING INCOME:		
Service charges on deposit accounts	11,176	9,608
Trust fees (Notes 1 and 12)	13,827	13,132
Other service charges, commissions and fees (Note 12)	21,757	18,717
Net (loss) gain on sales and calls of securities (Notes 1, 2, and 8)	(143)	(268)
Other income	2,771	2,203
Total other operating income	49,388	43,392
OTHER OPERATING EXPENSE:		
Salaries and other compensation (Note 16)	54,931	46,416
Employee benefits (Notes 13 and 15)	12,273	8,941
Net occupancy expense (Notes 6 and 18)	11,225	9,822
Equipment rental, depreciation and maintenance (Note 6)	7,303	7,185
Other operating expense (Note 12)	46,225	45,061
Total other operating expense	131,957	117,425
Income before provision for income taxes	83,381	72,103
Provision for income taxes (Note 8)	31,925	25,570
NET INCOME	$ 51,456	$ 46,533
BASIC EARNINGS PER SHARE (NOTE 16)	$ 1.95	$ 1.78
DILUTED EARNINGS PER SHARE (NOTE 16)	$ 1.93	$ 1.75

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

PACIFIC CAPITAL BANCORP
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF
COMPREHENSIVE INCOME

(in thousands)	Year Ended December 31 2000	1999
Net income	$ 51,456	$ 46,533
Other comprehensive income, net of tax (Note 8) -		
Unrealized gain (loss) on securities:		
Unrealized holding gains (losses) arising during period	11,094	(10,600)
Reclassification adjustment for (gains) losses included in net income	143	268
Other comprehensive income, net of tax	11,237	(10,332)
Comprehensive income	$ 62,693	$ 36,201

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

PACIFIC CAPITAL BANCORP
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN
SHAREHOLDERS' EQUITY

(in thousands except for per share data)	Common Stock * Shares	Amount	Surplus	Accumulated Other Comprehensive Income
Balance, December 31, 1997	25,026	$ 8,342	$ 99,518	$ 1,806
Activity for 1998:				
Exercise of stock options (Note 9)	828	277	11,068	--
Retirement of common stock (Note 9)	(150)	(50)	(3,749)	--
Cash dividends declared at $0.66 per share	--	--	--	--
10% stock dividend for San Benito (Note 9)	147	49	3,143	--
Changes in unrealized gain				

on securities				
available-for-sale	--	--	--	1,761
Net income	--	--	--	--
Balance, December 31, 1998	25,851	8,618	109,980	3,567
Activity for 1999:				
Exercise of stock				
options (Note 9)	499	167	6,498	--
Retirement of				
common stock (Note 9)	(71)	(24)	(2,142)	--
Cash dividends declared				
at $0.72 per share	--	--	--	--
Changes in unrealized loss				
on securities				
available-for-sale	--	--	--	(10,332)
Net income	--	--	--	--
BALANCE, DECEMBER 31, 1999	26,279	8,761	114,336	(6,765)
ACTIVITY FOR 2000:				
EXERCISE OF STOCK				
OPTIONS (NOTE 9)	202	67	1,328	--
CASH DIVIDENDS DECLARED				
AT $0.84 PER SHARE	--	--	--	--
CHANGES IN UNREALIZED GAIN				
ON SECURITIES				
AVAILABLE-FOR-SALE	--	--	--	11,237
NET INCOME	--	--	--	--
BALANCE, DECEMBER 31, 2000	26,481	$ 8,828	$ 115,664	$ 4,472

* Preferred stock of 1,000,000 shares is authorized. At December 31, 2000 there are no preferred shares issued and outstanding.

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

PACIFIC CAPITAL BANCORP
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Year Ended De	
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (NOTE 1):	2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES:		
NET INCOME	$ 51,456	$ 46,5

ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATIONS:		
Depreciation and amortization	7,963	7,3
Provision for credit lease losses	14,440	7,0
Gain on sale of loans	--	
Gain on life insurance	--	(3
(Benefit) provision for deferred income taxes	(2,296)	(2,1
Net recovery on other real estate owned	--	
Net amortization of discounts and premiums for securities and bankers' acceptances	(7,557)	(6,1
Net change in deferred loan origination fees and costs	1,525	1
Increase in accrued interest receivable	(7,375)	(4,6
Increase (decrease) in accrued interest payable	1,481	(
Net loss (gain) on sales and calls of securities	143	2
(Decrease) increase in income taxes payable	(3,126)	(1,7
Other operating activities	(9,292)	(22,6
NET CASH PROVIDED BY OPERATING ACTIVITIES	47,362	23,5
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of common stock of Los Robles Bank (Note 19)	(32,500)	
Proceeds from sales, calls, and maturities of securities (Note 2)	228,338	253,0
Purchase of securities (Note 2)	(259,294)	(133,6
Proceeds from sale or maturity of bankers' acceptances and commercial paper	9,966	49,8
Purchase of bankers' acceptances and commercial paper	(9,972)	(29,8
Net increase in loans made to customers	(443,930)	(427,6
Disposition of property from defaulted loans	5,565	2
Purchase of tax credit investment	--	(6,9
Purchase of investment in premises and equipment	(22,279)	(12,0
Proceeds from sale of equipment	--	
NET CASH USED IN INVESTING ACTIVITIES	(524,106)	(306,8
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in deposits	481,362	133,4
Net increase in borrowings with maturities of 90 days or less	19,725	52,7
Proceeds from other borrowings	189,783	80,1
Payments on other borrowings	(153,500)	(26,2
Proceeds from issuance of common stock (Note 9)	1,395	2,4
Payments to retire common stock (Note 9)	--	(2,0
Dividends paid	(20,868)	(18,0
NET CASH PROVIDED BY FINANCING ACTIVITIES	517,897	222,2
Net decrease in cash and cash equivalents	41,153	(61,0
Cash and cash equivalents at beginning of period	143,617	204,6
Cash and cash equivalents acquired in acquisitions	11,004	
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 195,774	$ 143,6
SUPPLEMENTAL DISCLOSURE:		
Interest paid during the year	$ 94,051	$ 72,2
Income taxes paid during the year	$ 35,090	$ 24,4
Non-cash additions to other real estate owned (Note 1)	$ --	$ 2

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Pacific Capital Bancorp (the "Company") is a bank holding company organized under the laws of California. The Company is the surviving corporation resulting from the merger on December 30, 1998 of Santa Barbara Bancorp ("SBBancorp") and the former Pacific Capital Bancorp ("PCB"). The merger was accounted for as a pooling of interests. Accordingly, all historical financial information has been restated as if the merger had been in effect for all periods presented. To recognize its newly expanded market areas, the Company assumed the name Pacific Capital Bancorp.

Nature of Operations

Through its banking subsidiaries, Santa Barbara Bank & Trust ("SBB&T"), First National Bank of Central California ("FNB"), and Los Robles Bank ("LRB"), the Company provides a full range of commercial banking services to individuals and business enterprises. The banking services include making commercial, leasing, consumer, and Small Business Administration guaranteed loans, and commercial and residential real estate loans. Deposits are accepted for checking, interest-bearing checking ("NOW"), money-market, savings, and time accounts. The banks offer safe deposit boxes, travelers checks, money orders, foreign exchange services, and cashiers checks. SBB&T also provides escrow services to its customers. A wide range of wealth management services are offered through the Trust and Investment Services divisions of SBBT and FNB. The offices of SBB&T are located in Santa Barbara County and in western Ventura County. Offices of FNB are located in the counties of Monterey and Santa Cruz. Offices in southern Santa Clara County are maintained under the name "South Valley National Bank", an affiliate of FNB, and offices in San Benito County are maintained under the name "San Benito Bank," ("SBB") also an affiliate of FNB. The offices of LRB are located in the Ventura County communities of Thousand Oaks, Westlake Village, and Camarillo.

The Company's fourth subsidiary is Pacific Capital Commercial Mortgage Company. Its primary business activities are directed to brokering commercial real estate loans and servicing those loans for a fee. While these activities are not material in relation to the consolidated financial position or results, they were organized into a separate company to limit possible risk exposure to the banks.

A fifth subsidiary, Pacific Capital Services Corporation, is inactive.

Basis of Presentation

The accounting and reporting policies of the Company are in accordance with accounting principles generally accepted in the United States ("GAAP") and conform to practices within the banking industry. The consolidated financial statements include the accounts of the Company and its subsidiaries.

All significant intercompany balances and transactions are eliminated.

The preparation of consolidated financial statements in accordance with GAAP

requires Management to make certain estimates and assumptions which affect the amounts of reported assets and liabilities as well as contingent assets and liabilities as of the date of these financial statements. These estimates and assumptions also affect the reported amounts of revenues and expenses during the reporting period(s). Although Management believes these estimates and assumptions to be reasonably accurate, actual results may differ.

Securities

The Company purchases securities with funds that are not needed for immediate liquidity purposes and have not been lent to customers. These securities are classified either as held-to-maturity or available-for-sale. This classification is made at the time of purchase. Only those securities that the Company both intends and is able to hold until their maturity may be classified as held-to-maturity. Securities that might be sold prior to maturity because of interest rate changes, to meet liquidity needs, or to better match the repricing characteristics of funding sources are classified as available-for-sale. The Company purchases no securities specifically for later resale at a gain and therefore holds no securities that should be classified as trading securities.

The Company's securities that are classified as held-to-maturity are carried at "amortized historical cost". This is the purchase price increased by the accretion of discounts or decreased by the amortization of premiums using the effective interest method. Discount is the excess of the face value of the security over the cost, and accretion of the discount increases the effective yield for the security above the interest rate for its coupon. Premium is the excess of cost over the face value of the security, and amortization of the premium reduces the yield for the security below the coupon rate. Discounts are accreted and premiums are amortized over the period to maturity of the related securities, or to earlier call dates, if appropriate. There is no recognition of unrealized gains or losses for these securities.

For securities that are classified as available-for-sale, the interest income is recognized in the same manner as for securities that are classified as held-to-maturity, including the accretion of discounts and the amortization of premiums. However, unlike the securities that are classified held-to-maturity, securities classified available-for-sale are reported on the consolidated balance sheets at their fair value. Changes in the fair value of these securities are not recognized as a gain or loss in the Company's statements of income, but are instead reported net of the tax effect on the consolidated balance sheets as a separate component of equity captioned "Accumulated other comprehensive income." The changes in fair value are included as elements of comprehensive income in the consolidated statements of comprehensive income. Included with loans are receivables structured like leases, but which in substance are loans.

Loans and Interest and Fees from Loans

Loans are carried at amounts advanced to the borrowers less principal payments collected. Interest on loans is accrued on a simple interest basis. Loan origination and commitment fees, offset by certain direct loan origination costs, are deferred and recognized over the contractual life of the loan as an adjustment to the interest earned. The net unrecognized fees represent unearned revenue, and they are reported as reductions of the loan principal outstanding, or as additions to the loan principal if the deferred costs are greater than deferred fees. Included with loans are receivables structured like leases, but which in substance are loans.

Nonaccrual Loans: When a borrower is not making payments as contractually required by the note, the Company must decide whether it is appropriate to continue to accrue interest. Generally speaking, loans are placed in a nonaccrual status, i.e., the Company stops accruing or recognizing interest income on the loan, when the loan has become delinquent by more than 90 days. The Company may decide that it is appropriate to continue to accrue interest on some loans more than 90 days delinquent if they are well-secured by collateral and collection efforts are being actively pursued. Such loans are categorized as nonperforming loans.

When a loan is placed in a nonaccrual status, any accrued but uncollected interest for the loan is written off against interest income from other loans of the same type in the period in which the status is changed. No further interest income is recognized until all recorded amounts of principal are recovered in full or until circumstances have changed such that payments are again consistently received as contractually required.

Impaired Loans: A loan is identified as impaired when it is probable that interest and principal will not be collected according to the contractual terms of the loan agreement. Because this definition is very similar to that of a nonaccrual loan, most impaired loans will be classified as nonaccrual. However, there are some loans that are termed impaired because of doubt regarding collectibility of interest and principal according to the contractual terms, but which are presently both fully secured by collateral and are current in their interest and principal payments. These impaired loans are not classified as nonaccrual. Under GAAP, the term "impaired" only applies to certain types or classes of loans. Consequently, there are some nonaccrual loans which are not categorized as impaired.

