PACIFIC PREMIER BANCORP INC
Form 10-K
March 14, 2013

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

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

For the fiscal year ended December 31, 2012

or

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

For the transition period from to .

Commission File No.: 0-22193

(Exact name of registrant as specified in its charter)

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

17901 Von Karman Avenue. Suite 1200, Irvine, California 92614
(Address of Principal Executive Offices and Zip Code)
Registrant’s telephone number, including area code: (949) 864-8000

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

Title of class	Name of each exchange on which registered
Common Stock, par value $0.01 per share	NASDAQ Global Market

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

None

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [   ] No [   ]

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

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

Large accelerated filer	[ ]		Accelerated filer	[X]
Non-accelerated filer	[ ]	(Do not check if a smaller reporting company)	Smaller reporting company	[ ]

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

The aggregate market value of the voting stock held by non-affiliates of the registrant, i.e., persons other than directors and executive officers of the registrant, was approximately $83,637,616 and was based upon the last sales price as quoted on The NASDAQ Stock Market as of June 30, 2012, the last business day of the most recently completed second fiscal quarter.

As of March 14, 2013, the Registrant had 14,158,314 shares outstanding.

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PART I

ITEM 1. BUSINESS

Forward-Looking Statements

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

This Annual Report on Form 10-K contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). These forward-looking statements represent plans, estimates, objectives, goals, guidelines, expectations, intentions, projections and statements of our beliefs concerning future events, business plans, objectives, expected operating results and the assumptions upon which those statements are based. Forward-looking statements include without limitation, any statement that may predict, forecast, indicate or imply future results, performance or achievements, and are typically identified with words such as “may,” “could,” “should,” “will,” “would,” “believe,” “anticipate,” “estimate,” “expect,” “intend,” “plan,” or words or phases of similar meaning. We cau the forward-looking statements are based largely on our expectations and are subject to a number of known and unknown risks and uncertainties that are subject to change based on factors which are, in many instances, beyond our control. Actual results, performance or achievements could differ materially from those contemplated, expressed, or implied by the forward-looking statements.

The following factors, among others, could cause our financial performance to differ materially from that expressed in such forward-looking statements:

- The strength of the United States economy in general and the strength of the local economies in which we conduct operations;

- The effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System (the "Federal Reserve");
- Inflation/deflation, interest rate, market and monetary fluctuations;
- The timely development of competitive new products and services and the acceptance of these products and services by new and existing customers;
- The willingness of users to substitute competitors' products and services for our products and services;
- The impact of changes in financial services policies, laws and regulations, including those concerning taxes, banking, securities and insurance, and the application thereof by regulatory bodies;
- Technological changes;
- The effect of acquisitions we may make, if any, including, without limitation, the failure to achieve the expected revenue growth and/or expense savings from such acquisitions;
- Changes in the level of our nonperforming assets and charge-offs;
- Oversupply of inventory and continued deterioration in values of California real estate, both residential and commercial;
- The effect of changes in accounting policies and practices, as may be adopted from time-to-time by bank regulatory agencies, the U.S. Securities and Exchange Commission ("SEC"), the Public Company Accounting Oversight Board ("PCAOB"), the Financial Accounting Standards Board or other accounting standards setters;
- Possible other-than-temporary impairments ("OTTI") of securities held by us;
- The impact of current governmental efforts to restructure the U.S. financial regulatory system, including enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act");
- Changes in consumer spending, borrowing and savings habits;
- The effects of our lack of a diversified loan portfolio, including the risks of geographic and industry concentrations;
- Ability to attract deposits and other sources of liquidity;
- Changes in the financial performance and/or condition of our borrowers;
- Changes in the competitive environment among financial and bank holding companies and other financial service providers;
- Geopolitical conditions, including acts or threats of terrorism, actions taken by the United States or other governments in response to acts or threats of terrorism and/or military conflicts, which could impact business and economic conditions in the United States and abroad;
- Unanticipated regulatory or judicial proceedings; and
- Our ability to manage the risks involved in the foregoing.

If one or more of the factors affecting our forward-looking information and statements proves incorrect, then our actual results, performance or achievements could differ materially from those expressed in, or implied by, forward-looking information and statements contained in this Annual Report on Form 10-K. Therefore, we caution you not to place undue reliance on our forward-looking information and statements. We will not update the forward-looking statements to reflect actual results or changes in the factors affecting the forward-looking statements.

Overview

We are a California-based bank holding company incorporated in 1997 in the State of Delaware and registered as a banking holding company under the Bank Holding Company Act of 1956, as amended ("BHCA"), for Pacific Premier Bank, a California state-chartered commercial bank. The Bank is subject to examination and regulation by the Federal Reserve, the California Department of Financial Institutions (the "DFI"), and by the Federal Deposit Insurance Corporation (the "FDIC").

We conduct business throughout Southern California from our ten locations in the counties of Los Angeles, Orange, Riverside and San Bernardino. We operate depository branches in the cities of Huntington Beach, Irvine, Los Alamitos, Newport Beach, Palm Desert, Palm Springs, San Bernardino and Seal Beach, California. Our corporate headquarters are located in Irvine, California.

We provide banking services within our targeted markets in Southern California to businesses and consumers in the communities we serve. Through our branches and our Internet website at www.ppbi.com, we offer a broad array of deposit products and services for both business and consumer customers, including checking, money market and savings accounts, cash management services, electronic banking, and on-line bill payment. We also offer a wide array of loan products, such as commercial business loans, lines of credit, commercial real estate loans, U.S. Small Business Administration ("SBA") loans, residential home loans, home equity lines of credit and consumer loans. At December 31, 2012, we had consolidated total assets of $1.2 billion, net loans of $977.9 million, total deposits of $904.8 million, and consolidated total stockholders' equity of $134.5 million. At December 31, 2012, the Bank was considered a "well-capitalized" financial institution for regulatory capital purposes.

Recent Developments

Pacific Premier Bancorp, Inc. and San Diego Trust Bank

On March 6, 2013, the Company announced that it had entered into a definitive agreement to acquire San Diego Trust Bank (OTCBB: SDBK), a San Diego, California, based state-chartered bank with $242.0 million in total assets and $187.9 million in total deposits at December 31, 2012. This transaction will expand Pacific Premier's banking footprint into San Diego County and is expected to further improve Pacific Premier's deposit mix. At the time the definitive agreement was entered into, the acquisition of San Diego Trust Bank was valued at approximately $30.6 million. San Diego Trust Bank shareholders will have a choice between electing to receive $13.41 per share in cash or 1.114x shares of PPBI common stock for each share of San Diego Trust Bank or a combination thereof, subject to the overall requirement that 50% of the consideration will be in the form of cash and 50% will be in the form of PPBI stock. The number of shares of Pacific Premier common stock to be issued to San Diego Trust Bank shareholders is based on a fixed exchange ratio provided that Pacific Premier's stock price remains between $10.83 and $13.24 as measured by the 10-day average closing price immediately prior to closing of the transaction. The value of the stock portion of consideration will fluctuate based on the value of PPBI common stock. The transaction is expected to close late in the second quarter of 2013 or in the third quarter of 2013, subject to satisfaction of customary closing conditions, including regulatory approvals and approval of San Diego Trust Bank shareholders.

Pacific Premier Bancorp, Inc. and First Associations Bank

On October 15, 2012, the Company announced that it had entered into an Agreement and Plan of Reorganization (the "Merger Agreement") to acquire First Associations, a Texas-chartered bank ("FAB"). FAB is a specialized bank headquartered in Dallas, Texas, that focuses exclusively on serving homeowners associations ("HOAs") and HOA management companies nationwide. At September 30, 2012, FAB had $356.2 million in total assets and $305.5 million in total deposits. If the acquisition of FAB is consummated, it will provide the Bank with a valuable source of low-cost core deposits that are expected to strengthen the Bank's existing deposit base and lower its overall funding cost. On the date of the Merger Agreement, the transaction was valued at $53.7 million, which includes approximately $50.2 million in deal consideration for FAB shareholders and approximately $3.5 million in cash consideration for FAB option holders and FAB warrant holders. The $50.2 million of deal consideration for FAB shareholders includes $37.6 million in cash consideration, which is subject to adjustment, and 1,279,228 shares of Company common stock to be issued to FAB shareholders, which shares had a value of approximately $12.5 million based on the Company's five-day average closing price immediately prior to announcement of the transaction. The transaction is expected to close late in the first quarter of 2013, subject to satisfaction of the closing conditions described in the Merger Agreement and other customary closing conditions.

Palm Desert National Bank

Effective April 27, 2012, the Bank acquired certain assets and assumed certain liabilities of Palm Desert National Bank ("Palm Desert National") from the FDIC as receiver for Palm Desert National (the "Palm Desert National Acquisition"), pursuant to the terms of a purchase and assumption agreement entered into by the Bank and the FDIC on April 27, 2012. The Palm Desert National Acquisition included one branch of Palm Desert National that became a branch of the Bank upon consummation of the Palm Desert National Acquisition. The Bank did not enter into any loss sharing agreements with the FDIC in connection the Palm Desert national Acquisition. As a result of the Palm Desert National Acquisition, the Bank acquired and recorded at the acquisition date certain assets with a fair value of approximately $120.9 million and certain liabilities with a fair value of approximately $118.0 million. The fair values of the assets acquired and liabilities assumed were determined based on the requirements of FASB Accounting Standards Codification ("ASC")Topic 820: Fair Value Measurements and Disclosures.

Canyon National Bank

Effective February 11, 2011, the Bank acquired certain assets and assumed certain liabilities of Canyon National Bank ("Canyon National") from the FDIC as receiver for Canyon National (the "Canyon National Acquisition"), pursuant to the terms of a purchase and assumption agreement entered into by the Bank and the FDIC on February 11, 2011. The Canyon National Acquisition included the three branches of Canyon National, all of which became branches of the Bank upon consummation of the Canyon National Acquisition. The Bank did not enter into any loss sharing agreements with the FDIC in connection with the Canyon National Acquisition. As a result of the Canyon National Acquisition, the Bank acquired and received certain assets with a fair value of approximately $208.9 million, and liabilities with a fair value of approximately $206.6 million. The fair values of the assets acquired and liabilities assumed were determined based on the requirements of FASB ASC Topic 820: Fair Value Measurements and Disclosures.

Operating Strategy

The Bank was founded in 1983 as a state chartered savings and loan, became a federally chartered stock savings bank in 1991 and, in March 2007, converted to a California-chartered commercial bank. Our primary goal is to develop the Bank into one of Southern California's top performing commercial banks as an alternative to the large regional and national banks for businesses, professionals, entrepreneurs and non-profit organizations for the long term benefit of our stockholders, customers and employees. The following are our operating strategies which we have adopted in order to achieve this goal:

Expansion through Acquisitions. Many banks have been negatively impacted by the economic environment, which we expect will lead to the continued consolidation and elimination of certain competitors. We intend to take advantage of this opportunity by pursuing additional acquisitions of open banks, FDIC-assisted transactions and the acquisition of non-depository asset generating and fee income producing businesses. Management has a proven track record of analyzing, executing upon, and integrating acquisitions, and we expect to continue to leverage this ability.