Allowance for Credit Losses

If a borrower's financial condition becomes such that he or she is not able to fully repay a loan or lease obligation extended by the Company, a loss to the Company has occurred. When the Company has determined that such a loss has occurred, the principal amount of the loan, or a portion thereof, is charged-off against an established allowance so that the value of the Company's assets are not overstated by retaining an uncollectible loan at its outstanding balance. However, because loan officers cannot be in daily contact with each borrower, the Company almost never knows exactly when such a loss might have occurred. Therefore, in order to fairly state the value of the loan and leasing portfolios, it is necessary to make an estimate of the amount of loss inherent but unrecognized in these credit portfolios prior to the realization of such losses through charge-off.

GAAP, banking regulations, and sound banking practices require that the Company record this estimate of unrecognized losses in the form of an allowance for credit losses. The allowance is increased by the provision for credit losses, which is a charge to income in the current period. The allowance is decreased by the charge-off of loans net of any recoveries of loans previously charged-off.

The allowance for credit losses consists of several components. The first is that portion of the allowance specifically allocated to those loans that are categorized as impaired under provisions of Statement of Financial Accounting Standards No. 114, Accounting by Creditors for Impairment of a Loan ("SFAS 114"). The remaining components include a statistically allocated portion, a specifically allocated portion, and an unallocated portion. These components are reported together in the allowance for credit loss in the accompanying

consolidated balance sheets and in Note 4. Each of these components of the allowance for credit losses is maintained at a level considered adequate to provide for losses that can reasonably be anticipated. However, the allowance is based on estimates, and ultimate losses may vary from the current estimates. These estimates are reviewed periodically and, as adjustments become necessary, they are reported as provisions against earnings in the periods in which they become known.

Component for Impaired Loans: Under GAAP, the Company is permitted to determine the valuation allowance for impaired loans on a loan-by-loan basis or by aggregating loans with similar risk characteristics. Because the number of loans classified as impaired is relatively small and because special factors apply to each, the Company determines the valuation allowance for impaired loans on a loan-by-loan basis.

The amount of the valuation allowance allocated to any particular impaired loan is determined by comparing the recorded investment in each loan with its value measured by one of three methods: (1) by discounting estimated future cash flows at the effective interest rate; (2) by observing the loan's market price if it is of a kind for which there is a secondary market; or (3) by valuing the underlying collateral. A valuation allowance is established for any amount by which the recorded investment exceeds the value of the impaired loan. If the value of the loan, as determined by one of the above methods, exceeds the recorded investment in the loan, no valuation allowance for that loan is established.

Historical Loss Component: The statistical component of the allowance is intended to provide for losses that occur in large groups of smaller balance loans, the individual credit quality of which is impracticable to review at each period end. The amount of this component is determined by applying loss estimation factors to outstanding loans and leases. The loss factors are based primarily on the Company's historical loss experience. Because historical loss experience differs for the various categories of credits, the loss estimation factors applied to each category also differ.

Component for Specific Credits: There are a number of credits for which an allowance computed by application of the appropriate loss estimation factor would not adequately provide for the unconfirmed loss inherent in the credit. This might occur for a variety of reasons such as the size of the credit, the industry of the borrower, or the terms of the credit. In these situations, Management will increase the allocation to an amount adequate to absorb the probable loss that has occurred. The specific component is made up of the sum of these specific allocations.

Unallocated Component: The unallocated component of the allowance for credit losses is intended to absorb losses that may not be covered by the other components. For example, the historical loss estimation factors used for statistical allocation may not give sufficient weight to such considerations as the current general economic and business conditions that affect the Company's borrowers or to specific industry conditions that affect borrowers in that industry. Additionally, the factors may not give sufficient weight to current trends in credit quality and collateral values and the duration of the current business cycle. Lastly, the factors are not derived in a manner that considers loan volumes and concentrations and seasoning of the loan portfolio.

Complete information on the financial condition of the borrower and the current disposal value of any collateral is not generally available at the time an estimation of the loss must be made. This introduces significant uncertainty in the estimation process used to determine the adequacy of specific allocations.

Income Taxes

The Company is required to use the accrual method of accounting for financial reporting purposes as well as for tax return purposes. However, there are still several items of income and expense that are recognized in different periods for tax return purposes than for financial reporting purposes. Appropriate provisions have

been made in the financial statements for deferred taxes in recognition of these temporary differences.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is charged against income over the estimated useful lives of the assets. For most assets with longer useful lives, accelerated methods of depreciation are used in the early years, switching to the straight-line method in later years. Assets with shorter useful lives are generally depreciated by straight-line method. Leasehold improvements are amortized over the terms of the leases or the estimated useful lives of the improvements, whichever is shorter. Generally, the estimated useful lives of other items of premises and equipment are as follows:

Buildings and improvements	10-25 years
Furniture and equipment	5-7 years
Electronic equipment	3-5 years

Trust Fees

Fees for most trust services are based on the market value of customer assets, and an estimate of the fees is accrued monthly. Fees for unusual or infrequent services are recognized when the fee can be determined.

Earnings Per Share

The computation of earnings per share for all periods presented in the Consolidated Statements of Income are based on the weighted average number of shares outstanding during each year retroactively restated for stock dividends, stock splits and pooling transactions.

Diluted earnings per share include the effect of common stock equivalents for the Company, which include only shares issuable on the exercise of outstanding options. The number of options assumed to be exercised is computed using the "Treasury Stock Method." This method assumes that all options with an exercise price lower than the average stock price for the period have been exercised and that the proceeds from the assumed exercise and the tax benefit received for the difference between the market price and the exercise price would be used for market repurchases of shares.

A reconciliation of the computation of basic earnings per share and diluted earnings per share is presented in Note 16.

Statement of Cash Flows

For purposes of reporting cash flows, cash and cash equivalents include cash and due from banks, Federal funds sold, and securities purchased under agreements to resell. Federal funds sold and securities purchased under agreements to resell are one-day transactions, with the Company's funds being returned to it the next day.

Postretirement Health Benefits

The Company provides eligible retirees with postretirement health care and dental benefit coverage. These benefits are also provided to the spouses and dependents of retirees on a shared cost basis. Benefits for retirees and spouses are subject to deductibles, co-payment provisions, and other limitations. The expected cost of such benefits is charged to expense during the years that the employees render service to the Company and thereby earn their eligibility for benefits.

Other Real Estate Owned

Other real estate owned ("OREO") represents real estate acquired through foreclosure or deed in lieu of foreclosure. OREO is carried at the lower of the outstanding balance of the loan before acquisition or the fair value of the OREO less estimated costs to sell. If the outstanding balance of the loan is greater than the fair value of the OREO at the time of the acquisition, the difference is charged-off against the allowance for credit losses. Any senior debt to which other real estate owned is subject is included in the carrying amount of the property and an offsetting liability is reported along with other borrowings.

During the time the property is held, all related operating or maintenance costs are expensed as incurred and additional decreases in the fair value are charged to other operating expense by establishing valuation allowances in the period in which they become known. Expenditures related to improvements are capitalized to the extent that they are realizable through increases in the fair value of the properties. Increases in the fair value may be recognized as reductions of OREO operating expense to the extent that they represent recoveries of amounts previously written-down. Increases in market value in excess of the fair value at the time of foreclosure are recognized only when the property is sold.

At December 31, 2000 and 1999, the Company held real estate properties that had been acquired through foreclosure, but the value of the property and the estimated disposal costs were so uncertain that no amount is reported on the balance sheet for that date.

Stock-Based Compensation

GAAP permits the Company to use either of two methods for accounting for the granting of employee stock options. Under the first accounting, if options are granted at an exercise price equal to the market value of the stock at the time of the grant, no compensation expense is recognized. The second accounting method requires issuers to record compensation expense over the period the options are expected to be outstanding prior to exercise, expiration, or cancellation. The amount of compensation expense to be recognized over this term is the "fair value" of the options at the time of the grant as determined by an option pricing model. The option pricing model attributes fair value to the options based on the length of their term, the volatility of the stock price in past periods, and other factors. Under this method, the Company would recognize

compensation expense regardless of whether the officer or director exercised the options. The Company believes that the first method better reflects the motivation for its issuance of stock options, namely, that they are incentives for future performance rather than compensation for past performance. GAAP requires that issuers that elect the first method must present pro forma disclosures of net income and earnings per share as if the second method had been elected. The Company presents these disclosures in Note 16.

Derivative Financial Instruments

Interest rate swaps and interest rate caps and floors may be used to manage the Company's exposure to interest rate risks. These instruments are specifically allocated to the assets or liabilities being managed and are recorded in the financial statements at cost. Net interest income or expense, including premiums paid or received, is recognized over the effective period of the contract and reported as an adjustment to interest income or expense. The Company currently holds interest rate swaps with a notional amount of $62.6 million.

Goodwill

In connection with the acquisitions of LRB as described in Note 19, the Company recognized the excess of the purchase price over the estimated fair value of the assets received and liabilities assumed as goodwill. This goodwill, along with goodwill recognized in earlier acquisitions, is being amortized on the straight-line method over 15 years. The unamortized carrying amount of the goodwill recorded for each acquisition is periodically reviewed by Management in order to determine if facts and circumstances suggest that it is not recoverable. This is determined based on expected undiscounted cash flows from the net assets of the acquired entity, and consequently goodwill for the entity would be reduced by the estimated cash flow deficiency. No such reduction in goodwill occurred as of December 31, 2000 and 1999.

Comprehensive Income

GAAP requires that comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. Net income is one component of comprehensive income. The other components of comprehensive income are revenues, expenses, gains, and losses that impact the Company's capital accounts but are not recognized in net income under GAAP. Based on the Company's current activities, other components of comprehensive income consist only of changes in the unrealized gains or losses on securities that are classified as available-for-sale.

The amounts of comprehensive income for the three years ended December 31, 2000, 1999, and 1998, are reported in the Consolidated Statements of Comprehensive Income. The net change in the cumulative total of

the components of other comprehensive income that are included in equity are reported in the Consolidated Statements of Changes in Shareholders' Equity for the three years ended December 31, 2000, 1999, and 1998.

Segment Reporting

GAAP requires that the Company disclose certain information related to the performance of various segments of its business. Segments are defined based on the segments within a company used by the chief operating decision maker for making operating decisions and assessing performance. Reportable segments are to

be based on such factors as products and services, geography, legal structure, management structure or any manner by which a company's management distinguishes major operating units. For the purposes of this disclosure, Management has determined that the Company has eight reportable segments: Wholesale Lending, Retail Lending, Branch Activities, Fiduciary, Tax Refund Programs, Los Robles Bank, Northern Region, and All Other. The basis for this determination and the required disclosure is included in Note 20.

Recent Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard No. 133, Accounting for Derivative Instruments and Hedging Activities ("SFAS 133"). This standard establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives), and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. If certain conditions are met, a derivative may be specifically designated as a hedge, which triggers specific accounting treatment based on the type of hedge that exists. A subsequent statement issued by the FASB requires that the Company adopt SFAS 133 no later than the first quarter of 2001, but may adopt earlier. The Company elected to adopt the statement on January 1, 2001. Because it does not now hold nor expect to hold in the foreseeable future a significant number of derivative instruments, the adoption of SFAS 133 did not result in any material impact to the Company's financial position or results of operations. Upon adoption of SFAS 133 on January 1, 2001, the Company was permitted to, and did, transfer securities totaling unamortized cost of $28.7 million from the held-to-maturity portfolio to the available-for-sale portfolio.

In September of 2000, the FASB issued Statement of Financial Accounting Standards No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities (SFAS 140). This Statement replaces Statement of Financial Accounting Standards No. 125, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities ("SFAS 125"). SFAS 140 revises the standards for accounting for securitizations and other transfers of financial assets and collateral and requires certain additional disclosures. SFAS 140 carries over most of SFAS 125's provisions without reconsideration. For the transfers and servicing of financial assets and extinguishments of liabilities, SFAS 140 requires a financial-components approach that focuses on control. Under that approach, after a transfer of financial assets, the Company will 1) recognize the financial and servicing assets it controls and the liabilities it has incurred, 2) derecognize financial assets when control has been surrendered, and 3) derecognize liabilities when extinguished.