Expansion through Organic Growth. We believe that profitable businesses are not having their needs met either from a service level or credit availability basis from their current bank. Thus over the years we have developed a high performing sales culture resulting in effective cold calling by our business bankers. Management diligently monitors the quantity and quality of calls, while senior commercial bankers are utilized to train and assist with closing of new relationships. Our business bankers are focused on developing long term relationships with business owners, professionals, entrepreneurs, and non-profit organizations through consistent and frequent contact. Additionally, our bankers are actively involved in community organizations and events, thus building and capitalizing on the Bank’s reputation within the local communities we serve.

Diversifying our Deposit and Loan Portfolios. We believe franchise value is created through growth in low cost transaction accounts, principally business and consumer checking accounts. Customers that utilize checking accounts and the Banks other related products and services often become our most valuable relationships due to our ability to reduce interest costs associated with these customer accounts and in turn, generate greater fee income. We also believe it is important to diversify our loan portfolio in order to manage credit risks and to meet the financial services needs of our expanding client base. As part of our commercial banking platform, we have increased the amount of owner-occupied commercial real estate (“CRE”) loans, commercial and industrial (“C&I”) loans, Small Business Administration (“SBA”) loans and warehouse lending relationships within the portfolio. We will seek to add additional products to diversify the loan portfolio and add fee income while developing complementary product lines and services that further our primary goal.

Enterprise Risk Management. Management is committed to Enterprise Risk Management (“ERM”) program to help ensure Bank-wide risks are being well managed. As the Bank grows and introduces new business lines and product offerings, both its level of complexity and overall risk increases. Risk is the potential that events, expected or unanticipated, may have an adverse effect on the Bank’s earnings, capital, or franchise value. As such, the Bank will develop and maintain an enterprise-wide ERM program to help it manage the risks that are inherent to the Bank’s operations.

Proactive Asset Management and Sound Credit Quality. Our conservative credit and risk management culture has resulted in relatively low levels of nonperforming loans and an overall high credit quality within the loan portfolio as compared to our peer banks (California banks with between $1 billion and $3 billion in total assets.) Our portfolio management strategies involve the early identification of loan weakness, aggressive collection techniques, loss mitigation through loan sales and/or working with third parties to refinance the credit. We will continue to monitor economic trends and conditions that could positively or negatively impact our business. We seek to take advantage of these trends by entering or exiting certain lines of business or offering or eliminating various loan product types, as evidenced by our decision to curtail our multi-family and commercial non-owner occupied real estate lending. We will continue to monitor our risk management practices relative to changes in our local economy that impact our business.

Financial Management. We actively manage the Company’s liquidity and capital resources in order to achieve an optimal level of capital and a high quality, diversified loan portfolio that is funded through a stable, low cost core deposit base. Liquidity and interest rate risk are structured in conjunction with our capital, assets and liabilities with the goal of achieving optimal earnings throughout the business cycle.

Our executive offices are located at 17901 Von Karman Avenue, Suite 1200, Irvine, California 92614 and our telephone number is (949) 864-8000. Our Internet website address is www.ppbi.com. Our Annual Reports on

Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, and all amendments thereto, from 1998 to present that have been filed with the SEC, are available free of charge on our Internet website. Also on our website are our Code of Ethics, Insider Trading and Beneficial Ownership forms, and Corporate Governance Guidelines. The information contained in our website, or in any websites linked by our website, is not a part of this Annual Report on Form 10-K.

Lending Activities

General. In 2012, we maintained our commitment to a high level of credit quality in our lending activities. We also diversified our loan portfolio during the prior fiscal year by, among other things, significantly increasing the origination of warehouse repurchase facilities to qualified mortgage bankers operating principally in California. We continue to focus our efforts on meeting the financial needs of qualified individuals and local businesses. To that end, the Company offers a full complement of flexible and structured loan products tailored to meet the diverse needs of our customers.

During 2012, we made or purchased loans to borrowers secured by real property and business assets located principally in Southern California, our market area. We also began to make loans, primarily U.S. Small Business Administration guaranteed loans, throughout the 12th Federal Reserve District and in the state of Texas. We emphasize relationship lending and focus on generating loans with customers who also maintain full depository relationships with us. These efforts assist us in establishing and expanding depository relationships consistent with the Company's strategic direction. We maintain an internal lending limit below our $35.4 million legal lending limit for secured loans and $21.2 million for unsecured loans as of December 31, 2012. During 2012, we originated or purchased $193.7 million of warehouse facilities, $117.9 million of commercial non-owner occupied real estate loans, $58.8 million of single family real estate loans, $47.2 million of C&I loans, $39.3 million of owner occupied commercial real estate loans, $28.5 million of multi-family real estate loans, $8.6 million of SBA loans, $5.4 million of land loans and $4.3 million of construction and other loans. At December 31, 2012, we had $986.2 million in total gross loans outstanding.

Commercial and Industrial Lending. We originate C&I loans secured by business assets including inventory, receivables, machinery and equipment to businesses located in our primary market area. In many instances, real estate holdings of the borrower, its principals or loan guarantors are also taken as collateral. Loan types include revolving lines of credit, term loans, seasonal loans and loans secured by liquid collateral such as cash deposits or marketable securities. We also issue letters of credit on behalf of our customers, backed by loans or deposits with the Company. At December 31, 2012, C&I loans totaled $115.4 million, constituting 11.7% of our gross loans, and we had additional commitments to extend credit on C&I loans of $37.9 million.

Commercial Owner Occupied Business Lending. We originate and purchase loans secured by commercial owner occupied real estate, such as retail buildings, small office and light industrial buildings, and mixed-use commercial properties located predominantly in Southern California. We also make loans secured by special purpose properties, such as gas stations. Pursuant to our underwriting policies, commercial owner occupied real estate loans may be made in amounts of up to 75% of the lesser of the appraised value or the purchase price of the collateral property. Loans are generally made for terms up to 30 years with amortization periods up to 30 years. At December 31, 2012, we had $150.9 million of commercial owner occupied real estate secured loans, constituting 15.3% of our gross loans.

SBA Lending. The Company is approved to originate loans under the SBA's Preferred Lenders Program ("PLP"). The PLP lending status affords the Company a higher level of delegated credit autonomy, translating to a significantly shorter turnaround time from application to funding, which is critical to our marketing efforts. We originate loans under the SBA's 7(a), Express, Patriot Express and 504 loan programs, in conformity with SBA underwriting and documentation standards. The guaranteed portion of the 7(a) loans is typically sold on the secondary market. At December 31, 2012, we had $6.9 million of SBA loans, constituting 0.7% of our gross loans.

Warehouse Repurchase Facilities. We originate warehouse repurchase facilities to qualified mortgage bankers operating principally in California. These facilities provide short-term funding for one-to-four family mortgage loans via a mechanism whereby the mortgage banker sells us closed loans on an interim basis, to be repurchased in conjunction with the sale of each loan on the secondary market. We carefully underwrite and monitor the financial strength and performance of all counterparties to the transactions, including the mortgage bankers, secondary market participants and closing agents. We generally purchase only conforming/conventional (Federal National Mortgage Association ("FNMA"), Federal Home Loan Mortgage Corporation ("FHLMC")) and government guaranteed (Federal Housing Administration ("FHA"), Veterans Administration ("VA") and U.S. Department of Agriculture ("USDA")) credits, and only after thorough due diligence including sophisticated fraud checks. At December 31, 2012, warehouse loans totaled $195.8 million constituting 19.9% of our gross loans, and had additional commitments to extend credit of $72.2 million.

Commercial Non-Owner Occupied Real Estate Lending. We originate and purchase loans that are secured by commercial real estate, such as retail centers, small office and light industrial buildings, and mixed-use commercial properties that are not occupied by the borrower and are located predominantly in Southern California. We also make loans secured by special purpose properties, such as hotels. Pursuant to our underwriting practices,, commercial non-owner occupied real estate loans may be made in amounts up to 75% of the lesser of the appraised value or the purchase price of the collateral property. We consider the net operating income of the property and typically require a stabilized debt service coverage ratio of at least 1.20:1, based on the qualifying interest rate. Loans are generally made for terms up to 30 years with amortization periods up to 30 years. At December 31, 2012, we had $253.4 million of commercial non-owner occupied real estate secured loans, constituting 25.6% of our gross loans.

Multi-family Real Estate Lending. Although we were not an active multi-family lender in 2012, on occasion, we originate and purchase loans secured by multi-family residential properties (five units and greater) located predominantly in Southern California. Pursuant to our underwriting practices, multi-family residential loans may be made in an amount up to 75% of the lesser of the appraised value or the purchase price of the collateral property. In addition, we generally require a stabilized minimum debt service coverage ratio of 1.15:1, based on the qualifying loan interest rate. Loans are made for terms of up to 30 years with amortization periods up to 30 years. As part of our desired strategy to diversify the loan portfolio, we substantially reduced the origination of multi-family real estate loans beginning in late 2007. Historically, we have managed our concentration in multi-family real estate loans by selling excess loan production. However, in recent periods, the level of loan sales has decreased significantly due to dislocations in the credit markets. Multi-family loan sales remain a strategic option for us. At December 31, 2012, we had $156.4 million of multi-family real estate secured loans, constituting 15.9% of our gross loans.

One-to-Four Family Real Estate Lending. We participate in single family lending on occasion, mainly through purchases, to diversify our portfolio; and, in keeping with the Company's strategy of offering a full complement of loan products to customers, we have occasionally funded home loans to banking customers. When we do originate or purchase loans we do not engage in Alt-A or subprime lending. The Company's portfolio of one-to-four family loans at December 31, 2012 totaled $97.4 million, constituting 9.9% of our gross loans, of which $88.3 million consists of loans secured by first liens on real estate and $9.1 million, consists of loans secured by second or junior liens on real estate.

Other Loans. We originate other consumer loan products, generally for banking customers only, which consist primarily of savings account loans and auto loans. Before we make a consumer loan, we assess the applicant's ability to repay the loan and, if applicable, the value of the collateral securing the loan. At December 31, 2012, we had $1.2 million in other loans that represented 0.1% of our gross loans.

Interest Rates on Our Loans. We employ a risk-based pricing strategy on all loans that we fund. The interest rates, fees and loan structure of our loans generally vary based on a number of factors, including the degree of credit risk, size, maturity of the loan, a borrower's business or property management expertise, and prevailing market rates for similar types of loans, as well as the deposit balances the borrower maintains with us. Adjustable rate C&I and SBA loans are typically priced based on a margin over the Prime rate, while warehouse repurchase facilities are priced over the London Inter-Bank Offered Rate ("LIBOR"). Commercial real estate loans are typically 3, 5, 7 or 10-year fixed rate hybrid adjustable-rate loans and are based on one of several interest rate indices. Many of the C&I loans and substantially all of the non-owner occupied real estate loans originated by the Company in 2012 had minimum interest rates, or floor rates, below which the rate charged may not be reduced regardless of further reductions in the underlying interest rate index. Substantially all of our non-owner occupied commercial real estate loans also include prepayment penalties.