The Company adopted SFAS 125 in 1997. SFAS 140 is effective for: transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001, and recognition and reclassification of collateral and for disclosures relating to securitization transactions and collateral for fiscal years ending after December 15, 2000. The Company does have certain securitization transactions that occurred during the first quarter of 2001 that will fall under the requirements of SFAS 140. As such, the Company will be required to prospectively disclose information related to such securitizations in regards to accounting policies, volume, cash flows, key assumptions made in determining fair values of retained interests, and sensitivity of those fair values for changes in key assumptions. Disclosure of such items and the related accounting treatments will be presented in the Company's annual reports on Form 10-K for 2001 and subsequent years. Management does not anticipate the adoption of SFAS 140 to have a material impact on the Company's financial position or results of operations.

Accounting for Business Combinations

The mergers of SBBancorp with PCB and SBB with the Company (Note 19) were accounted for by the pooling of interests method of accounting for a business combination. Under this method, the assets and liabilities of the two parties were added together for each year presented in the financial statements. The effect of this presentation is as if the merger had occurred as of the beginning of the earliest period presented. The assets and

liabilities were combined at the amounts carried in the predecessor company records; there is no restatement to their fair market value, and consequently no goodwill recognized.

The acquisition of LRB (Note 19) was accounted for by the purchase method of accounting for business combinations. Under this method, the assets and liabilities of the acquired company are combined with the acquirer as of the date of the acquisition at their fair market value. Any difference between the fair value of the assets and liabilities and the purchase price is recorded as goodwill. Goodwill is amortized against future earnings. The results of operations of the acquired company are included with those of the acquirer only from the transaction date forward.

Reclassifications

Certain amounts in the 1999 and 1998 financial statements have been reclassified to be comparable with classifications used in the 2000 financial statements.

2. SECURITIES

A summary of securities owned by the Company at December 31, 2000 and 1999, is as follows:

(in thousands)	DECEMBER 31, 2000		
	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES
HELD-TO-MATURITY:			
U.S. TREASURY OBLIGATIONS	$ 12,492	$ 33	$ --
U.S. AGENCY OBLIGATIONS	28,958	1	(304)
MORTGAGE-BACKED SECURITIES	8,645	11	(134)
STATE AND MUNICIPAL SECURITIES	89,199	9,589	(48)
	139,294	9,634	(486)
AVAILABLE-FOR-SALE:			
U.S. TREASURY OBLIGATIONS	157,255	1,569	(23)
U.S. AGENCY OBLIGATIONS	246,749	2,109	(338)
COLLATERALIZED MORTGAGE OBLIGATIONS	159,231	683	(851)
ASSET-BACKED SECURITIES	13,913	3	(25)
STATE AND MUNICIPAL SECURITIES	72,459	5,091	(229)
EQUITY SECURITIES	12,035	--	--

	661,642	9,455	(1,466)
	$ 800,936	$ 19,089	$ (1,952)

	December 31, 1999		
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses
Held-to-maturity:			
U.S. Treasury obligations	$ 35,543	$ 65	$ (40)
U.S. agency obligations	36,455	1	(1,432)
Mortgage-backed securities	776	9	(1)
State and municipal securities	112,624	6,298	(718)
	185,398	6,373	(2,191)
Available-for-sale:			
U.S. Treasury obligations	121,701	49	(691)
U.S. agency obligations	201,984	--	(2,764)
Collateralized mortgage obligations	174,798	21	(4,899)
Asset-backed securities	10,979	7	(114)
State and municipal securities	44,901	42	(3,390)
Equity securities	12,604	78	--
	566,967	197	(11,858)
	$ 752,365	$ 6,570	$ (14,049)

The amortized cost and estimated fair value of debt securities at December 31, 2000 and 1999, by contractual maturity, are shown in the next table. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	DECEMBER 31, 2000			D
(in thousands)	HELD-TO-MATURITY	AVAILABLE-FOR-SALE	TOTAL	Held-to-Maturity
Amortized cost:				
In one year or less	$ 31,869	$155,031	$186,900	$ 60,420
After one year through five years	47,624	409,528	457,152	57,660
After five years through ten years	18,232	21,214	39,446	23,749

After ten years	41,569	63,834	105,403	43,569
Equity securities	--	12,035	12,035	--
	$139,294	$661,642	$800,936	$185,398
Estimated market value:				
In one year or less	31,981	155,126	187,107	60,967
After one year through five years	49,534	412,430	461,964	60,219
After five years through ten years	19,339	21,332	40,671	23,406
After ten years	47,588	68,708	116,296	44,988
Equity securities	--	12,035	12,035	--
	$148,442	$669,631	$818,073	$189,580

The proceeds received from sales or calls of debt securities and the gross gains and losses that were recognized for the years ended December 31, 2000, 1999, and 1998 are shown in the next table.

PACIFIC CAPITAL BANCORP

(in thousands)	2000			1999			
	PROCEEDS	GROSS GAINS	GROSS LOSSES	Proceeds	Gross Gains	Gross Losses	Proc
Held-to-maturity:							
Sales	$ 29,995	$ --	$ (30)	$ --	$ --	$ --	$ 7
Calls	$ 7,518	$ 7	$ (2)	$ 6,662	$ --	$ --	$ 1
Available-for-sale:							
Sales	$112,146	$ --	$ (120)	$ 19,674	$ --	$ (286)	$ 61
Calls	$ 11,640	$ 1	$ --	$ 63,340	$ --	$ --	$ 51

SBB&T and FNB are members of the Federal Reserve Bank. As a condition of membership, they are required to purchase Federal Reserve Bank ("FRB") stock. The amount of stock required to be held is based on their capital accounts. Subsequently, as the banks' capital has increased, they have been required to purchase additional shares. SBB&T also acquired the shares owned by Citizens State Bank, when it was acquired in 1997. SBB&T and FNB are members of the Federal Home Loan Bank ("FHLB"), and purchased stock as required of members. The FRB and FHLB stock are reported as equity securities. Since the stock has no maturity, it is classified as available-for-sale, even though the Bank is required to hold the stock so long as it maintains its membership in these organizations.

Securities with a book value of approximately $647.0 million at December 31, 2000, and $564.2 million at December 31, 1999, were pledged to secure public funds, trust deposits and other borrowings as required or permitted by law.

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3. LOANS

The loan portfolio consists of the following:

(in thousands)	December 31 2000	December 31 1999
Real estate loans:		
Residential	$ 586,904	$ 494,540
Non-residential	564,556	457,575
Construction and development	172,331	200,804
Commercial, industrial, and agricultural	775,365	614,897
Home equity lines	71,289	49,902
Consumer	205,992	154,381
Leases	129,159	97,005
Municipal tax-exempt obligations	4,102	12,530
Other	7,406	8,399
	$2,517,104	$2,090,033

The amounts above are shown net of deferred loan origination, commitment, and extension fees and origination costs of $5.8 million for 2000 and $5.2 million for 1999.

Impaired Loans

The table below discloses information about the loans classified as impaired and the valuation allowance related to them:

(in thousands)	December 31 2000	December 31 1999
Loans identified as impaired	$ 9,256	$10,970
Impaired loans for which a valuation allowance has been determined	$ 9,256	$ 9,695
Impaired loans for which no valuation allowance has been determined	$ --	$ 1,275
Amount of valuation allowance	$ 3,260	$ 4,383

	Year Ended December 31 2000	Year Ended December 31 1999
Average amount of recorded investment in impaired loans for the year	$ 7,932	$ 9,027
Interest recognized during the year for loans identified as impaired at year-end	$ 571	$ 501
Interest received in cash during the year for loans identified as impaired at year-end	$ 571	$ 501

As indicated in Note 1, a valuation allowance is established for an impaired loan when the fair value of the loan is less than the recorded investment. As shown above, a valuation allowance has been determined for all loans identified as impaired at December 31, 2000. The valuation allowance amounts disclosed above are included in the allowance for credit losses reported in the balance sheets for December 31, 2000 and 1999 and in Note 4.

Refund Anticipation Loans

The Company offers tax refund anticipation loans ("RALs") to taxpayers desiring to receive advance proceeds based on their anticipated income tax refunds. The loans are repaid when the Internal Revenue Service later sends the refund to the Company. The funds advanced are generally repaid within several weeks. Therefore, processing costs and provision for loan loss represent the major costs of the loans. This contrasts to other loans for which the cost of funds is the major cost to the Company. Because of their short duration, the Company cannot recover the processing costs through interest calculated over the term of the loan. Consequently, the Company has a tiered fee schedule for this service that varies by the amount of funds advanced based on the increased credit rather than the length of time that the loan is outstanding. Nonetheless, because a loan

document is signed by the customer, the Company is required to report the fees as interest income. These fees totaled $19.0 million in 2000, $8.1 million for 1999, and $6.8 million for 1998. The loans are all made during the tax filing season of January through April of each year. Any loans for which repayment has not been received within 90 days from the expected payment date are charged off. Consequently, there were no RAL's included in the above table of outstanding loans at December 31, 2000 or 1999.

Pledged Loans

At December 31, 2000 loans secured by first trust deeds on residential and commercial property with principal balances totaling $72.4 million were pledged as collateral to the Federal Reserve Bank of San Francisco. At December 31, 2000, loans secured by first deeds on residential and commercial property with principal balances of $484.6 million were pledged to the Federal Home Loan Bank of San Francisco.

4. ALLOWANCE FOR CREDIT LOSSES

The following summarizes the changes in the allowance for credit losses:

(in thousands)	Year Ended December 31		
	2000	1999	1998
Balance, beginning of year	$ 30,454	$ 30,499	$ 26,526
Addition of allowance from Los Robles Bank	1,139	--	--
Tax refund anticipation loans:			
Provision for credit losses	2,726	2,816	4,941
Recoveries on loans previously charged-off	3,059	2,857	2,288
Loans charged-off	(6,226)	(5,518)	(7,221)

All other loans:			
Provision for credit losses	11,714	4,227	4,372
Recoveries on loans previously charged-off	2,506	2,518	3,733
Loans charged-off	(10,247)	(6,945)	(4,140)
Balance, end of year	$ 35,125	$ 30,454	$ 30,499

The ratio of losses to total loans for the RALs is higher than for other loans. For RALs, the provision for credit loss, the loans charged-off, and the loans recovered are reported separately from the corresponding amounts for all other loans.

5. CASH AND DUE FROM BANKS

All depository institutions are required by law to maintain reserves with the Federal Reserve Bank ("FRB") on transaction deposits. Amounts vary each day as the FRB permits banks to meet this requirement by maintaining the specified amount as an average balance over a two-week period. The average daily cash reserve balances required to be maintained by the Company's subsidiary banks at the FRB totaled approximately $2.6 million in 2000 and $3.3 million in 1999. In addition, the banks must maintain sufficient balances at the FRB to cover the checks written by bank customers that are clearing through the FRB because they have been deposited at other banks.

6. PREMISES AND EQUIPMENT

Premises and equipment consist of the following:

(in thousands)	December 31	
	2000	1999
Land	$ 5,175	$ 5,175
Buildings and improvements	21,927	21,783
Leasehold improvements	25,754	12,196
Furniture and equipment	51,968	42,594
Total cost	104,824	81,748
Accumulated depreciation and amortization	(51,811)	(44,237)
Net book value	$ 53,013	$ 37,511

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Depreciation and amortization on fixed assets included in other operating expenses totaled $6.3 million in 2000, $5.7 million in 1999, and $6.3 million in 1998.

7. DEPOSITS

Deposits and the related interest expense consist of the following:

(in thousands)	Balance as of December 31		Interest Year End	
	2000	1999	2000	
Noninterest bearing deposits	$ 709,348	$ 583,601	$ --	$
Interest bearing deposits:				
NOW accounts	372,136	336,529	2,680	
Money market deposit accounts	743,268	588,907	27,216	
Other savings deposits	210,157	217,394	4,060	
Time certificates of $100,000 or more	570,823	443,629	38,914	
Other time deposits	497,087	451,397	25,423	
	$3,102,819	$2,621,457	$ 98,293	$

8. INCOME TAXES

The provisions (benefits) for income taxes related to operations and the tax benefit related to stock options that is credited directly to shareholders' equity are as follows:

(in thousands)	Year Ended December 31		
	2000	1999	1998
Federal:			
Current	$ 24,210	$ 19,251	$ 16,758
Deferred	(1,177)	(1,911)	(2,614)
	23,033	17,340	14,144
State:			
Current	9,033	8,500	6,190
Deferred	(141)	(270)	(364)
	8,892	8,230	5,826
Total tax provision	$ 31,925	$ 25,570	$ 19,970
Reduction in taxes payable associated with exercises of stock options	$(1,661)	$ 3,915	$(5,103)

The total current provision for income taxes includes credits of $60,000 and $113,000 for securities gains realized in 2000 and 1999, respectively, and a debit of $96,000 for securities losses realized in 1998.