Lending Risks on Our Loans. Lending risks vary by the type of loan extended. In our C&I and SBA lending activities, collectability of the loans may be adversely affected by risks generally related to small and middle market businesses, such as:

- Changes or continued weakness in general or local economic conditions;
- Changes or continued weakness in specific industry segments, including weakness affecting the business' customer base;
- Changes in consumer behavior;
- Changes in a business' personnel;
- Increases in supplier costs that cannot be passed along to customers;
- Increases in operating expenses (including energy costs);
- Changes in governmental rules, regulations and fiscal policies;
- Increases in interest rates, tax rates; and
- Other factors beyond the control of the borrower or the lender.

In our investor real estate loans, payment performance and the liquidation values of collateral properties may be adversely affected by risks generally incidental to interests in real property, such as:

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

In our warehouse repurchase facilities, performance is generally driven by the routine operation of the secondary market for one-to-four family mortgage loans. Primary risks include:

- The financial and operational health of the GSE agencies (FNMA and FHLMC);
- The ongoing commitment of U.S. Government agencies (FHA, VA and USDA) to the one-to-four family mortgage market;
- Major interest rate shocks; and
- Widespread loan fraud on the part of one of our counterparties.

We attempt to mitigate these risks through sound and prudent underwriting practices, as well as a proactive loan review process and our risk management practices. See "Lending Activities - Underwriting and Approval Authority for Our Loans" immediately below. We will not extend credit to any one borrower that is in excess of regulatory limits.

Underwriting and Approval Authority for Our Loans. Our board of directors establishes our lending policies. Each loan must meet minimum underwriting criteria established in our lending policies and must be consistent with our overall strategies for yield, interest rate risk, and portfolio concentrations. The underwriting and quality control functions are managed through our corporate office. Each loan application is evaluated from a number of underwriting perspectives. For C&I and SBA loans, underwriting considerations include historic business cash flows, debt service coverage, loan-to-value ratios of underlying collateral, if any, debt to equity ratios, credit history, business experience, history of business, forecasts of operations, economic conditions, business viability, net worth, and liquidity. For loans secured by real estate, underwriting considerations include property appraised value, loan-to-value ratios, level of debt service coverage utilizing both the actual net operating income and forecasted net operating income and use and condition of the property, as well as the borrower's liquidity, income, credit history, net worth, and operating experience. We do not offer loans on a limited- or no-documentation basis unless fully secured by cash collateral.

Business loans are generally originated as recourse or with full guarantees from key borrowers or borrower principals. Loans secured by real estate are likewise generally originated on a full recourse basis. On loans made to entities, such as partnerships, limited liability companies, corporations or trusts, we typically obtain personal guarantees from the appropriate managing members, major stockholders, trustees or other appropriate principals. In 2012, substantially all of our loans to entities were originated with full recourse and/or personal guarantees from the principals of the borrowers.

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

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

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

Business loans are subject to the Company's guidelines regarding appropriate covenants and periodic monitoring requirements which may include, but are not limited to:

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

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

Subject to the above standards, our board of directors delegates authority and responsibility to management for loan approvals. The Management Loan Committee is comprised of our President/Chief Executive Officer, Chief Credit Officer, Chief Banking Officer, and 1st Vice President Senior Credit Manager. Our Vice President Senior Commercial Underwriters serve as secondary approval signers. Depending upon the loan amount and nature of collateral, loans require either two or three approval signatures, with at least one such signature coming from a Credit Committee member. Real-estate secured loans above $5 million and business loans not fully secured by real estate above $2 million require approval from the President/Chief Executive Officer.

Portfolio Management and Loan Servicing. Portfolio management and loan servicing activities are centralized at our corporate headquarters. Our loan servicing operations are designed to provide prompt customer service and accurate and timely information for account follow-up, financial reporting and loss mitigation. Following the funding of an approved loan, the data is entered into our data processing system, which provides monthly billing statements, tracks payment performance, and effects agreed upon interest rate adjustments. Loan servicing activities include (i) collecting and remitting loan payments, (ii) accounting for principal and interest and other collections and expenses, and (iii) holding and disbursing escrow or impounding funds for real estate taxes and insurance premiums.

Our portfolio management operations are designed to ensure that management and the board of directors has timely and comprehensive information regarding the performance of our loan portfolio. This information provides an essential leading indicator of potential performance issues prior to loan payment delinquency. For each of the Company’s non-homogeneous loans, our Portfolio Managers collect financial information from borrowers and guarantors in order to conduct a detailed loan review in accordance with our policies, generally annually or more often as appropriate, but in no case less than biennially. The Portfolio Managers also visit properties and businesses on a periodic basis to perform inspections of our collateral and associated revenue-generating activities of borrowers. In conjunction with the loan review process, all loans in the portfolio are assigned a risk grade that, among other purposes, factors into the Company’s allowance for loan and lease loss calculations.

When payments are not received by their contractual due date, collection efforts are initiated by our loss mitigation personnel. Accounts past-due by more than 10 days are assigned to our collector for comprehensive payment collection efforts. Our Portfolio Managers conduct an evaluation of all loans 90 days or more past due or otherwise identified as impaired by obtaining an estimate of value on the underlying collateral and an analysis of such collateral. The evaluation may result in our partial or complete charge off of the loan, but collection efforts still continue. Portfolio Managers also conduct discussions with borrowers in order to identify whether alternatives to foreclosure exist. When foreclosure will maximize the Company’s recovery for a non-performing loan, the Portfolio Managers will carry out the foreclosure process, including any associated judicial legal actions.

Loan Portfolio Composition. At December 31, 2012, our net loans receivable held for investment totaled $974.2 million and our loans receivable held for sale totaled $3.7 million. The types of loans that the Company may originate are subject to federal and state law.

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

At December 31,								
2012			2011			2010		
Amount	% of Total	Weighted Average	Amount	% of Total	Weighted Average	Amount	% of Total	Weighted Average

			Interest Rate			Interest Rate			Interest Rate
				(dollars in thousands)					
Real estate loans:									
Multi-family	$156,424	15.9%	5.8%	$193,830	26.2%	6.0%	$243,584	42.9%	6.2%
Commercial non-owner occupied	253,409	25.6%	5.7%	164,341	22.2%	6.6%	130,525	22.9%	6.7%
One-to-four family (1)	97,463	9.9%	4.7%	60,027	8.1%	5.1%	20,318	3.6%	5.4%
Land	8,774	0.9%	4.9%	6,438	0.9%	5.8%	-	0.0%	0.0%
Business loans:									
Commercial owner occupied (2)	150,934	15.3%	6.1%	152,299	20.6%	6.6%	113,025	20.0%	6.6%
Commercial and industrial	115,354	11.7%	5.3%	86,684	11.7%	5.8%	42,077	7.5%	6.3%
Warehouse facilities	195,761	19.9%	4.8%	67,518	9.1%	5.4%	12,610	2.2%	6.1%
SBA	6,882	0.7%	6.0%	4,727	0.7%	6.0%	4,088	0.7%	5.9%
Other loans	1,193	0.1%	6.2%	3,390	0.5%	7.6%	1,417	0.2%	4.5%
Total gross loans	986,194	100.0%	5.4%	739,254	100.0%	6.1%	567,644	100.0%	6.4%
Less loans held for sale	3,681			-			-		
Total gross loans held for investment	982,513			739,254			567,644		
Plus (less) for:									
Deferred loan origination costs (fees) and premiums (discounts)	(306)			(665)			(3,227)		
Allowance for loan losses	(7,994)			(8,522)			(8,879)		
Loans held for investment, net	$974,213			$730,067			$555,538		

2009 2008

	Amount	% of Total	Weighted Average Interest Rate	Amount	% of Total	Weighted Average Interest Rate
	(dollars in thousands)					
Real estate loans:						
Multi-family	$278,744	48.4 %	6.2 %	$287,592	45.7 %	6.3 %
Commercial non-owner occupied	149,577	26.0 %	6.8 %	163,428	26.0 %	7.0 %
One-to-four family (1)	8,491	1.5 %	8.3 %	9,925	1.6 %	8.8 %
Construction	-	0.0 %	0.0 %	2,733	0.4 %	8.0 %
Land	-	0.0 %	0.0 %	2,550	0.4 %	9.5 %
Business loans:						
Commercial owner occupied (2)	103,019	17.9 %	7.1 %	112,406	17.9 %	7.1 %
Commercial and industrial	31,109	5.4 %	7.0 %	43,235	6.9 %	6.8 %
Warehouse facilities	-	0.0 %	0.0 %	-	0.0 %	0.0 %
SBA	3,337	0.5 %	5.7 %	4,942	0.8 %	6.3 %
Other loans	1,991	0.3 %	1.3 %	1,956	0.3 %	2.3 %
Total gross loans	576,268	100.0 %	6.6 %	628,767	100.0 %	6.7 %
Less loans held for sale	-			668		
Total gross loans held for investment	576,268			628,099		
Plus (less) for:						
Deferred loan origination costs (fees) and premiums (discounts)	(779)			252		
Allowance for loan losses	(8,905)			(5,881)		
Loans held for investment, net	$566,584			$622,470		

(1) Includes second trust deeds.
(2) Secured by real estate.

Loan Portfolio Characteristics. In general, the Company does not require regular updates of collateral valuations for non-homogeneous loans that are not classified as potential problem or problem loans. However, updated valuations are obtained for collateral securing non-homogeneous loans that are identified as potential problem loans at least every twenty-four months. Updated collateral valuations may be required more frequently at the discretion of the Company's management or for loans identified as impaired in accordance with the Company's allowance for loan loss ("ALLL") policy. Market values may be substantiated by obtaining an appraisal or an appropriate evaluation by the Company's Chief Appraiser. At December 31, 2012, 13% of multi-family, 32% of commercial non-owner occupied and 30% of commercial owner occupied loans had current updated collateral valuations within the last twenty-four months.

The following table sets forth by loan category our average loan size, months of seasoning, loan-to-value ratio (the proportion of the principal amount of the loan to the most current market value of the collateral property) and debt coverage ratio (the proportion of the property's annual net operating income to its annual debt service, which includes principal and interest payments) at the date indicated.