Although not affecting the total provision, actual income tax payments may differ from the amounts shown as current provision as a result of the final determination as to the timing of certain deductions and credits.

The total tax provision differs from the Federal statutory rate of 35 percent for the reasons shown in the following table.

	Year Ended December 31	
	2000	1999
Tax provision at Federal statutory rate	35.0%	35.0%
Interest on securities exempt from Federal taxation	(4.3)	(5.2)
State income taxes, net of Federal income tax benefit	6.9	8.9
ESOP dividends deductible as an expense for tax purposes	(0.5)	(0.7)
Goodwill amortization	0.9	0.9
Merger related costs	0.8	--
Other, net	(0.5)	(3.4)
Actual tax provision	38.3%	35.5%

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As disclosed in the following table, deferred tax assets as of December 31, 2000, and 1999, totaled $16.7 million and $22.9 million, respectively. These amounts are included within other assets on the balance sheet. The deferred tax provision or benefit disclosed in the first table of this note is equal to the sum of the changes in the tax effects of the temporary differences. The changes in the tax effects for the principal temporary differences for the years ending December 31, 2000 and 1999 are also disclosed in the following table.

(in thousands)	COMPONENTS 2000	TAX EFFECT 2000	ACQUIRED COMPONENTS	Components 1999
Deferred tax assets:				
Allowance for credit losses	$ 14,208	$ 1,515	$ 256	$ 12,437
State taxes	3,057	646	139	2,272
Loan fees	760	261	(10)	509
Depreciation	987	(56)	(6)	1,049
Postretirement benefits	706	(39)	--	745
Other real estate owned	25	--	--	25
Nonaccrual interest	289	(65)	--	354
Accretion on securities	--	(77)	--	77
Accrued salary continuation plan	1,657	(163)	--	1,820
Change in control payments	1,021	(78)	--	1,099
Deferred compensation	--	(155)	--	155
Gain on demutualization of of insurance company	--	156	--	(156)
Accrual for BOLI	508	508	--	--
Other	473	(318)	461	330
	23,691	2,135	840	20,716
Deferred tax liabilities:				

Loan costs	1,754	248		1,506
Federal effect of state tax asset	1,282	120	58	1,104
Other	599	449		150
Total deferred tax liabilities	3,635	817	58	2,760
Net deferred tax asset before unrealized gains and losses on securities	20,056	1,318	782	17,956
Unrealized (gains) and losses on securities	(3,362)		223	4,897
Net deferred tax asset	$ 16,694	$ 1,318	$ 1,005	$ 22,853

As mentioned in Note 1, the net unrealized gain or loss on securities that are available-for-sale is included as a component of equity. This amount is reported net of the related tax effect. The tax effect is a deferred tax asset if there is a net unrealized loss and a deferred tax liability if there is a net unrealized gain. However, because changes in the unrealized gains or losses are not recognized either in net income or in taxable income, they do not represent temporary differences. Consequently, the change in the tax effect of the net unrealized gain or loss is not included as a component of deferred tax expense or benefit, and there is no entry in the columns labeled "Tax Effect" in the table above for the change.

The Company is permitted to recognize deferred tax assets only to the extent that they are able to be used to reduce amounts that have been paid or will be paid to tax authorities. This is reviewed each year by Management by comparing the amount of the deferred tax assets with amounts paid in the past that might be recovered by carryback provisions in the tax code and with anticipated taxable income expected to be generated from operations in the future. If it does not appear that the deferred tax assets are usable, a valuation allowance is established to acknowledge their uncertain value. Management believes a valuation allowance is not needed to reduce any deferred tax asset because there is sufficient taxable income within the carryback periods to realize all material amounts.

9. SHAREHOLDERS' EQUITY

The Company's stock option plans offer key employees and directors an opportunity to purchase shares of the Company's common stock. The Company has seven stock option plans.

The first of the plans is the Directors Stock Option Plan established in 1996. Only non-qualified options may be granted under this plan. The second is the Restricted Stock Option Plan for employees established in January, 1992. Either incentive or non-qualified options may be granted under this plan. Under the original provisions of these plans, stock acquired by the exercise of options granted under the plans could not be sold for five years after the date of the grant or for two years after the date options are exercised,

whichever is later. In 1998, the Board of Directors of the Company eliminated this provision.

The third and fourth plans were established in 1983 and 1986 for employees and directors, respectively. All options approved under these plans have been

granted as non-qualified options, and the plans are active now only for the exercise of options held by employees and directors. The remaining plans were established by PCB and SBB and are active now only for the exercise of options held by employees and directors.

All options outstanding in these plans were granted with an option price set at 100% of the market value of the Company's common stock on the date of the grant. The grants for most of the employee options specify that they are exercisable in cumulative 20% annual installments and will expire five years from the date of grant. The Board has granted some options which are exercisable in cumulative 10% annual installments and expire ten years from the date of grant. The options granted under the directors' plan are exercisable after six months.

The option plans permit employees and directors to pay the exercise price of options they are exercising and the related tax liability with shares of Company stock they already own. The owned shares are surrendered to the Company at current market value. Shares with a current market value of $2,756,000, $6,747,000, and $2,602,000 were surrendered in the years ended December 31, 2000, 1999, and 1998, respectively. These surrendered shares are netted against the new shares issued for the exercise of stock options in the Consolidated Statements of Changes in Shareholders' Equity.

The following table presents information relating to all of the stock option plans as of December 31, 2000, 1999, and 1998 (adjusted for stock splits and stock dividends).

	Options	Per Share Price Range
2000		
GRANTED	135,888	$25.16 TO $2
EXERCISED	279,270	$5.17 TO $2
CANCELLED AND EXPIRED	168,254	$6.05 TO $3
OUTSTANDING AT END OF YEAR	1,306,956	$5.17 TO $3
RANGE OF EXPIRATION DATES	1/1/01 TO 8/23/09	
EXERCISABLE AT END OF YEAR	954,414	$5.17 TO $3
SHARES AVAILABLE FOR FUTURE GRANT	1,831,781	
1999		
Granted	578,906	$22.81 to $3
Exercised	734,414	$3.98 to $2
Cancelled and expired	4,733	$8.48 to $2
Outstanding at end of year	1,618,591	$5.17 to $3
Exercisable at end of year	797,593	$5.17 to $2
1998		
Granted	124,476	$23.44 to $2
Exercised	1,019,502	$3.98 to $2
Cancelled and expired	38,909	$6.33 to $2
Outstanding at end of year	1,778,832	$3.98 to $2
Exercisable at end of year	1,215,782	$3.98 to $2

10. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE AND FEDERAL FUNDS PURCHASED

The Company enters into certain transactions, the legal form of which is a sale of securities under an agreement to repurchase at a later date at a set price. The substance of these transactions is a secured borrowing by the Company. The Company also purchased Federal funds from correspondent banks. The following information is presented concerning these transactions:

(dollars in thousands)	Repurchase Agreements Year Ended December 31			Federal F Year End
	2000	1999	1998	2000
Weighted average interest rate at year-end	5.71%	5.27%	3.75%	6.59%
Weighted average interest rate for the year	5.61%	4.67%	4.44%	5.40%
Average outstanding for the year	$61,772	$29,214	$13,884	$14,425
Maximum outstanding at any month-end during the year	$78,736	$61,085	$18,772	$47,200
Amount outstanding at end of year	$79,458	$45,407	$17,996	$26,200
Interest expense	$ 3,468	$ 1,364	$ 616	$ 779

11. LONG-TERM DEBT AND OTHER BORROWINGS

As part of the Company's asset and liability management strategy, fixed rate term advances are borrowed from the FHLB. As of December 31, 2000, total outstanding balances to the FHLB were $103 million. The scheduled maturities of the advances are $0.0 in 1 year or less, $40.4 million in 1 to 3 years, and $62.6 million in more than 3 years.

The Company borrowed $20 million from another financial institution to partially finance the purchase of the stock of Los Robles Bancorp. The terms of the loan require quarterly payments of interest and principal with a maturity of June 30, 2001. $15 million was outstanding at December 31, 2000.

Also included in other borrowings at December 31, 2000, are $9.2 million of Treasury Tax and Loan demand notes issued to the U.S. Treasury and miscellaneous other borrowings.

During the course of 2000 and 1999, the Company borrowed funds for liquidity purposes from the discount window at the Federal Reserve Bank.

12. OTHER OPERATING INCOME AND EXPENSE

Significant items included in amounts reported in the Consolidated Statements of Income for the years ended December 31, 2000, 1999, and 1998 for other service charges, commissions, and fees are listed in the table below. The refund transfer fees are earned for the electronic transmission of tax refunds to customers to facilitate earlier receipt of their refund.

(in thousands)	December 31, 2000	1999	1998
Noninterest income			
Merchant credit card processing	$ 8,055	$ 5,925	$ 3,974
Trust fees	$13,827	$13,132	$11,718
Refund transfer fees	$ 7,291	$ 6,591	$ 4,821
Noninterest expense			
Marketing	$ 3,166	$ 3,046	$ 3,100
Consultants	$ 7,469	$10,574	$ 7,978
Merchant credit card clearing fees	$ 6,412	$ 4,396	$ 2,878

The table above also discloses the largest items included in other operating expense. Consultants include the Company's independent accountants, attorneys, and other management consultants used for special projects.

13. EMPLOYEE BENEFIT PLANS

The Company's Employee Stock Ownership Plan ("ESOP") was initiated in January 1985. In 1999, PCB's ESOP was merged with that of the Company.

As of December 31, 2000, the ESOP held 1,559,000 shares at an average cost of $8.76 per share.

The Company's profit-sharing plan, initiated in 1966, has two components. The Salary Savings Plan component is authorized under Section 401(k) of the Internal Revenue Code. An employee may defer up to 10% of pre-tax salary in the plan up to a maximum dollar amount set each year by the Internal Revenue Service. The Company matches 100% of the first 3% of the employee's compensation that the employee elects to defer and 50% of the next 3%, but not more than 4.5% of the employee's total compensation. In 2000, 1999, and 1998, the employer's matching contributions were $1.7 million, $1.3 million and $1.1 million, respectively. The other component is the Incentive & Investment Plan. It was established in 1966, and permits contributions by the Company to be invested in various mutual funds chosen by the employees.

The Company's practice has been to make total contributions to the employee benefit plans equal to the smaller of (1) 10% of pre-tax profits prior to this employer contribution, or (2) the amount deductible in the Company's current year tax return. Deductions for contributions to qualified plans are limited to 15% of eligible compensation. In each of the last three years, the deductible amount was the limiting factor for the contribution. After providing for the Company's contribution to the Retiree Health Plan discussed in Note 15 and the matching contribution to the Salary Savings Plan, the remaining contribution may be made either to the ESOP or to the Incentive & Investment Plan.

Total contributions by the Company to the above profit-sharing plans were $2,788,000 in 2000, $2,879,000 in 1999, and $2,789,000 in 1998. Aside from the employer's matching contribution to the Salary Saving Plan, the contributions went to the ESOP in 2000, 1999 and 1998.

14. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

GAAP requires companies to disclose the fair value of those financial instruments for which it is practicable to estimate that value and the methods and significant assumptions used to estimate those fair values. This must be done irrespective of whether or not the instruments are recognized on the balance sheets of the Company.

There are several factors which users of these financial statements should keep in mind regarding the fair values disclosed in this note. First, there are uncertainties inherent in the process of estimating the fair value of financial instruments. Second, the Company must exclude from its estimate of the fair value of deposit liabilities any consideration of its on-going customer relationships which provide stable sources of investable funds.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and Cash Equivalents

The face value of cash, Federal funds sold, and securities purchased under agreements to resell are their fair value.

Securities and Money Market Instruments

For securities, bankers' acceptances and commercial paper, fair value equals quoted market price, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities. As explained in Note 1, securities classified as available-for-sale are carried at fair value.