	At December 31, 2012			
	Average			
	Loan Size	Seasoning (months)	Loan-to-Value Ratio	Debt Coverage Ratio
	(dollars in thousands)			
Real estate loans:				
Multi-family	$ 954	65	66 %	1.27
Commercial non-owner occupied	1,128	54	58 %	1.55
One-to-four family	255	28	56 %	N/A
Land	439	64	134 %	N/A
Business loans:				
Commercial owner occupied	671	59	63 %	N/A
Commercial and industrial	328	36	N/A	N/A
Warehouse facilities	15,303	14	N/A	N/A
SBA	209	11	N/A	N/A

Other loans	10	27	N/A	N/A

Loan Maturity. For our commercial real estate and business loans, repayment typically depends on the successful operation of the businesses or the properties securing the loans. Several months before a loan matures, our portfolio managers contact our borrowers to obtain personal and/or business financial and operations data and property information for review. When deemed appropriate, business and property visits are made to assess the borrower's revenue-generating activities and to perform inspections of our collateral. This information is reviewed and evaluated for indications of potential payoff issues prior to maturity. If potential issues are discovered, our portfolio managers work on a strategy with the borrower well in advance of the loan maturing in order to maximize the benefit to the Company. At December 31, 2012, we had $75.8 million or 7.7% of total gross loans held for investment that were due to mature in one year or less, primarily in our C&I loan category totaling of $64.7 million.

The following table does not reflect prepayment assumptions, but rather shows the contractual maturity of the Company's loans at the date indicated:

	At December 31, 2012									
	Multi-Family	Commerical Non Owner Occupied	One-to-Four Family	Land	Commercial Owner Occupied	Commercial and Industrial	Warehouse	SBA	Other Loans	Total
	(in thousands)									
Amounts due										
One year or less	$-	$1,335	$1,429	$2,485	$5,391	$64,653	$-	$32	$457	$75,782
More than one year to three years	1,377	39,441	1,937	2,818	8,554	18,830	-	39	22	73,018
More than three years to five years	3,398	45,181	6,335	2,783	27,912	7,378	-	251	144	93,382
More than five years to 10 years	4,711	63,387	2,749	514	29,177	16,409	-	1,679	-	118,626
More than 10 years to 20 years	3,680	38,193	9,687	174	33,611	5,465	-	-	439	91,249
More than 20 years	143,258	65,872	75,326	-	46,289	2,619	195,761	4,881	131	534,137
Total gross loans	156,424	253,409	97,463	8,774	150,934	115,354	195,761	6,882	1,193	986,194
Plus (less) for										
Deferred loan origination (fees) costs	(48)	(79)	(30)	(3)	(47)	(36)	(61)	(2)	-	(306)
Allowance for loan losses	(1,145)	(1,459)	(862)	(31)	(1,512)	(1,310)	(1,544)	(79)	(52)	(7,994)

(allocated)										
Total loans, net	155,231	251,871	96,571	8,740	149,375	114,008	194,156	6,801	1,141	977,894
Loans held for sale, net	-	-	3,681	-	-	-	-	-	-	3,681
Loans held for investment, net	$155,231	$251,871	$92,890	$8,740	$149,375	$114,008	$194,156	$6,801	$1,141	$974,213

The following table sets forth at December 31, 2012 the dollar amount of gross loans receivable contractually due after December 31, 2013 and whether such loans have fixed interest rates or adjustable interest rates.

	At December 31, 2012 Loans Due After December 31, 2013		
	Fixed	Adjustable	Total
		(in thousands)	
Real estate loans:			
Multi-family	$757	$155,667	$156,424
Commercial non-owner occupied	42,744	209,330	252,074
One-to-four family	18,210	77,824	96,034
Land	2,216	4,073	6,289
Business loans:			
Commercial owner occupied	54,504	91,039	145,543
Commercial and industrial	9,544	41,157	50,701
Warehouse facilities	-	195,761	195,761
SBA	1,764	5,086	6,850
Other loans	702	34	736
Total gross loans	$130,441	$779,971	$910,412

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

	For the Year Ended December 31,				
	2012	2011	2010	2009	2008
			(in thousands)		
	$739,254	$567,644	$576,268	$628,767	$626,692

Beginning balance of gross loans					
Loans originated:					
Real estate loans:					
Multi-family	24,822	4,318	-	494	34,166
Commercial non-owner occupied	55,347	18,140	-	-	33,058
One-to-four family	20,197	6,085	-	200	250
Business loans:					
Commercial owner occupied	27,549	1,838	600	365	5,375
Commercial and industrial	42,152	33,209	28,030	4,249	17,512
Warehouse facilities	193,668	62,750	35,500	-	-
SBA	8,639	4,309	2,322	1,150	907
Other loans	1,772	65	5,183	958	1,215
Total loans originated	374,146	130,714	71,635	7,416	92,483
Loans purchased:					
Multi-family	3,690	3,075	-	4,051	4,577
Commercial non-owner occupied	62,601	39,963	2,579	-	9,305
Commercial owner occupied	11,786	67,359	26,380	-	53,710
Commercial and industrial	5,033	28,536	745	-	-
One-to-four family	38,588	28,987	-	-	-
Construction	198	5,592	-	-	-
Land	5,395	9,414	-	-	-
Other loans	2,256	21,995	9,884	-	-
Total loans purchased	129,547	204,921	39,588	4,051	67,592
Total loan production	503,693	335,635	111,223	11,467	160,075
Total	1,242,947	903,279	687,491	640,234	786,767
Plus (less) for:					
Principal repayments	(184,580)	(100,671)	(61,983)	(56,808)	(161,352)
Change in Canyon National mark-to-market	1,862	3,233	-	-	-

discount					
Change in Palm Dessert National mark-to-market discount	6,651				
Change in undisbursed loan funds	(47,803)	(15,377)	(21,984)	4,701	10,854
Sales of loans	(28,217)	(42,201)	(29,977)	(2,515)	(6,235)
Charge-offs	(1,515)	(4,014)	(2,339)	(4,811)	(1,174)
Transfer to other real estate owned	(3,151)	(4,995)	(3,564)	(4,533)	(93)
Total gross loans	986,194	739,254	567,644	576,268	628,767
Less ending balance loans held for sale, gross	3,681	-	-	-	668
Ending balance loans held for investment, gross	$982,513	$739,254	$567,644	$576,268	$628,099

(1) Gross loans includes loans held for investment and loans held for sale.

(2) Includes second trust deeds.

Delinquent Loans. When a borrower fails to make required payments on a loan and does not cure the delinquency within 30 days, we normally record a notice of default and, after providing the required notices to the borrower, commence foreclosure proceedings. If the loan is not reinstated within the time permitted by law, we may sell the property at a foreclosure sale. At these foreclosure sales, we generally acquire title to the property. At December 31, 2012, loans delinquent 60 or more days as a percentage of total gross loans was 0.08%, down from 0.68% at year-end 2011.

The following table sets forth delinquencies in the Company's loan portfolio at the dates indicated:

	30 - 59 Days		60 - 89 Days		90 Days or More (1)		Total	
	# of Loans	Principal Balance of Loans	# of Loans	Principal Balance of Loans	# of Loans	Principal Balance of Loans	# of Loans	Principal Balance of Loans
	(dollars in thousands)							

At December 31, 2012								
Real estate loans:								
One-to-four family	2	$ 101	-	$ -	2	$ 79	4	180
Business loans:								
Commercial owner occupied	-	-	1	245	-	-	1	245
Commercial and industrial	-	-	1	58	1	218	2	276
SBA	-	-	-	-	4	185	4	185
Other	1	5	-	-	-	-	1	5
Total	3	$ 106	2	$ 303	7	$ 482	12	$ 891
Delinquent loans to total gross loans		0.01 %		0.03 %		0.05 %		0.09 %
At December 31, 2011								
Real estate loans:								
Multi-family	-	$ -	-	$ -	-	$ -	-	-
Commercial non-owner occupied	1	434	-	-	3	1,244	4	1,678
One-to-four family	4	201	-	-	2	323	6	524
Land	-	-	1	617	1	52	2	669
Business loans:								
Commercial owner occupied	-	-	-	-	3	919	3	919
Commercial and industrial	1	12	-	-	4	1,057	5	1,069
SBA	1	49	1	113	8	665	10	827
Other	2	3	1	1	-	-	3	4
Total	9	$ 699	3	$ 731	21	$ 4,260	33	$ 5,690
Delinquent loans to total gross loans		0.09 %		0.10 %		0.58 %		0.77 %
At December 31, 2010								

Real estate loans:											
Multi-family	-	$ -		-	$ -		-	$ -		-	-
Commercial non-owner occupied	2	617		-	-		-	-		2	617
One-to-four family	3	402		1	17		1	20		5	439
Business loans:											
Commercial owner occupied	1	184		-	-		3	2,225		4	2,409
SBA	-	-		-	-		7	846		7	846
Total	6	$ 1,203		1	$ 17		11	$ 3,091		18	$ 4,311
Delinquent loans to total gross loans		0.21	%		0.00	%		0.54	%		0.76 %
At December 31, 2009											
Real estate loans:											
Multi-family	1	$ 3,150		-	$ -		3	$ 2,073		4	$ 5,223
Commercial non-owner occupied	1	694		-	-		1	1,851		2	2,545
One-to-four family	3	44		-	-		4	97		7	141
Business loans:											
Commercial owner occupied	-	-		-	-		2	996		2	996
SBA	1	69		1	52		3	463		5	584
Other	1	18		-	-		-	-		1	18
Total	7	$ 3,975		1	$ 52		13	$ 5,480		21	$ 9,507
Delinquent loans to total gross loans		0.69	%		0.01	%		0.95	%		1.65 %
At December 31, 2008											
Real estate loans:											
Multi-family	-	$ -		-	$ -		1	$ 350		1	$ 350
Commercial non-owner occupied	1	1,062		1	317		1	638		3	2,017
	4	129		2	32		8	637		14	798

One-to-four family								
Land	-	-	-	-	1	2,550	1	2,550
Business loans:								
SBA	1	216	-	-	2	127	3	343
Total	6	$ 1,407	3	$ 349	13	$ 4,302	22	$ 6,058
Delinquent loans to total gross loans		0.22 %		0.06 %		0.68 %		0.96 %

(1) All 90 day or greater delinquencies are on nonaccrual status and are reported as part of nonperforming loans.

Allowance for Loan Losses. We maintain an ALLL to absorb losses inherent in the loans held for investment portfolio at the balance sheet date. Management evaluates the adequacy of the allowance quarterly to maintain the allowance at levels sufficient to provide for these inherent losses. The ALLL is reported as a reduction of loans held for investment. The allowance is increased by a provision for loan losses which is charged to expense and reduced by charge-offs, net of recoveries. Loans held for sale are carried at the lower of amortized cost or fair value. Net unrealized losses, if any, are recorded in current earnings.

The federal banking agencies adopted an interagency policy statement on the ALLL. The policy statement provides guidance for financial institutions on both the responsibilities of management for the assessment and establishment of adequate allowances and guidance for banking agency examiners to use in determining the adequacy of general valuation allowances. Generally, the policy statement recommends that institutions establish and maintain effective systems and controls to identify, monitor and address asset quality problems; that management analyzes all significant factors that affect the collectability of the portfolio in a reasonable manner; and that management establishes acceptable allowance evaluation processes that meet the objectives set forth in the policy statement. Federal regulations require that the Bank utilize an internal asset classification system to identify and report problem and potential problem assets. The Bank's Chief Credit Officer has responsibility for identifying and reporting problem assets to the Bank's Credit and Investment Review Committee ("CIRC"), which operates pursuant to the board-approved CIRC policy. The policy incorporates the regulatory requirements of monitoring and classifying all of our assets.