Loans

The fair value of loans is estimated by discounting the future contractual cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. These contractual cash flows are adjusted to reflect estimates of uncollectible amounts.

Deposit Liabilities

The fair value of demand deposits, money market accounts, and savings accounts is the amount payable on demand as of December 31 of each year. The fair value of fixed-maturity certificates of deposit is estimated using the rates currently offered for deposits of similar remaining maturities.

Repurchase Agreements, Federal Funds Purchased, and Other Borrowings

For short-term instruments, the carrying amount is a reasonable estimate of their fair value. For FHLB advances, the only component of debt not considered short-term, the fair value is estimated using rates currently quoted by the FHLB for advances of similar remaining maturities.

Standby Letters of Credit, and Financial Guarantees Written

The fair value of guarantees and letters of credit is based on fees currently charged for similar agreements. The Company does not believe that its loan commitments have a fair value within the context of this note because generally fees have not been charged, the use of the commitment is at the option of the

potential borrower, and the commitments are being written at rates comparable to current market rates.

The carrying amount and estimated fair values of the Company's financial instruments as of December 31, 2000 and 1999, are as follows:

(in thousands)	AS OF DECEMBER 31, 2000 CARRYING AMOUNT	FAIR VALUE	As of Dec Carrying Amount
Financial assets:			
Cash and due from banks	$ 176,274	$ 176,274	$ 131,422
Federal funds sold	19,500	19,500	9,640
Money market funds	--	--	2,555
Securities available-for-sale	669,631	669,631	555,306
Securities held-to-maturity	139,294	148,442	185,398
Net loans	2,481,979	2,440,099	2,059,579
Total financial assets	$ 3,486,678	$ 3,453,946	$ 2,943,900
Financial liabilities:			
Deposits	$ 3,102,819	$ 3,105,378	$ 2,621,457
Repurchase agreements, Federal funds purchased, and other borrowings	223,678	227,449	179,308
Total financial liabilities	$ 3,326,497	$ 3,332,827	$ 2,800,765
Unrecognized financial instruments:			
Interest rate swap contracts	$ --	$ (1,336)	$ --
Standby letters of credit	$ --	$ 38,781	$ --

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15. OTHER POSTRETIREMENT BENEFITS

Under the provisions of the Retiree Health Plan (the "Plan"), all eligible retirees may obtain health insurance coverage through the Company. The cost of this coverage is that amount which the Company pays under the basic coverage plan provided for current employees. Based on a formula involving date of retirement, age at retirement, and years of service prior to retirement, the Plan provides that the Company will contribute a portion of the cost for the retiree, varying from 60% to 100% at the time the employee retires, with the stipulation that the cost of the portion paid by the Company shall not increase by more than 5% per year. The Company recognizes the net present value of the estimated future cost of providing health insurance benefits to retirees under the Retiree Health Plan as those benefits are earned rather than when paid.

The Accumulated Postretirement Benefit Obligation

The commitment the Company has made to provide these benefits results in an obligation that must be recognized in the financial statements. This obligation, termed the accumulated postretirement benefit obligation ("APBO"), is the actuarial net present value of the obligation for 1) fully eligible plan participants' expected postretirement benefits and 2) the portion of the expected postretirement benefit obligation earned to date by current employees.

This obligation must be re-measured each year because it changes with each of

the following factors: 1) the number of employees working for the Company; 2) the average age of the employees working for the Company; 3) increases in expected health care costs; and 4) prevailing interest rates. In addition, because the obligation is measured on a net present value basis, the passage of each year brings the eventual payment of benefits closer, and therefore causes the obligation to increase. The following tables disclose the reconciliation of the beginning and ending balances of the APBO; the reconciliation of beginning and ending balances of the fair value of the plan assets; and the funding status of the Plan as of December 31, 2000, 1999, and 1998.

(in thousands)	Year Ended December 31		
	2000	1999	1998
Benefit obligation, beginning of year	$(4,584)	$(4,170)	$(3,666
Service cost	(257)	(315)	(274
Interest cost	(346)	(270)	(253
Actuarial (losses) gains	(209)	111	(28
Benefits paid	70	60	51
Benefit obligation, end of year	(5,326)	(4,584)	(4,170
Fair value of Plan assets, beginning of year	6,731	4,486	4,081
Actual return on Plan assets	(408)	2,305	265
Employer contribution	--	--	191
Benefits paid	(70)	(60)	(51
Fair value of Plan assets, end of year	6,253	6,731	4,486
Funded Status	928	2,147	316
Unrecognized net actuarial gain	(1,624)	(2,867)	(771
Unrecognized prior service cost	--	1	2
Accrued benefit cost	$ (696)	$ (719)	$ (453

Costs of $623,000 for December 31, 2000, and $623,000 for December 31, 1999, are included within the category for accrued interest payable and other liabilities in the consolidated balance sheets.

The Components of the Net Periodic Postretirement Benefit Cost

Each year the Company recognizes a portion of the change in the APBO. This portion is called the net periodic postretirement benefit cost (the "NPPBC"). The NPPBC, included with the cost of other benefits in the Consolidated Statements of Income, is made up of several components as shown in the next table.

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(in thousands)	Year Ended December 31		
	2000	1999	1998

Service cost	$ 257	$ 315	$ 274
Interest cost	346	270	253
Return on assets	(465)	(296)	(279)
Amortization cost	(160)	(24)	(34)
Net periodic postretirement cost	$ (22)	$ 265	$ 214

The first component is service cost, which is the net present value of the portion of the expected postretirement benefit obligation for active plan participants attributed to service for the year. The second is interest cost, which is the increase in the APBO that results from the passage of another year. That is, because the benefit obligation for each employee is one year closer to being paid, the net present value increases. The third component, return on assets, is the income earned on any investments that have been set aside to fund the benefits. This return is an offset to the first two components.

The fourth component, amortization cost, arises because significant estimates and assumptions about interest rates, trends in health care costs, plan changes, employee turnover, and earnings on assets are used in measuring the APBO each year. Actual experience may differ from the estimates and assumptions may change. Differences will result in what are termed experience gains and losses. These may be increases or decreases in the APBO or in the value of plan assets. The rates used and the amortization of these experience gains and losses are discussed in the next section of this note. At the adoption of the Plan, the Company fully recognized the net present value of the benefits earned by employees for prior service. Had the Company not recognized this amount, a portion of it would be included in the NPPBC as a fifth component.

The Use of Estimates and the Amortization of Experience Gains and Losses

The following table discloses the assumed rates that have been used for the factors that may have a significant impact on the APBO.

	December 31		
	2000	1999	1998
Discount rate	7.61%	7.71%	6.60%
Expected return on plan assets	7.00%	7.00%	7.00%
Health care inflation rate	5.00%	5.00%	5.00%

The discount rate is used to compute the present value of the APBO. It is selected each year by reference to the current rates of investment grade corporate bonds. Higher discount rates result in a lower APBO at the end of the year and the NPPBC to be recognized for the following year, while lower rates raise both.

While the discount rate has fluctuated with market rates, the Company has continued to use 7% as its estimate of the long-term rate of return on plan assets. The APBO is a long-term liability of 30 years or more. The 7% rate is the assumed average earning rate over an equally long investment horizon. If the rate of return is greater than this estimate, the Company will have what is termed an experience gain.

As noted above, the Retiree Health Plan provides for the Company's contribution for insurance premiums to be limited to an annual increase of 5%. Should insurance premiums increase at a higher rate, the retirees are required to contribute a larger portion of the total premium cost. Therefore, 5% has been set as the assumed cost trend rate for health care. Because of this limitation, an increase in the actual cost of health care will have no impact on the APBO. If costs rise at a lesser rate, the Company will have an experience gain.

Rather than recognizing the whole amount of the experience gains or losses in the year after they arise, under GAAP they are recognized through amortization over the average remaining service lives of the employees. Amortization over time is used because many of these changes may be partially or fully reversed in subsequent years as further changes in experience and/or assumptions occur. At December 31, 2000, and December 31, 1999, the Company had unamortized or unrecognized gains of $1,624,000 and $2,867,000, respectively. These amounts are reported in the first table of this note.

Funding of the Retiree Health Plan

Employers are allowed wide discretion as to whether and how they set aside funds to meet the obligation they are recognizing. Under the provisions of the current Internal Revenue Code, only a portion of this funding may be deducted by the employer. The funded status of the plan is shown in the first table as the amount by which the plan assets exceed the APBO.

The Company established a Voluntary Employees' Beneficiary Association ("VEBA") to hold the assets that will be used to pay the benefits for participants of the plan other than key executive officers. Most of the plan assets have been invested in insurance policies on the lives of various employees of the Company.

The current funding policy of the Company is to contribute assets to the VEBA at least sufficient to pay the costs of current medical premiums of retirees and the costs of the life insurance premiums. Proceeds from the life insurance policies payoffs will fund benefits and premiums in the future. As of December 31, 2000, the VEBA was overfunded by $1,651,000. The APBO related to the Key Employee Retiree Health Plan of $724,000 is totally unfunded.

16. EARNINGS PER SHARE AND STOCK-BASED COMPENSATION

The following table presents a reconciliation of basic earnings per share and diluted earnings per share. The denominator of the diluted earnings per share ratio includes the effect of dilutive securities. The only securities outstanding that are potentially dilutive are the stock options reported in Note 9.

Under the method of accounting for stock options implemented by the Company, no compensation expense is recorded if stock options are granted to employees at an exercise price equal to the market value of the stock at the time of the grant.

(amounts in thousands other than per share amounts)	Basic Earnings Per Share

FOR THE YEAR ENDED DECEMBER 31, 2000	
NUMERATOR--NET INCOME	$51,456
DENOMINATOR--WEIGHTED AVERAGE SHARES OUTSTANDING	26,380
PLUS: NET SHARES ISSUED IN ASSUMED STOCK OPTIONS EXERCISES	
DILUTED DENOMINATOR	
EARNINGS PER SHARE	$ 1.95
For the Year Ended December 31, 1999	
Numerator--net income	$46,533
Denominator--weighted average shares outstanding	26,103
Plus: net shares issued in assumed stock options exercises	
Diluted denominator	
Earnings per share	$ 1.78
For the Year Ended December 31, 1998	
Numerator--net income	$31,499
Denominator--weighted average shares outstanding	25,516
Plus: net shares issued in assumed stock options exercises	
Diluted denominator	
Earnings per share	$ 1.23

Had the Company recognized compensation expense over the expected life of the options based on their fair market value as discussed in Note 1, the Company's pro forma salary expense, net income, and earnings per share for the years ended December 31, 2000, 1999, and 1998 would have been as follows:

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(in thousands)	Year Ended December 31		
	2000	1999	1998
Salary expense:			
As reported	$54,931	$46,416	$42,872
Pro forma	$56,208	$47,789	$43,994
Net income:			
As reported	$51,456	$46,533	$31,499
Pro forma	$50,716	$45,737	$30,849
Earnings per share:			
As reported	$ 1.93	$ 1.75	$ 1.20
Pro forma	$ 1.91	$ 1.72	$ 1.18
Diluted average shares	26,609	26,552	26,162

17. REGULATORY CAPITAL REQUIREMENTS

The Company and its subsidiary banks are subject to various regulatory capital requirements administered by the Federal banking agencies. Failure to meet minimum capital requirements as specified by the regulatory framework for prompt corrective action could cause the regulators to initiate certain mandatory or discretionary actions that, if undertaken, could have a direct material effect on the Company's financial statements.

The table below sets forth the actual capital amounts and ratios for the Company

as of December 31, 2000 and 1999. It also shows the minimum amounts and ratios that it must maintain under the regulatory requirements to meet the standard of adequately capitalized and the minimum amounts and ratios required to meet the regulatory standards of "well capitalized".