We separate our assets, largely loans, by type, and we use various asset classifications to segregate the assets into various risk categories. We use the various asset classifications as a means of measuring risk for determining the valuation allowance for groups and individual assets at a point in time. Currently, we designate our assets into a category of "Pass", "Special Mention", "Substandard", "Doubtful" or "Loss." A brief description of these classifications follows:

- Pass classifications represent assets with a level of credit quality which contain no well-defined deficiency or weakness.
- Special Mention assets do not currently expose the Bank to a sufficient risk to warrant classification in one of the adverse categories, but possess correctable deficiency or potential weaknesses deserving management's close attention.
- Substandard assets are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. These assets are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. Other real estate owned ("OREO") acquired from foreclosure is also classified as substandard.
- Doubtful credits have all the weaknesses inherent in substandard credits, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values,

highly questionable and improbable.
- Loss assets are those that are considered uncollectible and of such little value that their continuance as assets is not warranted. Amounts classified as loss are promptly charged off.

Our determination as to the classification of assets and the amount of valuation allowances necessary are subject to review by bank regulatory agencies, which can order a change in a classification or an increase to the allowance. While we believe that an adequate allowance for estimated loan losses has been established, there can be no assurance that our regulators, in reviewing assets including the loan portfolio, will not request us to materially increase our allowance for estimated loan losses, thereby negatively affecting our financial condition and earnings at that time. In addition, actual losses are dependent upon future events and, as such, further increases to the level of allowances for estimated loan losses may become necessary.

The Company's CIRC reviews the Portfolio Management Department's recommendations for classifying our assets monthly and reports the results of our review to the board of directors. At December 31, 2012, we had $35.2 million of assets classified as substandard, compared to $23.6 million at December 31, 2011. The increase primarily consists of $10.6 million of loans and $1.0 million of OREO.

The following tables set forth information concerning substandard assets at the dates indicated:

	At December 31, 2012							
	Loans		OREO		Securities		Total Substandard Assets	
	Gross Balance	# of Loans	Balance	# of Properties	Fair Value	# of Securities	Balance	# of Assets
	(dollars in thousands)							
Real estate loans:								
Multi-family	$ 1,838	3	$ -	-	$ --	--	$ 1,838	3
Commercial non-owner occupied	12,137	14	-	-	--	--	12,137	14
One-to-four family	1,402	13	-	-	--	--	1,402	13
Land	12	1	2,258	4	--	--	2,270	5
Business loans:								
Commercial owner occupied	11,930	26	-	-	--	--	11,930	26
Commercial and industrial	3,367	16	-	-	--	--	3,367	16
SBA	63	6	-	-	--	--	63	6
Other	16	1	-	-	--	--	16	1
Securities	--	--	--	--	2,210	47	2,210	47
Total substandard assets	$ 30,765	80	$ 2,258	4	$ 2,210	47	$ 35,233	131

	At December 31, 2011							
	Loans		OREO		Securities		Total Substandard Assets	
	Gross Balance	# of Loans	Balance	# of Properties	Fair Value	# of Securities	Balance	# of Assets
	(dollars in thousands)							
Real estate loans:								
Multi-family	$ 4,067	5	$ -	-	$ --	--	$ 4,067	5
Commercial non-owner occupied	3,614	8	341	1	--	--	3,955	9
One-to-four family	2,342	13	212	2	--	--	2,554	15
Land	52	1	678	4	--	--	730	5
Business loans:								
Commercial owner occupied	7,635	17	-	-	--	--	7,635	17
Commercial and industrial	2,197	13	-	-	--	--	2,197	13
SBA	179	13	-	-	--	--	179	13
Other	38	1	-	-	--	--	38	1
Securities	--	--	--	--	2,229	53	2,229	53
Total substandard assets	$ 20,124	71	$ 1,231	7	$ 2,229	53	$ 23,584	131

In determining the ALLL, we evaluate loan credit losses on an individual basis in accordance with FASB ASC 310, Accounting by Creditors for Impairment of a Loan, and on a collective basis based on FASB ASC 450, Accounting for Contingencies. For loans evaluated on an individual basis, we analyze the borrower's creditworthiness, cash flows and financial status, and the condition and estimated value of the collateral. Loans evaluated individually that are deemed to be impaired are separated from our collective credit loss analysis.

Unless an individual borrower relationship warrants a separate analysis, the majority of our loans are evaluated for credit losses on a collective basis through a quantitative analysis to arrive at base loss factors that are adjusted through a qualitative analysis for internal and external identified risks. The adjusted factor is applied against the loan risk category to determine the appropriate allowance. Our base loss factors are calculated using our trailing twenty-four month and annualized trailing six-month actual charge-off data for all loan types except (1) loans fully secured by cash deposits, the guaranteed portion of SBA loans and FHA/VA guaranteed 1st trust deed loans, for which there is no loss exposure, (2) certain loan segments for which we have no recent loss experience and for which we rely on charge-off data for all FDIC insured commercial banks and savings institutions based in California, and (3) negative deposit accounts. Then adjustments for the following internal and external risk factors are added to the base factors:

Internal Factors

- Changes in lending policies and procedures, including underwriting standards and collection, charge-offs, and recovery practices;

- Changes in the nature and volume of the loan portfolio and the terms of loans, as well as new types of lending;
- Changes in the experience, ability, and depth of lending management and other relevant staff that may have an impact on our loan portfolio;
- Changes in the volume and severity of past due and classified loans, and in the volume of non-accruals, troubled debt restructurings, and other loan modifications;
- Changes in the quality of our loan review system and the degree of oversight by our board of directors; and
- The existence and effect of any concentrations of credit and changes in the level of such concentrations.

External Factors

- Changes in national, state and local economic and business conditions and developments that affect the collectability of the portfolio, including the condition of various market segments (includes trends in real estate values and the interest rate environment);
- Changes in the value of the underlying collateral for collateral-dependent loans; and
- The effect of external factors, such as competition, legal developments and regulatory requirements on the level of estimated credit losses in our current loan portfolio.

The factor adjustments for each of the nine above-described risk factors are determined by the Chief Credit Officer and approved by the CIRC on a quarterly basis.

The ALLL factors are reviewed for reasonableness against the 10-year average, 15-year average, and trailing twelve month total charge-off data for all FDIC insured commercial banks and savings institutions based in California. Given the above evaluations, the amount of the ALLL is based upon the total loans evaluated individually and collectively.

As of December 31, 2012, the ALLL totaled $8.0 million, down $528,000 from December 31, 2011 and $885,000 from December 31, 2010. At December 31, 2012, the ALLL as a percent of nonperforming loans was 362.4%, compared with 139.9% at December 31, 2011 and 270.9% at December 31, 2010. At December 31, 2012, the ALLL as a percent of gross loans was .81%, down from 1.15% at December 31, 2011 and 1.56% at December 31, 2010. The decrease in the current year ratio was primarily related to the Palm Desert National Acquisition and our acquisition of Canyon National Bank from the FDIC as receiver in February 2011 both of which added a substantial amount of loans to the portfolio at a fair market value discount, which included a credit valuation component not included in the ALLL. At December 31, 2012, management deems the ALLL to be sufficient to provide for inherent losses within the loan portfolio.

The following table sets forth the activity in the Company's ALLL for the periods indicated:

	For the Year Ended December 31,				
	2012	2011	2010	2009	2008
	(dollars in thousands)				
Allowance for Loan Losses					
Balance at beginning of period	$ 8,522	$ 8,879	$ 8,905	$ 5,881	$ 4,598
ALLL Transfer In *	-	-	-	-	8
Provision for loan losses	751	3,255	2,092	7,735	2,241

Charge-offs:					
Real estate:					
Multi-family	-	489	334	1,527	-
Commercial non-owner occupied	88	43	512	317	-
One-to-four family	371	1,408	123	125	226
Land	145	164	-	-	-
Business loans:					
Commercial owner occupied	265	307	264	59	-
Commercial and industrial	512	1,285	708	1,409	-
SBA	132	90	398	906	948
Other loans	2	228	-	468	-
Total charge-offs	1,515	4,014	2,339	4,811	1,174
Recoveries:					
Real estate:					
Commercial non-owner occupied	21	-	-	-	-
One-to-four family	8	142	40	26	88
Business loans:					
Commercial and industrial	2	9	13	4	-
SBA	163	211	154	31	-
Other loans	42	17	14	39	120
Total recoveries	236	402	221	100	208
Net loan charge-offs	1,279	3,612	2,118	4,711	966
Balance at end of period	$ 7,994	$ 8,522	$ 8,879	$ 8,905	$ 5,881
Ratios					
Net charge-offs to average net loans	0.16 %	0.53 %	0.39 %	0.79 %	0.16 %
Allowance for loan losses to gross loans	0.81 %	1.15 %	1.56 %	1.55 %	0.94 %

at end of period

* Note: Represents the addition of valuation reserves for overdrafts that were previously held outside of the General Allowance.

The following table sets forth the Company's ALLL and the percent of gross loans to total gross loans in each of the categories listed and the allowance as a percentage of the loan category balance at the dates indicated:

	At December 31,								
	2012			2011			2010		
Balance at End of Period Applicable to	Amount	% of Loans in Category to Total Loans	Allowance as a % of Loan Category Balance	Amount	% of Loans in Category to Total Loans	Allowance as a % of Loan Category Balance	Amount	% of Loans in Category to Total Loans	Allowance as a % of Loan Category Balance
	(dollars in thousands)								
Real estate loans:									
Multi-family	$ 1,145	15.9 %	0.73 %	$ 2,281	26.2 %	1.18 %	$ 2,729	42.9 %	1.12 %
Commercial non-owner occupied	1,459	25.6 %	0.58 %	1,287	22.2 %	0.78 %	1,580	22.9 %	1.21 %
One-to-four family	862	9.9 %	0.88 %	931	8.1 %	1.55 %	332	3.6 %	1.63 %
Construction	-	0.0 %	0.00 %	-	0.0 %	0.00 %	-	0.0 %	0.00 %
Land	31	0.9 %	0.35 %	39	0.9 %	0.61 %	-	0.0 %	0.00 %
Business loans:									
Commercial owner occupied	1,512	15.3 %	1.00 %	1,119	20.6 %	0.73 %	1,687	20.0 %	1.49 %
Commercial and industrial	1,310	11.7 %	1.14 %	1,361	11.7 %	1.57 %	2,018	7.5 %	4.80 %
Warehouse facilities	1,544	19.9 %	0.79 %	1,347	9.1 %	2.00 %	338	2.2 %	2.68 %
SBA	79	0.7 %	1.15 %	80	0.7 %	1.69 %	145	0.7 %	3.55 %
Other Loans	52	0.1 %	4.36 %	77	0.5 %	2.27 %	50	0.2 %	3.53 %
Total	$ 7,994	100.0 %	0.81 %	$ 8,522	100.0 %	1.15 %	$ 8,879	100.0 %	1.56 %

		2009			2008	
Balance at End of Period	Amount	% of Loans in	Allowance as a % of	Amount	% of Loans in	Allowance as a % of

Applicable to		Category to Total Loans	Loan Category Balance		Category to Total Loans	Loan Category Balance
			(dollars in thousands)			
Real estate loans:						
Multi-family	$ 3,386	48.4 %	1.21 %	$ 1,958	45.7 %	0.68 %
Commercial non-owner occupied	1,602	26.0 %	1.07 %	1,373	26.0 %	0.84 %
One-to-four family	272	1.5 %	3.20 %	231	1.6 %	2.33 %
Construction	-	0.0 %	0.00 %	78	0.4 %	2.85 %
Land	-	0.0 %	0.00 %	-	0.4 %	0.00 %
Business loans:						
Commercial owner occupied	907	17.9 %	0.88 %	935	17.9 %	0.83 %
Commercial and industrial	2,410	5.4 %	7.75 %	1,123	6.9 %	2.60 %
Warehouse facilities	-	0.0 %	0.00 %	-	0.0 %	0.00 %
SBA	326	0.5 %	9.77 %	177	0.8 %	3.58 %
Other Loans	2	0.3 %	0.10 %	6	0.3 %	0.31 %
Total	$ 8,905	100.0 %	1.55 %	$ 5,881	100.0 %	0.94 %

The following table sets forth the ALLL amounts calculated by the categories listed at the dates indicated:

	At December 31,									
	2012		2011		2010		2009		2008	
Balance at End of Period Applicable to	Amount	% of Allowance to Total	Amount	% of Allowance to Total	Amount	% of Allowance to Total	Amount	% of Allowance to Total	Amount	% of Allowance to Total
					(dollars in thousands)					
Allocated allowance	$7,994	100.0%	$8,522	100.0%	$8,832	99.5 %	$8,905	100.0%	$5,881	100.0%
Specific allowance	-	0.0 %	-	0.0 %	47	0.5 %	-	0.0 %	-	0.0 %
Total	$7,994	100.0%	$8,522	100.0%	$8,879	100.0%	$8,905	100.0%	$5,881	100.0%

Investment Activities

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

Our investment securities portfolio amounted to $95.3 million at December 31, 2012, as compared to $128.1 million at December 31, 2011, representing a 25.6% decrease. As of December 31, 2012, the portfolio consisted of $54.8 million in government sponsor enterprises ("GSE") MBS, $26.6 million in municipal bonds, $2.5 million of private label MBS, $159,000 in U.S. Treasuries, $9.2 million of FHLB stock, and $2.0 million of stock of the Federal Reserve Bank of San Francisco (the "Federal Reserve Bank"). At December 31, 2012, we had an estimated par value of $43.4 million of the GSE securities that were pledged as collateral for the Company's $28.5 million of inverse putable reverse repurchase agreements.

All of our $26.6 million municipal bond securities in our portfolio have an underlying rating of investment grade with the majority insured by the largest bond insurance companies to bring each of these securities to a Moody's A+ rating or better. The Company has only purchased general obligation bonds that are risk-weighted at 20% for regulatory capital purposes. The Company has reduced its exposure to any single adverse event by holding securities from geographically diversified municipalities. We are continually monitoring the quality of our municipal bond portfolio in light of the current financial conditions. To our knowledge, none of the municipalities in which we hold bonds are exhibiting financial problems that would require us to record an OTTI charge.

In June 2008, the Company redeemed its shares in two AMF mutual funds it owned and received a pro rata distribution in kind of the securities held by the mutual funds. As of December 31, 2012, what is left of these securities represents the entire private label MBS holdings of $2.5 million in our securities portfolio. For 2012, the Company took OTTI charges of $159,000, compared with $617,000 in 2011 and $1.1 million in 2010, all of which were related to the private label MBS received from these mutual funds.

Below is a table of our securities by security type further separated by rating agency grade at the date indicated:

			At December 31, 2012			
Security Type	Ratings	Number	Face Value	Amortized Cost	Unrealized Gain/(Loss)	Fair Value
			(dollars in thousands)			
U.S. Treasury	AAA	2	$146	$147	$12	$159
Municipal bonds	AAA/AA	49	24,800	25,401	1,185	26,586
Government Sponsored Enterprise	AAA	45	52,504	54,301	538	54,839
Private Label:						
Investment Grade	AA-BBB	9	266	264	(4)	260
Non-investment Grade *	Below BBB	47	4,194	2,076	146	2,222
Total investment securities available for sale		152	$81,910	$82,189	$1,877	$84,066

* Non-investment grade includes all ratings below BBB.

The following table sets forth the amortized costs and fair values of the Company's investment securities available for sale and stock at the dates indicated:

	At December 31,					
	2012		2011		2010	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in thousands)					
Investment securities available for sale						
U.S. Treasury	$147	$159	$147	$162	$148	$159
Municipal bonds	25,401	26,586	23,354	24,139	20,555	19,759
Mortgage-backed securities *	56,641	57,321	91,605	91,344	135,944	135,176
Total investment securities available for sale	82,189	84,066	115,106	115,645	156,647	155,094
Stock						
FHLB	9,228	9,228	10,456	10,456	11,315	11,315
Federal Reserve Bank	2,019	2,019	2,019	2,019	2,019	2,019
Total stock	11,247	11,247	12,475	12,475	13,334	13,334
Total securities	$93,436	$95,313	$127,581	$128,120	$169,981	$168,428
* GSE securities % of total investments for sale	66.1 %	65.2 %	76.8 %	76.7 %	83.2 %	84.1 %

The following table sets forth the fair values and weighted average yields on our investment securities available for sale portfolio and stock by contractual maturity at the date indicated.

	At December 31, 2012									
	One Year or Less		More than One Year to Five Years		More than Five Years to Ten Years		More than Ten Years		Total	
	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield
	(dollars in thousands)									
Investment securities available for sale										
U.S. Treasury	$73	3.51%	$86	4.15%	$-	0.00%	$-	0.00%	$159	3.84%

Municipal bonds	-	0.00%	-	0.00%	774	3.04%	25,812	3.06%	26,586	3.20%
Mortgage-backed securities	-	0.00%	73	5.08%	3,715	1.06%	53,533	1.77%	57,321	1.75%
Total investment securities available for sale	73	3.51%	159	4.58%	4,489	1.40%	79,345	2.19%	$84,066	2.20%
Stock										
FHLB	9,228	0.00%	-	0.00%	-	0.00%	-	0.00%	9,228	0.00%
Federal Reserve Bank	2,019	6.00%	-	0.00%	-	0.00%	-	0.00%	2,019	6.00%
Total stock	11,247	1.08%	-	0.00%	-	0.00%	-	0.00%	$11,247	1.08%
Total securities	$11,320	1.09%	$159	4.58%	$4,489	1.40%	$79,345	2.19%	$95,313	2.06%

Nonperforming Assets. Nonperforming assets consist of loans on which we have ceased accruing interest (nonaccrual loans), loans restructured at an interest rate below market and OREO. Nonaccrual loans consisted of all loans 90 days or more past due and on loans where, in the opinion of management, there is reasonable doubt as to the collection of principal and interest. A “restructured loan” is one where the terms of the loan were renegotiated to provide a reduction or deferral of interest or principal because of deterioration in the financial position of the borrower. We did not include in interest income any interest on restructured loans during the periods presented. At December 31, 2012, we had $4.5 million of nonperforming assets, which consisted of $2.2 million of net nonperforming loans and $2.3 million of OREO. At December 31, 2011, we had $7.3 million of nonperforming assets, which consisted of $6.1 million of nonperforming loans and $1.2 million of OREO.

At December 31, 2012, OREO consisted of four land properties, compared to four land, one commercial real estate and two residential one-to-four family properties at December 31, 2011. Properties acquired through or in lieu of foreclosure are recorded at fair value less cost to sell. The Company generally obtains an appraisal and/or a market evaluation on all OREO prior to obtaining possession. After foreclosure, valuations are periodically performed by management as needed due to changing market conditions or factors specifically attributable to the property’s condition. If the carrying value of the property exceeds its fair value less estimated cost to sell, the asset is written down and a charge to operations is recorded.

We recognized loan interest income on nonperforming loans of $259,000 in 2012, $243,000 in 2011 and $264,000 in 2010. If these loans had paid in accordance with their original loan terms, we would have recorded additional loan interest income of $405,000 in 2012, $413,000 in 2011 and $600,000 in 2010.

The following table sets forth composition of nonperforming assets at the date indicated:

	At December 31,				
	2012	2011	2010	2009	2008
	(dollars in thousands)				
Nonperforming assets					
Real estate loans:					
Multi-family	$ 266	$ 293	$ -	$ 5,223	$ 350
Commercial non-owner occupied	670	1,495	-	1,851	3,188
One-to-four family	522	323	27	107	637
Land	127	52	-	-	-

Business loans:					
Commercial owner occupied	14	2,053	2,225	996	-
Commercial and industrial	347	1,177	54	955	-
SBA (1)	260	700	971	880	1,025
Total nonaccrual loans	2,206	6,093	3,277	10,012	5,200
Foreclosures in process	-	-	-	-	-
Specific allowance	-	-	-	-	-
Total nonperforming loans, net	2,206	6,093	3,277	10,012	5,200
Other real estate owned	2,258	1,231	34	3,380	37
Total nonperforming assets, net	$ 4,464	$ 7,324	$ 3,311	$ 13,392	$ 5,237
Allowance for loan losses	$ 7,994	$ 8,522	$ 8,879	$ 8,905	$ 5,881
Allowance for loan losses as a percent of total nonperforming loans, gross	362.38 %	139.87 %	270.95 %	88.94 %	113.10 %
Nonperforming loans, net of specific allowances, as a percent of gross loans receivable (2)	0.22 %	0.82 %	0.58 %	1.74 %	0.83 %
Nonperforming assets, net of specific allowances, as a percent of total assets	0.38 %	0.76 %	0.40 %	1.66 %	0.71 %

(1) The SBA totals include the guaranteed amount, which was $185,000 as of December 31, 2012.
(2) Gross loans include loans receivable held for investment and held for sale.

It is our policy to take appropriate, timely and aggressive action when necessary to resolve nonperforming assets. When resolving problem loans, it is our policy to determine collectability under various circumstances which are intended to result in our maximum financial benefit. We accomplish this by working with the borrower to bring the loan current, selling the loan to a third party or by foreclosing and selling the asset.