For the Company, Tier I capital consists of common stock, surplus, and retained earnings. Tier II capital includes the components of Tier I plus a portion of the allowance for credit losses. Risk-weighted assets are computed by applying a weighting factor from 0% to 100% to the carrying amount of the assets as reported in the balance sheet and to a portion of off-balance sheet items such as loan commitments and letters of credit. The definitions and weighting factors are all contained in the regulations. However, the capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

(dollars in thousands)	Pacific Capital Bancorp Actual		Minimums for Capital Adequacy Purposes	
	Amount	Ratio	Amount	Ratio
AS OF DECEMBER 31, 2000				
TOTAL TIER I & TIER II CAPITAL (TO RISK WEIGHTED ASSETS)	$ 292,592	10.5%	$ 223,871	8.0%
TIER I CAPITAL (TO RISK WEIGHTED ASSETS)	$ 257,610	9.2%	$ 111,935	4.0%
TIER I CAPITAL (TO AVERAGE TANGIBLE ASSETS)	$ 257,610	7.2%	$ 143,956	4.0%
RISK WEIGHTED ASSETS	$2,798,382			
AVERAGE TANGIBLE ASSETS	$3,598,896			
As of December 31, 1999				
Total Tier I & Tier II Capital (to Risk Weighted Assets)	$ 271,527	11.9%	$ 181,873	8.0%
Tier I Capital (to Risk Weighted Assets)	$ 243,084	10.7%	$ 90,936	4.0%
Tier I Capital (to Average Tangible Assets)	$ 243,084	8.0%	$ 121,369	4.0%
Risk Weighted Assets	$2,273,409			
Average Tangible Assets	$3,034,227			

As of December 31, 2000, the most recent notification from the banks' examiners categorized each of the banks as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the above table. The following table shows the three capital ratios for each of the bank subsidiaries at December 31, 2000 and for SBB&T and FNB at December 31, 1999. There are no conditions or events since the notification that management believes have changed the banks' category.

As of December 31	Total Tier I and Tier II Capital to Risk Weighted Assets	Tier I Capital to Risk Weighted Assets	Tier I Capital to Average Tangible Asset
Santa Barbara Bank & Trust			
2000	10.28%	9.06%	7.00%
1999	11.00%	9.75%	7.32%
First National Bank			
2000	9.30%	10.55%	7.35%
1999	11.39%	10.40%	7.96%
Los Robles Bank			
2000	11.42%	10.16%	7.95%

Bancorp is the parent company and sole owner of the banks. However, there are legal limitations on the amount of dividends which may be paid by the banks to Bancorp. The dividends from SBB&T needed by Bancorp to pay for the acquisitions of FVB and CSB in 1997 exceeded the amount allowable without the prior approval of the California Department of Financial Institutions ("CDFI"). As part of its approval of the acquisitions, the CDFI approved the excess distributions. During 2000, 1999 and 1998, it also approved other dividends from SBB&T to Bancorp to fund quarterly cash dividends to Bancorp shareholders, to provide part of the funds to purchase LRB, and for other incidental purposes.

18. COMMITMENTS AND CONTINGENCIES

The Company leases several office locations and substantially all of the office leases contain multiple five-year renewal options and provisions for increased rentals, principally for property taxes and maintenance. As of December 31, 2000, the minimum rentals under non-cancelable leases for the next five years and thereafter are shown in the following table.

(in thousands)	Year Ended December 31					Ther
	2001	2002	2003	2004	2005	af
Non-cancellable lease expense	$ 6,043	$ 4,993	$ 4,597	$ 4,328	$ 3,725	$24,

Total net rentals for premises included in other operating expenses are $5.9 million in 2000, $5.1 million in 1999, and $4.0 million in 1998.

The Company leases space from a partnership in which a director has an interest. In February 1999, the building was destroyed in a fire. In 2000, the Company renegotiated a lease for this property, which included sharing the costs of rebuilding and provided for adjustments to future rents to recover the funds expended by the Company in construction. The terms of this lease were negotiated with the assistance of an independent, outside appraiser and were approved by

the Company's Board of Directors.

In the ordinary course of business, the Company has extended credit to directors and employees of the Company totaling $13.6 million at December 31, 2000 and $8.9 million at December 31, 1999. Such loans are subject to approval by the Loan Committee and ratification by the Board of Directors, exclusive of the borrowing director.

In order to meet the financing needs of its customers in the normal course of business, the Company is a party to financial instruments with "off-balance sheet" risk. These financial instruments consist of commitments to extend credit and standby letters of credit.

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. The Company has not usually charged fees in connection with loan commitments. Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The Company charges a fee for these letters of credit.

The standby letters of credit involve, to varying degrees, exposure to credit risk in excess of the amounts recognized in the consolidated balance sheets. This risk arises from the possibility of the failure of the customer to perform according to the terms of a contract that would cause a draw on the standby letter of credit by a third party. To minimize the risk, the Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. The decision as to whether collateral should be required is based on the circumstances of each specific commitment or conditional obligation. Because of these practices, Management does not anticipate that any significant losses will arise from such draws.

Changes in market rates of interest for those few commitments and undisbursed loans which have fixed rates of interest represent a possible cause of loss because of the contractual requirement to lend money at a rate that is no longer as great as the market rate at the time the loan is funded. To minimize this risk, if rates are quoted in a commitment, they are generally stated in relation to the Company's prime or base lending rate which varies with prevailing market interest rates. Fixed-rate loan commitments are not usually made for more than three months.

The maximum exposure to credit risk is represented by the contractual notional amount of those instruments. As of December 31, 2000 and 1999, the contractual notional amounts of these instruments are as follows:

(in thousands)	December 31	
	2000	1999
Commitments to extend credit		
Commercial	$572,905	$396,350
Consumer	$ 87,582	$ 79,502
Standby letters of credit	$ 38,781	$ 20,811

Since many of the commitments are expected to expire without being drawn upon, the amounts in the table do not necessarily represent future cash requirements.

With the exception of the RAL program mentioned in Note 3, the Company has concentrated its lending activity primarily with customers in the market areas served by the branches of its subsidiary banks. The merger has introduced some geographical diversity as each market area now represents only a portion of the whole Company. The business customers are in widely diversified industries, and there is a large consumer component to the portfolio. The Company monitors concentrations within four broad categories: industry, geography, product, and collateral. One significant concentration in the loan portfolio is represented by loans collateralized by real estate; the nature of this collateral, however, is quite varied, namely 1-4 family residential, multifamily residential, and commercial buildings of various kinds. As the economies along the central coast continue to show vitality, the underlying value of real estate remains stable. The Company has considered this concentration in evaluating the adequacy of the allowance for credit loss.

The Company has a trust department that has fiduciary responsibility for the assets that it holds on behalf of its trust customers. These assets are not owned by the Company and accordingly are not reflected in the accompanying consolidated balance sheets.

The Company is one of a number of financial institutions named as party defendants in a patent infringement lawsuit filed by an unaffiliated financial institution. The lawsuit generally relates to the Company's tax refund program. The Company has retained outside legal counsel to represent its interest in this matter. The Company does not believe that it has infringed any patents as alleged in the lawsuit and intends to vigorously defend itself in this matter. The amount of alleged damages are not specified in the papers received by the Company. Therefore, Management cannot, based in part on its consultation with legal counsel, estimate the amount of any possible loss at this time or project the likelihood of an unfavorable outcome.

The Company is involved in various other litigation of a routine nature which is being handled and defended in the ordinary course of the Company's business. In the opinion of Management, the resolution of this litigation will not have a material impact on the Company's financial position.

19. MERGERS AND ACQUISITIONS

On December 30, 1998, the Company issued 8,756,668 shares of common stock in exchange for all of the outstanding stock of PCB, a holding company for FNB and its affiliate SVNB.

The transaction was accounted for as a pooling-of-interest, and accordingly, the accompanying consolidated financial statements for 1998 have been restated to include the accounts of PCB for all periods presented. Total revenues and net income for the separate companies for the periods preceding the acquisition were as follows:

(in thousands)	Year Ended December 31 1998

Interest income plus noninterest income	
Santa Barbara Bancorp	$164,532
Former Pacific Capital	64,742
Total	$229,274
Net Income	
Santa Barbara Bancorp	$ 24,379
Former Pacific Capital	5,188
Total	$ 29,567

After the close of business on June 30, 2000, the Company acquired all the outstanding stock of Los Robles Bancorp, parent company of LRB, for $32.5 million in cash. Immediately prior to the close, LRB had $159.3 million in assets and $146.4 million in liabilities.

The acquisition was accounted for under purchase accounting, with assets and liabilities recorded at their estimated fair value at the time of the acquisition. The excess of the purchase price over the net assets was recorded as goodwill. Goodwill amortized during the year ended December 31, 2000, relating to this transaction totaled approximately $654,000. The Company issued no stock in connection with this acquisition. The following table shows estimated fair value of the assets and liabilities of the bank, the purchase price paid, and the resulting goodwill.

(in thousands)	FMV of Assets Acquired	FMV of Liabilities Assumed	Purchase Price	Goodwill Recorded
Los Robles Bank	$159,300	$146,400	$32,500	$19,600

At the time of the acquisition, LRB became a subsidiary of the Company. Under the provisions of purchase accounting, the results of operations of the acquired entity are included in the financial statements of the acquirer only from the date of the acquisition forward. The 2000 consolidated financial statements of the Company include the assets and liabilities acquired in the transactions and results of operations from July 1, 2000, for LRB.

The following table presents an unaudited pro forma combined summary of operations of the Company and LRB for the year ended December 31, 2000, as if the acquisition had been effective January 1, 1998.

(unaudited)	Year Ended December 31

(dollars in thousands)	2000	1999	1998
Interest income	$ 296,392	$ 236,284	$ 215,08
Interest expense	111,434	75,530	76,30
Net interest income	184,958	160,754	138,77
Provision for credit losses	14,777	7,423	10,00
Noninterest income	51,338	44,897	41,20
Noninterest expense	135,219	122,550	116,66
Income before provision for income taxes	86,300	75,678	53,29
Provision for income taxes	32,747	26,905	20,82
Net income	$ 53,553	$ 48,773	$ 32,47
Basic earnings per share	$ 2.03	$ 1.87	$ 1.2
Weighted average shares assumed to be outstanding	26,380	26,103	25,51
Diluted earnings per share	$ 2.01	$ 1.84	$ 1.2
Weighted average shares assumed to be outstanding	26,609	26,552	26,16

The information in the table above combines the historical results of the Company and LRB after giving effect to the amortization of goodwill and exclusion of an estimated amount of earnings from the consideration paid to the shareholders of Los Robles Bancorp using the average rate received during the year for Federal funds sold. No attempt has been made to eliminate the duplicated administrative cost. There were no intercompany transactions which needed to be eliminated. The figures included in the table for pro forma combined diluted earnings per share are based on the pro forma combined net income in the table and the actual average common shares and share equivalents. Because the consideration paid to the shareholders of Los Robles Bancorp consisted entirely of cash, the average shares and share equivalents outstanding are identical to those reported in Note 16.

This unaudited combined pro forma summary of operations is intended for informational purposes only and is not necessarily representative of the future results of the Company or of the results of the Company that would have occurred had the acquisitions actually been transacted on January 1, 2000.

The amortization of goodwill relating to purchase transactions that occurred prior to 1998 amounted to approximately $1.4 million in the year ended December 31, 2000.

On July 31, 2000, the Company issued 1,735,131 shares of common stock in exchange for all the outstanding stock of San Benito Bank. The transaction was accounted for as a pooling-of-interest, and accordingly, the accompanying consolidated financial statements have been restated to include the accounts of San Benito Bank for all periods presented. Total revenues and net income for the separate companies for the periods preceding the acquisition were as follows:

(in thousands)	Year Ended December 31		
	2000	1999	1998

Interest income plus noninterest income			
Pacific Capital	$328,309	$253,261	$231,860
San Benito	11,995	15,785	13,133
Total	$340,304	$269,046	$244,993
Net Income			
Pacific Capital	$ 47,612	$ 44,274	$ 29,567
San Benito	3,844	2,259	1,932
Total	$ 51,456	$ 46,533	$ 31,499

20. SEGMENT REPORTING

While the Company's products and services are all of the nature of commercial banking, the Company has eight reportable segments. There are eight specific segments: Wholesale Lending, Retail Lending, Branch Activities, Fiduciary, Tax Refund Programs, Los Robles Bank, and the Northern Region. The segment for Los Robles Bank was added in 2000. The remaining activities of the Company are reported in a segment titled "All Other".

Factors Used to Identify Reportable Segments

The Company first uses geography as a factor in distinguishing three operating segments. The discrete market areas served by SBB&T, LRB, and FNB (including its affiliates SVNB and SBB) distinguish them as units for which performance must be viewed separately. The tax refund program serves customers throughout the United States, and the lack of a defined market area for this program distinguishes it from other banking activities.