Sources of Funds

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

Deposits. Deposits represent our primary source of funds for our lending and investing activities. The Company offers a variety of deposit accounts with a range of interest rates and terms. The deposit accounts are offered through our ten branch network in Southern California. The Company's deposits consist of checking accounts, money market accounts, passbook savings, and certificates of deposit. Total deposits at December 31, 2012 were $904.8 million, compared to $828.9 million at December 31, 2011. At December 31, 2012, certificates of deposit constituted 39.9% of total deposits, compared to 51.7% at the year-end 2011. The terms of the fixed-rate certificates of deposit offered by the Company vary from three months to five years. Specific terms of an individual account vary according to the type of account, the minimum balance required, the time period funds must remain on deposit and the interest rate, among other factors. The flow of deposits is influenced significantly by general economic conditions, changes in money market rates, prevailing interest rates and competition. At December 31, 2012, the Company had $285.3 million of certificate of deposit accounts maturing in one year or less.

The Company relies primarily on customer service, sales and marketing efforts, business development, cross-selling of deposit products to loan customers, and long-standing relationships with customers to attract and retain local deposits. However, market interest rates and rates offered by competing financial institutions significantly affect the Company's ability to attract and retain deposits. Additionally, from time to time, the Company will utilize both wholesale and brokered deposits to supplement its generation of deposits from businesses and consumers. At December 31, 2012, we had no wholesale or broker deposits.

The following table presents the deposit activity for the periods indicated:

	For the Year Ended December 31,		
	2012	2011	2010
	(in thousands)		
Net deposits	$ 70,111	$ 161,428	$ 30,962
Interest credited on deposit accounts	5,780	8,209	9,544
Total increase in deposit accounts	$ 75,891	$ 169,637	$ 40,506

The following table sets forth the distribution of the Company's deposit accounts at the dates indicated and the weighted average interest rates on each category of deposits presented:

At December 31,		
2012	2011	2010

	Balance	% of Total Deposits	Weighted Average Rate	Balance	% of Total Deposits	Weighted Average Rate	Balance	% of Total Deposits	Weighted Average Rate
				(dollars in thousands)					
Transaction accounts:									
Non-interest bearing checking	$213,636	23.6 %	0.00%	$112,313	13.5 %	0.00%	$47,229	7.2 %	0.00%
Interest bearing checking	14,299	1.6 %	0.10%	63,620	7.7 %	0.23%	21,137	3.2 %	0.14%
Money market	236,206	26.1 %	0.32%	132,509	16.0 %	0.66%	113,333	17.2 %	0.97%
Regular passbook	79,420	8.8 %	0.22%	91,747	11.1 %	0.50%	68,559	10.4 %	0.96%
Total transaction accounts	543,561	60.1 %	0.19%	400,189	48.3 %	0.37%	250,258	38.0 %	0.72%
Certificates of deposit accounts:									
Less than 1.00%	147,813	16.3 %	0.58%	87,191	10.5 %	0.68%	46,528	7.1 %	0.46%
1.00 - 1.99	197,554	21.8 %	1.16%	263,241	31.8 %	1.34%	172,974	26.2 %	1.61%
2.00 - 2.99	13,439	1.4 %	2.78%	73,744	8.8 %	2.20%	186,173	28.2 %	2.31%
3.00 - 3.99	1,130	0.1 %	3.44%	1,464	0.2 %	3.41%	984	0.1 %	3.24%
4.00 - 4.99	395	0.0 %	4.29%	1,380	0.2 %	4.47%	1,097	0.2 %	4.41%
5.00 - 5.99	876	0.1 %	5.27%	1,668	0.2 %	5.24%	1,226	0.2 %	5.30%
Total certificates of deposit accounts	361,207	39.9 %	1.00%	428,688	51.7 %	1.39%	408,982	62.0 %	1.82%
Total deposits	$904,768	100.0%	0.51%	$828,877	100.0%	0.89%	$659,240	100.0%	1.40%

The following table presents, by various rate categories, the amount of certificates of deposit accounts outstanding and the periods to maturity of the certificate of deposit accounts outstanding at the period indicated:

At December 31, 2012								
Less than 1.00%	1.00% - 1.99%	2.00% - 2.99%	3.00% - 3.99%	4.00% - 4.99%	5.00% and greater	Total	% of Total	Weighted Average Rate
(dollars in thousands)								

Certificates of deposit accounts											
Within 3 months	$23,252	$33,785	$1,433	$4	$104	$32	$58,610	16.2	%	0.96	%
4 to 6 months	21,666	10,343	83	5	-	10	32,107	8.9	%	0.78	%
7 to 12 months	78,207	115,161	342	358	288	186	194,542	53.9	%	0.93	%
13 to 24 months	22,828	36,665	465	97	-	62	60,117	16.6	%	0.97	%
25 to 36 months	833	768	10,949	651	-	110	13,311	3.7	%	2.69	%
37 to 60 months	425	802	81	-	-	369	1,677	0.5	%	2.28	%
Over 60 months	601	30	87	15	2	108	843	0.2	%	1.43	%
Total	$147,812	$197,554	$13,440	$1,130	$394	$877	$361,207	100.0	%	1.00	%

With the enactment of the Dodd-Frank Act deposit insurance coverage was made unlimited for non-interest bearing transaction accounts until December 31, 2012, and thereafter the maximum insurance coverage reverted to $250,000 consistent with all other deposit accounts. At December 31, 2012, the Company had $204.1 million in certificate accounts in amounts of greater than $100,000, and of that amount $55.5 million in certificate accounts in amounts of greater than $250,000 maturing as follows:

	At December 31, 2012								
	$100,000 to $250,000			Greater than $250,000			Total Greater than $100,000		
Maturity Period	Amount	Weighted Average Rate	% of Total Deposits	Amount	Weighted Average Rate	% of Total Deposits	Amount	Weighted Average Rate	% of Total Deposits
	(dollars in thousands)								
Three months or less	$ 26,487	1.00 %	2.93 %	$ 4,487	1.12 %	0.50 %	$ 30,974	1.01 %	3.43 %
Over three months through 6 months	12,235	0.78 %	1.35 %	6,751	1.17 %	0.75 %	18,986	0.92 %	2.10 %
Over 6 months through 12 months	84,829	0.96 %	9.38 %	25,633	0.97 %	2.83 %	110,462	0.96 %	12.21 %
Over 12 months	24,980	1.38 %	2.76 %	18,656	1.07 %	2.06 %	43,636	1.25 %	4.82 %
Total	$ 148,531	1.02 %	16.42 %	$ 55,527	1.04 %	6.14 %	$ 204,058	1.03 %	22.56 %

Borrowings. Borrowings represent a secondary source of funds for our lending and investing activities. The Company has a variety of borrowing relationships that it can draw upon to fund its activities.

FHLB Advances. The FHLB system functions as a source of credit to financial institutions that are members. Advances are secured by certain real estate loans, investment securities, and the capital stock of the FHLB owned by the Company. Subject to the FHLB's advance policies and requirements, these advances can be requested for any business purpose in which the Company is authorized to engage. In granting advances, the FHLB considers a member's creditworthiness and other relevant factors. The Company has a line of credit with the FHLB which provides for advances totaling up to 45% of its assets, equating to a credit line of $488.1 million as of December 31, 2012. At December 31, 2012, the Company had $87.0 million in overnight FHLB advances. At December 31, 2011, the Company had no FHLB advances outstanding.

Other Borrowings. The Company maintains lines of credit to purchase federal funds and a reverse repurchase facility together totaling $109.0 million with seven correspondent banks and has access through the Federal Reserve Bank discount window to borrow $3.3 million to be utilized as business needs dictate. Federal funds purchased and reverse repurchase facilities are short-term in nature and utilized to meet short-term funding needs. As of December 31, 2012, we had no outstanding balance with any of our correspondent banks. Additionally, in 2008 the Company entered into three inverse putable reverse repurchase agreements (the "repurchase agreements") totaling $28.5 million with a weighted average interest rate of 3.26% as of December 31, 2012 secured by GSE MBS totaling an estimated par value of $43.4 million. The terms of each repurchase agreements is for 10 years with the buyers of the repurchase agreements having the option to terminate the repurchase agreements after the fixed interest rate period has expired. The interest rates reset quarterly with the maximum reset rate being 2.89% on one $10.0 million repurchase agreement, 3.47% on the other $10.0 million repurchase agreement, and 3.45% on the $8.5 million repurchase agreement.

Debentures. On March 25, 2004, the Corporation issued $10,310,000 of Floating Rate Junior Subordinated Deferrable Interest Debentures (the "Debt Securities") to PPBI Trust I, a statutory trust created under the laws of the State of Delaware. The Debt Securities are subordinated to effectively all borrowings of the Corporation and are due and payable on April 7, 2034. Interest is payable quarterly on the Debt Securities at three-month LIBOR plus 2.75% for an effective rate of 3.09% as of December 31, 2012.

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

	At or For Year Ended December 31,		
	2012	2011	2010
	(dollars in thousands)		
FHLB advances			
Balance outstanding at end of year	$ 87,000	$ -	$ 40,000
Weighted average interest rate	0.28 %	0.00 %	0.61 %

at end of year								
Average balance outstanding	$	9,154		$	6,630		$	38,178
Weighted average interest rate during the year		0.28	%		0.80	%		4.88 %
Maximum amount outstanding at any month-end during the year	$	87,000		$	35,000		$	63,000
Other borrowings								
Balance outstanding at end of year	$	28,500		$	28,500		$	28,500
Weighted average interest rate at end of year		3.26	%		3.26	%		3.04 %
Average balance outstanding	$	28,500		$	28,500		$	28,500
Weighted average interest rate during the year		3.31	%		3.32	%		3.08 %
Maximum amount outstanding at any month-end during the year	$	28,500		$	28,500		$	28,500
Debentures								
Balance outstanding at end of year	$	10,310		$	10,310		$	10,310
		3.09	%		3.15	%		3.04 %

Weighted average interest rate at end of year			
Average balance outstanding	$ 10,310	$ 10,310	$ 10,310
Weighted average interest rate during the year	3.16 %	3.01 %	3.05 %
Maximum amount outstanding at any month-end during the year	$ 10,310	$ 10,310	$ 10,310
Total borrowings			
Balance outstanding at end of year	$ 125,810	$ 38,810	$ 78,810
Weighted average interest rate at end of year	1.19 %	3.23 %	1.81 %
Average balance outstanding	$ 47,964	$ 45,440	$ 76,988
Weighted average interest rate during the year	2.70 %	2.88 %	3.97 %
Maximum amount outstanding at any month-end during the year	$ 125,810	$ 73,810	$ 101,810

Subsidiaries

At December 31, 2012, we had two operating subsidiaries, the Bank, a wholly-owned consolidated subsidiary with no subsidiaries of its own, and PPBI Trust I, which is a wholly-owned special purpose entity accounted for using the equity method under which the subsidiaries' net earnings are recognized in our operations and the investment in the Trust is included in other assets on our balance sheet. In October 2012, we formed PPBI Interim Corporation as a wholly owned subsidiary of the Bank solely for the purpose of facilitating the acquisition of FAB.

Personnel

As of December 31, 2012, we had 181 full-time employees and two part-time employees. The employees are not represented by a collective bargaining unit and we consider our relationship with our employees to be satisfactory.