SBB&T is further disaggregated into additional segments. The factors used for this disaggregation relate to products and services resulting in segments for Wholesale Lending, Retail Lending, Branch Activities (deposits), and Fiduciary (trust services). This level of disaggregation for SBB&T reflects its specific management structure in which loan and deposit products are handled by different organizational units. In contrast to this, LRB and FNB and its affiliates have organizational structures that generally place both loan and deposit products in the individual branches.

Types and Services from Which Revenues are Derived

Wholesale Lending: Business units in this segment make loans to medium-sized businesses and their owners. Loans are made for the purchase of business assets, working capital lines, investment, the development and construction of nonresidential or multi-family residential property. Letters of credit are also offered to customers both to facilitate commercial transactions and as performance bonds.

Retail Lending: Business units in this segment engage in small business lending (including Small Business Administration guaranteed loans) and leasing, consumer installment loans, home equity lines, and 1-4 family residential mortgages.

Branch Activities: The business of this segment is primarily centered on deposit products, but also includes safe deposit box rentals, foreign exchange, electronic fund transfers, and other ancillary services to businesses and

individuals.

Tax Refund Program: The loan products provided in this segment are described in Note 3. The other product, refund transfers, consists of receipt of tax refunds from the Internal Revenue Service on behalf of individual taxpayers and authorizing the local issuance of checks to the taxpayers so that they do not need a mailing address or to wait for the refund check to be mailed to them.

Fiduciary: This segment provides trust and investment services to its customers. The Trust and Investment Services Division may act as both custodian and manager of trust accounts as directed by the client. In addition to securities and other liquid assets, the division manages real estate held in trust. The division also sells third-party mutual funds and annuities to customers.

Northern Region: This segment derives its revenues from banking services provided by FNB and its affiliates SVNB and SBB. These include the same type of loan, deposit, and fiduciary products in the first three segments described above. This segment also derives revenues from securities in FNB's securities portfolios.

Los Robles Bank: This segment derives its revenues from the same type of loan and deposit products described in the first three segments above.

All Other: This segment consists of other business lines and support units. The administrative support units include the Company's executive administration, data processing, marketing, credit administration, human resources, legal and benefits, and finance and accounting. The primary revenues are from SBB&T's securities portfolios.

Charges and Credits for Funds and Income from the Investment Portfolios

As noted above, there is a significant difference between the organizational structures of LRB and FNB and the organizational structure of SBB&T. The same business units provide loans and deposits at LRB and FNB and separate business units handle them at SBB&T. This means that as a segment, Los Robles Bank and the Northern Region are self-contained from a funding standpoint. That is, the one segment obtains its own funds from its depositors and lends its own funds to its borrowers. In contrast with this, SBB&T has one primary segment which provides the funds, Branch Activities, while the lending segments utilize the funds. To give a fair picture of profitability at the segment level for the SBB&T segments, it is therefore necessary to charge the lending segments for the cost of the funds they use while crediting the Branch Activities segment for the funds it provides.

The securities portfolios of each bank are used to provide liquidity to that bank and to earn income from funds received from depositors that are in excess of the amounts lent to borrowers. The interest rates applicable to securities are lower than for loans because there is little or no credit risk. Foregoing the higher rates earned by loans is, in a sense, a cost of maintaining the necessary liquidity, and an opportunity cost for being unable to generate sufficient loans to make full use of the available funds.

From the standpoint of measuring the performance of the Los Robles Bank segment and the Northern Region segment, the loans and deposits of which are organizationally integrated, it is most appropriate to include the income from the LRB and FNB securities portfolios with the operating segments. Because the Los Robles Bank and the Northern Region segments are self-contained from a

funding standpoint, within the segments as a whole, there are no credits or charges for funds.

Because in the SBB&T segments, the uses of funds and the provision of funds are in separate segments, there is no one operating unit to which it is appropriate to charge the liquidity and opportunity costs related to the investment portfolios. Instead, each segment that uses funds through lending or investing is charged for its funds and the Branch Activities segment is credited for the funds it provides.

Measure of Profit or Loss

In assessing the performance of each segment, the chief executive officer reviews the segment's contribution before tax. Taxes are excluded because the Company has permanent tax differences (see Note 8) which do not apply equally to all segments. In addition, if segments were measured by their net-of-tax contribution, they would be advantaged or disadvantaged by any enacted changes in tax rates even though such changes are not reflective of the performance of a segment.

Specific Segment Disclosure

The following table presents information for each segment regarding assets, profit or loss, and specific items of revenue and expense that are included in that measure of segment profit or loss as reviewed by the chief executive officer.

(in thousands)	Branch Activities	Retail Lending	Wholesale Lending	RAL	Fiduciary	Northern Region	Lo
YEAR ENDED DECEMBER 31, 2000							
REVENUES FROM EXTERNAL CUSTOMERS	$ 11,246	$ 66,521	$ 66,917	$ 26,258	$ 13,749	$ 102,632	$
INTERSEGMENT REVENUES	109,791	656	--	2,198	3,920	--	
TOTAL REVENUES	$ 121,037	$ 67,177	$ 66,917	$ 28,456	$ 17,669	$ 102,632	$
PROFIT (LOSS)	$ 32,204	$ 12,796	$ 16,571	$ 16,692	$ 7,182	$ 23,375	$
INTEREST INCOME	90	65,576	65,737	18,957	--	93,055	
INTEREST EXPENSE	62,867	662	6	--	3,621	31,170	
INTERNAL CHARGE FOR FUNDS	859	42,793	41,205	3,255	--	--	
DEPRECIATION	1,418	210	116	208	135	1,532	
TOTAL ASSETS	19,672	868,321	746,497	(43)	1,527	1,177,499	
CAPITAL EXPENDITURES	--	--	--	--	--	1,666	

(in thousands)	Branch Activities	Retail Lending	Wholesale Lending	RAL	Fiduciary	Northern Region
Year Ended December 31, 1999						
Revenues from external customers	$ 9,254	$ 54,483	$ 54,295	$ 14,673	$ 13,201	$ 87,97
Intersegment revenues	75,656	216	--	1,988	2,420	-
Total revenues	$ 84,910	$ 54,699	$ 54,295	$ 16,661	$ 15,621	$ 87,97
Profit (Loss)	$ 20,761	$ 13,139	$ 18,765	$ 9,391	$ 6,538	$ 27,02
Interest income	73	53,307	53,403	8,081	--	79,55
Interest expense	40,002	221	5	--	2,121	24,57
Internal charge for funds	866	33,076	29,536	641	--	-
Depreciation	1,432	143	93	87	131	1,82
Total assets	29,478	708,698	647,104	(487)	1,668	1,111,49
Capital expenditures	--	--	--	--	--	2,53
Year Ended December 31, 1998						
Revenues from external customers	$ 10,813	$ 43,514	$ 46,899	$ 11,638	$ 9,545	$ 79,97
Intersegment revenues	73,384	54	--	991	2,477	-
Total revenues	$ 84,197	$ 43,568	$ 46,899	$ 12,629	$ 12,022	$ 79,97
Profit (Loss)	$ 15,855	$ 9,262	$ 16,885	$ 4,521	$ 5,563	$ 24,08
Interest income	24	42,156	45,273	6,818	--	72,57
Interest expense	42,453	58	4	--	2,247	24,73
Internal charge for funds	725	25,841	23,936	625	--	-
Depreciation	1,982	236	142	71	213	2,07
Total assets	12,532	530,481	520,614	(324)	3,104	1,015,95
Capital expenditures	--	--	--	--	--	1,17

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The following table reconciles total revenues and profit for the segments to total revenues and pre-tax income, respectively, in the consolidated financial statements.

(in thousands)	Year Ended December 31		
	2000	1999	1998
Total revenues for reportable segments	$ 475,411	$ 369,745	$ 339,243
Elimination of intersegment revenues	(128,976)	(94,417)	(88,013)
Elimination of taxable equivalent adjustment	(6,131)	(6,282)	(6,237)
Total consolidated revenues	$ 340,304	$ 269,046	$ 244,993
Total profit or loss for reportable segments	$ 89,512	$ 78,385	$ 57,706

Elimination of taxable equivalent adjustment	(6,131)	(6,282)	(6,237)
Income before income taxes	$ 83,381	$ 72,103	$ 51,469

For purposes of performance measurement and therefore for the segment disclosure above, income from tax-exempt securities, loans, and leases is reported on a fully taxable equivalent basis. Under this method of disclosure, the income disclosed is increased to that amount which, if taxed, would result in the amount included in the financial statements.

With respect to the disclosure of total assets for the individual segments, fixed assets used by the Los Robles Bank and Northern Region segments are included in their asset totals. Fixed assets used by the other segments are all recorded as assets of the All Other segment. Depreciation expense of these assets is charged to the segment that uses them.

The Company has no operations in foreign countries to require disclosure by geographical area. The Company has no single customer generating 10% or more of total revenues.

For the Company, the process of disaggregation is somewhat arbitrary. Many of the Company's customers do business with more than one segment. In these cases, the Company may use relationship pricing, whereby customers may be given a favorable price on one product because the other products they use are very profitable for the Company. To the extent that these products are in different segments as defined above, one segment may be sacrificing profitability to another for the sake of the overall customer relationship.

21. PACIFIC CAPITAL BANCORP

The condensed financial statements of the Bancorp are presented on the following two pages.

PACIFIC CAPITAL BANCORP
(PARENT COMPANY ONLY)
BALANCE SHEETS
(IN THOUSANDS)

	December 31 2000	1999
ASSETS		
Cash	$ 678	$ 931
Investment in and advances to subsidiaries	276,544	224,230
Loans, net	270	394
Premises and equipment, net	6,812	4,150
Goodwill	18,968	--
Other assets	19,163	12,041

Total assets	$ 322,435	$ 241,746
LIABILITIES		
Dividends payable	$ 5,826	$ 4,420
Bank Debt	15,000	--
Other liabilities	6,440	2,753
Total liabilities	27,266	7,173
EQUITY		
Common stock	8,828	8,186
Surplus	115,664	99,283
Unrealized gain on securities available-for-sale	4,472	(6,447)
Retained earnings	166,205	133,551
Total shareholders' equity	295,169	234,573
Total liabilities and shareholders' equity	$ 322,435	$ 241,746

PACIFIC CAPITAL BANCORP
(PARENT COMPANY ONLY)
INCOME STATEMENTS
(IN THOUSANDS)

	Year Ended December 31		
	2000	1999	1998
Equity in earnings of subsidiaries:			
Undistributed	$ 10,074	$ 28,812	$ 18,914
Dividends	44,000	17,131	18,575
Interest income	28	123	181
Other income	108	87	601
Other operating expense	(4,535)	(4,715)	(13,006)
Income tax benefit	1,781	2,836	4,302
Net income	$ 51,456	$ 44,274	$ 29,567

PACIFIC CAPITAL BANCORP
(PARENT COMPANY ONLY)
STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	Year Ended December 31	
	2000	1999
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS:		
Cash flows from operating activities:		
Net income	$ 51,456	$ 44,274
Adjustments to reconcile net income to net cash used in operations:		
Equity in undistributed net income of subsidiaries	(54,074)	(45,942)
Amortization of goodwill	654	--
Depreciation expense	977	--
Increase in other assets	(7,122)	551
Increase in other liabilities	3,687	(1,883)
Net cash used in operating activities	(4,422)	(3,000)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net (increase) decrease in loans	124	2,788
Capital expenditures	(3,757)	(643)
Purchase of capital stock of Los Robles Bank	(32,500)	--
Distributed earnings of subsidiaries	44,000	17,131
Net cash provided by investing activities	7,867	19,276
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from short term borrowing	20,000	--
Payments on short term borrowing	(5,000)	--
Proceeds from issuance of common stock	1,395	2,129
Payments to retire common stock	--	(2,055)
Dividends paid	(20,093)	(17,595)
Net cash used in financing activities	(3,698)	(17,521)
Net increase (decrease) in cash and cash equivalents	(253)	(1,245)
Cash and cash equivalents at beginning of period	931	2,176
Cash and cash equivalents at end of period	$ 678	$ 931

Supplemental disclosures: none

QUARTERLY FINANCIAL DATA (UNAUDITED)

	2000 QUARTERS					
	4th	3rd	2nd	1st	4th	3
Interest income	$72,055	$70,032	$67,437	$81,392	$57,422	$55
Interest expense	28,147	27,702	27,702	26,975	19,566	18
Net interest income	43,908	42,330	39,735	54,417	37,856	36

Provision for credit losses	1,295	5,219	2,230	5,696	1,404	1
Noninterest income	11,137	11,044	10,997	16,210	10,155	9
Noninterest expense	35,433	36,108	29,339	30,977	29,899	29
Income before income taxes	18,317	12,047	19,163	33,954	16,708	15
Income taxes	5,994	5,284	7,108	13,539	5,352	5
Net income	$12,323	$ 6,763	$12,055	$20,415	$11,356	$10
Net earnings per share:						
Basic	$ 0.47	$ 0.25	$ 0.45	$ 0.78	$ 0.43	$
Diluted	$ 0.46	$ 0.25	$ 0.45	$ 0.77	$ 0.42	$

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

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by Item 10 is incorporated herein by reference to the sections titled "The Board of Directors" and "Executive Officers" in the Company's definitive Proxy Statement for the annual meeting to be held April 24, 2001 ("Proxy Statement").

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 is incorporated herein by reference to the section titled "Executive Compensation" in the Company's Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by Item 12 is incorporated herein by reference to the section titled "Beneficial Ownership Chart" in the Company's Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by Item 13 is incorporated herein by reference to the section titled "Other Information" in the Company's Proxy Statement.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENTS, AND REPORTS ON FORM 8-K

(a)1. FINANCIAL STATEMENTS

The listing of financial statements required by this item is set forth

in the index for Item 8 of this report.

(a)2. FINANCIAL STATEMENTS SCHEDULES

The listing of supplementary financial statement schedules required by this item is set forth in the index for Item 8 of this report.

(a)3. EXHIBITS

The listing of exhibits required by this item is set forth in the Exhibit Index beginning on page 83 of this report. Each management contract or compensatory plan or arrangement required to be filed as an exhibit to this report is listed under Item 10.1 "Compensation Plans and Agreements," in the Exhibit Index.

(b) REPORTS ON FORM 8-K

No reports on Form 8-K were filed during the fourth quarter of the fiscal year ended December 31, 2000.

(c) EXHIBITS

See exhibits listed in "Exhibit Index" on page 83 of this report.

(d) FINANCIAL STATEMENT SCHEDULES

There are no financial statement schedules required by Regulation S-X that have been excluded from the annual report to shareholders.

SIGNATURES

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

Pacific Capital Bancorp

By /s/ William S. Thomas. Jr — February 28, 2001

William S. Thomas, Jr.
President
Director

Date

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 Company and in the capacities and on the dates indicated.

/s/ David W. Spainhour	February 28, 2001	/s/ William S. Thomas, Jr.
David W. Spainhour Chairman of the Board	Date	William S. Thomas, Jr. President Chief Executive Officer
/s/ Donald M. Anderson	February 28, 2001	/s/ Donald Lafler

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Donald M. Anderson          Date                            Donald Lafler
Vice Chairman                                               Executive Vice President
Director                                                    Chief Financial Officer

/s/ Edward E. Birch         February 28, 2001               /s/ Richard M. Davis
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Edward E. Birch             Date                            Richard M. Davis
Director                                                    Director

/s/ Dale E. Hanst           February 28, 2001               /s/ Richard A. Nightingale
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Dale E. Hanst               Date                            Richard A. Nightingale
Director                                                    Director

/s/ D. Vernon Horton        February 28, 2001               /s/ Clayton C. Larson
--------------------------  -------------------             ------------------------------
D. Vernon Horton            Date                            Clayton C. Larson
Vice Chairman                                               Vice Chairman

/s/ William H. Pope         February 28, 2001               /s/ Roger C. Knopf
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William H. Pope             Date                            Roger C. Knopf
Director                                                    Director

/s/ Kathy J. Odell          February 28, 2001
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Kathy J. Odell              Date
Director
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EXHIBIT INDEX TO PACIFIC CAPITAL BANCORP FORM 10-K FOR THE
FISCAL YEAR ENDED DECEMBER 31, 2000

Exhibit Number	Description *		
2.	Agreement and Plan of Reorganization by and between Santa Barbara Bancorp and Pacific Capital Bancorp dated July 20, 1998.(1)		
3.	Articles of incorporation and bylaws:		
	3.1	Certificate of Restatement of Articles of Incorporation of Pacific Capital Bancorp dated January 27, 1999. (2)	
	3.2	Amended and Restated Bylaws of Pacific Capital Bancorp effective April 25, 2000. (8)	
10.	Material contracts		
	10.1	Compensation Plans and Agreements:	
		10.1.1	Pacific Capital Bancorp Amended and Restated Restricted Stock Plan as amended effective April 25, 2000. (4)

	10.1.1.1	Pacific Capital Bancorp Restricted Stock Option Agreement (Incentive Stock Option). (3)
	10.1.1.2	Pacific Capital Bancorp Restricted Stock Option Agreement (Nonstatutory Stock Option - 5 Year). (3)
	10.1.1.3	Pacific Capital Bancorp Restricted Stock Option Agreement (Nonstatutory Stock Option - 10 Year). (3)
	10.1.1.4	Pacific Capital Bancorp Restricted Stock Option Agreement (Incentive Reload Option). (3)
	10.1.1.5	Pacific Capital Bancorp Restricted Stock Option Agreement (Non-statutory Reload Option). (3)
10.1.2	Pacific Capital Bancorp Directors Stock Option Plan (incorporated by reference to Exhibit 4.2 to Post-Effective Amendment No. One to Santa Barbara Bancorp's Registration Statement on Form S-8, filed on June 13, 1995, Registration No. 33-48724).	
10.1.3	Pacific Capital Bancorp Incentive & Investment and Salary Savings Plan, as amended and restated effective January 1, 1998. (7)	
10.1.4	Pacific Capital Bancorp Employee Stock Ownership Plan and Trust, as amended and restated effective January 1, 1998. (7)	
10.1.5	Santa Barbara Bank & Trust Key Employee Retiree Health Plan incorporated by reference to Exhibit 10.1.8 to Santa Barbara Bancorp's Annual Report on Form 10-K (File No. 0-11113) for fiscal year ended December 31, 1993).	
	10.1.5.1	First Amendment to Santa Barbara Bank & Trust Key Employee Retiree Health Plan. (5)
	10.1.5.2	Second Amendment to Santa Barbara Bank & Trust Key Employee Retiree Health Plan. (5)

10.1.6	Santa Barbara Bank & Trust Retiree Health Plan (Non-Key Employees) (incorporated by reference to Exhibit 10.1.9 to Santa Barbara Bancorp's Annual Report on Form 10-K (File No. 0-11113) for the fiscal year ended December 31, 1993).	
	10.1.6.1	First Amendment to Santa Barbara Bank & Trust Retiree Health Plan (Non-Key Employees). (5)

	10.1.6.2	Second Amendment to Santa Barbara Bank & Trust Retiree Health Plan (Non-Key Employees). (5)
10.1.7	Trust Agreement of Santa Barbara Bank & Trust Voluntary Beneficiary Association. (5)	
	10.1.7.1	First Amendment to Trust Agreement of Santa Barbara Bank & Trust Voluntary Beneficiary Association. (4)
10.1.8	Pacific Capital Bancorp, Amended and Restated, 1996 Directors Stock Plan, as amended April 25,2000. (10)	
	10.1.8.1	Pacific Capital Bancorp 1996 Directors Stock Option Agreement. (3)
	10.1.8.2	Pacific Capital Bancorp 1996 Directors Stock Option Agreement (Reload Option). (3)
10.1.9	Pacific Capital Bancorp Directors' Stock Option Plan and Form of Stock Option Agreement (incorporated by reference to Exhibit 10.25 to Pacific Capital Bancorp's Annual Report on Form 10-K (File No. 0-13528) for the fiscal year ended December 31, 1991).	
10.1.10	Pacific Capital Bancorp 1984 Stock Option Plan and Forms of Agreements as amended to date (incorporated by reference to Exhibit 10.27 to Pacific Capital Bancorp's Annual Report on Form 10-K (File No. 0-13528) for the fiscal year ended December 31, 1991).	
10.1.11	Pacific Capital Bancorp 1994 Stock Option Plan, as amended, and Forms of Incentive and Non-Qualified Stock Option Agreements (incorporated by reference to Exhibit 4 to Pacific Capital Bancorp's Amendment No. 1 to Registration Statement on Form S-8 (Registration No. 33-83848) filed on November 15, 1994).	
10.1.12	Pacific Capital Bancorp Management Retention Plan as amended through January 11, 1999. (7)	
10.1.13	Pacific Capital Bancorp Deferred Compensation Plan dated December 15, 1999. (11)	
	10.1.13.1	Trust Agreement under Pacific Capital Bancorp Deferred Compensation Plan dated December 15, 1999. (11)
10.2	Consolidated Agreement dated December 17, 1991 by and between First National Bank of Central California and Unisys with Equipment Sale Agreement, Software License Agreement and Product License Agreement by and between First National Bank of Central California and Information Technology, Inc. (6)	

13. Portions of Annual Report to Security Holders (Incorporated by reference to the Annual Report/Form 10-K)

21. Subsidiaries of the registrant (Incorporated by reference to the Annual Report/Form 10-K, Footnote 1)

23. Consents of Experts and Counsel

23.1 Consent of Arthur Andersen LLP with respect to financial statements of the Registrant

23.2 Consent of Deloitte & Touche LLP with respect to financial statements of San Benito Bank - not presented separately

Shareholders may obtain a copy of any exhibit by writing to:

Carol Kelleher, Corporate Services Administrator
Pacific Capital Bancorp
P.O. Box 1119
Santa Barbara, CA 93102

* Effective December 30, 1998, Santa Barbara Bancorp and Pacific Capital Bancorp merged and contemporaneously with effectiveness of the merger, Santa Barbara Bancorp, the surviving entity, changed its corporate name to Pacific Capital Bancorp. Documents identified as filed by Santa Barbara Bancorp prior to December 30, 1998 were filed by Santa Barbara Bancorp. Documents identified as filed by Pacific Capital Bancorp prior to December 30, 1998 were filed by Pacific Capital Bancorp as it existed prior to the merger.

The Exhibits listed below are incorporated by reference to the specified filing.

(1) Filed as Appendix A to Proxy Statement filed by Santa Barbara Bancorp in Amendment No. 1 to Registration Statement on Form S-4 (registration No. 333-64093) filed November 4, 1998.

(2) Filed as Exhibits 4.1 and 4.2 to the Registration Statement on Form S-8 of Pacific Capital Bancorp (Registration No. 333-74831) filed March 18, 1999.

(3) Filed as Exhibits 10.1.1 through 10.1.1.5 and 10.1.10 through 10.1.10.2 to Annual Report on Form 10-K of Santa Barbara Bancorp (File No.0-11113) for fiscal year ended December 31, 1996.

(4) Filed as an Exhibit to Annual Report on Form 10-K of Santa Barbara Bancorp (File No.0-11113) for fiscal year ended December 31, 1995.

(5) Filed as an Exhibit to Annual Report on Form 10-K of Santa Barbara Bancorp (File No.0-11113) for the fiscal year ended December 31, 1997.

(6) Filed as Exhibits 10.23 through 10.34 to the Annual Report of Pacific Capital Bancorp on Form 10-K (File No. 0-13528) for the fiscal year ended December 31, 1991.

(7) Filed as an Exhibit to the Annual Report on Form 10-K of Pacific Capital Bancorp (File No. 0-11113) for the fiscal year ended December 31, 1998.

(8) Filed as Exhibit 3.2 to the Quarterly Report on Form 10-Q of Pacific Capital Bancorp (File No. 0-11113) for the fiscal quarter ended June 30, 2000.

(9) Filed as Exhibit 10.1.1 to the Quarterly Report on Form 10-Q of Pacific Capital Bancorp (File No. 0-11113) for the fiscal quarter ended June 30, 2000.

(10) Filed as Exhibit 10.1.9 to the Quarterly Report on Form 10-Q of Pacific Capital Bancorp (File No. 0-11113) for the fiscal quarter ended June 30, 2000.

(11) Filed as Exhibits 10.1.13 and 10.1.13.1 to the Annual Report on Form 10-K of Pacific Capital Bancorp (File No. 0-01113) for the fiscal quarter ended December 31, 2000.