Competition

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

The banking business is dominated by a relatively small number of major banks with many offices operating over a wide geographical area. These banks have, among other advantages, the ability to finance wide-ranging and effective advertising campaigns and to allocate their resources to regions of highest yield and demand. Many of the major banks operating in our primary market area offer certain services that we do not offer directly but may offer indirectly through correspondent institutions. By virtue of their greater total capitalization, the major banks also have substantially higher lending limits than those we do.

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

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

In order to compete with these other institutions, the Company primarily relies on local promotional activities, personal relationships established by officers, directors and employees of the Company and specialized services tailored to meet the individual needs of the Company's customers. No assurances can be given that our efforts to compete in our market areas will continue to be successful.

Supervision and Regulation

General. Bank holding companies, such as the Corporation, and banks, such as the Bank, are subject to extensive regulation and supervision by federal and state regulators. Various requirements and restrictions under state and federal law affect our operations, including reserves against deposits, ownership of deposit accounts, loans, investments, mergers and acquisitions, borrowings, dividends, locations of branch offices and capital requirements. The following is a summary of certain statutes and rules applicable to us. This summary is qualified in its entirety by reference to the particular statute and regulatory provision referred to below and is not intended to be an exhaustive description of all applicable statutes and regulations.

As a bank holding company, the Corporation is subject to regulation and supervision by the Federal Reserve. We are required to file with the Federal Reserve quarterly and annual reports and such additional information as the Federal Reserve may require pursuant to the BHCA. The Federal Reserve may conduct examinations of bank holding companies and their subsidiaries. The Corporation is also a bank holding company within the meaning of the California Financial Code (the “Financial Code”). As such, the Corporation and its subsidiaries are subject to examination by, and may be required to file reports with, the DFI.

Under changes made by the Dodd-Frank Act, a bank holding company must act as a source of financial and managerial strength to each of its subsidiary banks and to commit resources to support each such subsidiary bank. In order to fulfill its obligations as a source of strength, the Federal Reserve may require a bank holding company to make capital injections into a troubled subsidiary bank. In addition, the Federal Reserve may charge the bank holding company with engaging in unsafe and unsound practices if the bank holding company fails to commit resources to a subsidiary bank or if it undertakes actions that the Federal Reserve believes might jeopardize the bank holding company’s ability to commit resources to such subsidiary bank. The Federal Reserve also has the authority to require a bank holding company to terminate any activity or to relinquish control of a nonbank subsidiary (other than a nonbank subsidiary of a bank) upon the Federal Reserve’s determination that such activity or control constitutes a serious risk to the financial soundness and stability of any bank subsidiary of the bank holding company.

As a California state-chartered commercial bank, which is a member of the Federal Reserve, the Bank is subject to supervision, periodic examination and regulation by the DFI and the Federal Reserve. The Bank’s deposits are insured by the FDIC through the Deposit Insurance Fund (“DIF”). Pursuant to the Dodd-Frank Act, federal deposit insurance coverage was permanently increased to $250,000 per depositor for all insured depository institutions. As part of the Dodd-Frank Act, federal deposit insurance coverage was temporarily increased to provide unlimited coverage for non-interest bearing transaction accounts, which expired on December 31, 2012. As a result of this deposit insurance function, the FDIC also has certain supervisory authority and powers over the Bank as well as all other FDIC insured institutions. If, as a result of an examination of the Bank, the regulators should determine that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity or other aspects of the Bank’s operations are unsatisfactory or that the Bank or our management is violating or has violated any law or regulation, various remedies are available to the regulators. Such remedies include the power to enjoin unsafe or unsound practices, to require affirmative action to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in capital, to restrict growth, to assess civil monetary penalties, to remove officers and directors and ultimately to request the FDIC to terminate the Bank’s deposit insurance. As a California-chartered commercial bank, the Bank is also subject to certain provisions of California law.

In response to the economic events of the past few years, legislative and regulatory initiatives have been, and is likely to continue to be, introduced and implemented, which could substantially intensify the regulation of the financial services industry. We cannot predict whether or when potential legislation or new regulations will be enacted, and if enacted, the effect that new legislation or any implemented regulations and supervisory policies would have on our financial condition and results of operations. Moreover, bank regulatory agencies can be more aggressive in responding to concerns and trends identified in examinations, which could result in an increased issuance of enforcement actions to financial institutions requiring action to address credit quality, liquidity and risk management and capital adequacy, as well as other safety and soundness concerns.

Dodd-Frank Act

The Dodd-Frank Act, which was signed into law on July 21, 2010, implements far-reaching changes across the financial regulatory landscape, including provisions that, among other things:

- Centralizes responsibility for consumer financial protection by creating a new agency, the Consumer Financial Protection Bureau, responsible for implementing, examining and enforcing compliance with federal consumer financial laws ("CFPB").

- Requires bank holding companies, such as the Corporation, to be well capitalized and well managed as of July 21, 2011. Bank holding companies and banks must also be both well capitalized and well managed in order to engage in interstate bank acquisitions.

- Imposes comprehensive regulation of the over-the-counter derivatives market, which would include certain provisions that would effectively prohibit insured depository institutions from conducting certain derivatives businesses in the institutions themselves.

- Implements corporate governance revisions, including with regard to executive compensation and proxy access by stockholders.

- Made permanent the $250,000 limit for federal deposit insurance and increased the cash limit of Securities Investor Protection Corporation protection from $100,000 to $250,000.

- Repealed the federal prohibitions on the payment of interest on demand deposits, thereby permitting depository institutions to pay interest on business transaction and other accounts.

- Amended the Electronic Fund Transfer Act to, among other things, give the Federal Reserve the authority to establish rules regarding interchange fees charged for electronic debit transactions by payment card issuers having assets over $10 billion and enforces a new statutory requirement that such fees be reasonable and proportional to the actual cost of a transaction to the issuer.

- Increased the authority of the Federal Reserve to examine bank holding companies, such as the Corporation, and their non-bank subsidiaries.

Many aspects of the Dodd-Frank Act are subject to rulemaking and will take effect over several years, making it difficult to anticipate the overall financial impact on the Company, its customers or the financial industry generally. Provisions in the legislation that affect deposit insurance assessments, payment of interest on demand deposits and interchange fees could increase the costs associated with deposits as well as place limitations on certain revenues those deposits may generate.

Activities of Bank Holding Companies. The activities of bank holding companies are generally limited to the business of banking, managing or controlling banks, and other activities that the Federal Reserve has determined to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. Bank holding companies that qualify and register as "financial holding companies" are also able to engage in certain additional financial activities, such as merchant banking and securities and insurance underwriting, subject to limitations set forth in federal law. We are not at this date a "financial holding company."

The BHCA requires a bank holding company to obtain prior approval of the Federal Reserve before: (i) taking any action that causes a bank to become a controlled subsidiary of the bank holding company; (ii) acquiring direct or indirect ownership or control of voting shares of any bank or bank holding company, if the acquisition results in the acquiring bank holding company having control of more than 5% of the outstanding shares of any class of voting securities of such bank or bank holding company, unless such bank or bank holding company is majority-owned by the acquiring bank holding company before the acquisition; (iii) acquiring all or substantially all the assets of a bank; or (iv) merging or consolidating with another bank holding company.

Permissible Activities of the Bank. Because California permits commercial banks chartered by the state to engage in any activity permissible for national banks, the Bank can form subsidiaries to engage in activates "closely related to banking" or "nonbanking" activities and expanded financial activities. However, to form a financial subsidiary, the Bank must be well capitalized and would be subject to the same capital deduction, risk management and affiliate transaction rules as applicable to national banks. Generally, a financial subsidiary is permitted to engage in activities that are "financial in nature" or incidental thereto, even though they are not permissible for the national bank to conduct directly within the bank. The definition of "financial in nature" includes, among other items, underwriting, dealing in or making a market in securities, including, for example, distributing shares of mutual funds. The subsidiary may not, however, engage as principal in underwriting insurance (other than credit life insurance), issue annuities or engage in real estate development or investment or merchant banking.

Incentive Compensation. Federal banking agencies have issued guidance on incentive compensation policies intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking. The guidance, which covers all employees that have the ability to materially affect the risk profile of an organization, is based upon the key principles that a banking organization's incentive compensation arrangements should (i) provide incentives that do not encourage risk-taking beyond the organization's ability to effectively identify and manage risks, (ii) be compatible with effective internal controls and risk management, and (iii) be supported by strong corporate governance, including active and effective oversight by the organization's board of directors.

The Federal Reserve will review, as part of the regular, risk-focused examination process, the incentive compensation arrangements of banking organizations, such as the Company, that are not "large, complex banking organizations." These reviews will be tailored to each organization based on the scope and complexity of the organization's activities and the prevalence of incentive compensation arrangements. The findings of the supervisory initiatives will be included in reports of examination. Deficiencies will be incorporated into the organization's supervisory ratings, which can affect the organization's ability to make acquisitions and take other actions. Enforcement actions may be taken against a banking organization if its incentive compensation arrangements, or related risk-management control or governance processes, pose a risk to the organization's safety and soundness and the organization is not taking prompt and effective measures to correct the deficiencies.

In February 2011, the federal banking agencies approved a joint proposed rulemaking to implement Section 956 of the Dodd-Frank Act, which prohibits incentive-based compensation arrangements that encourage inappropriate risk taking by covered financial institutions (generally institutions that have over $1 billion in assets) and are deemed to be excessive, or that may lead to material losses.

The scope and content of the U.S. banking regulators' policies on executive compensation are continuing to develop and are likely to continue evolving in the near future. It cannot be determined at this time whether compliance with such policies will adversely affect the Company's ability to hire, retain and motivate its key employees.

Capital Requirements. Bank holding companies and banks are subject to various regulatory capital requirements administered by state and federal agencies. These agencies may establish higher minimum requirements if, for example, a banking organization previously has received special attention or has a high susceptibility to interest rate risk. Under federal regulations, bank holding companies and banks must meet the following risk-based capital requirements: a minimum ratio of 8% of total capital to risk-weighted assets, and a minimum ratio of 4% of Tier 1 capital to risk-weighted assets. To be deemed "well capitalized" under applicable federal regulations, banks must have a minimum ratio of 10% of total capital to risk-weighted assets, and a minimum ratio of 6% of Tier 1 capital to risk-weighted assets. The regulatory capital requirements, as well as the actual capital ratios for the Corporation and the Bank as of December 31, 2012, are presented in detail in Note 2, Regulatory Capital Requirements and Other Regulatory Matters in Item 8 hereof. See also “Capital Resources” within Management’s Discussion and Analysis in Item 7 hereof. As of December 31, 2012, the Corporation had a consolidated ratio of 14.43% of total capital to risk-weighted assets and a consolidated ratio of 13.61% of Tier 1 capital to risk-weighted assets and the Bank had a ratio of 13.79% of total capital to risk-weighted assets and a ratio of 12.99% of Tier 1 capital to risk-weighted assets.

Under federal regulations, “Tier 1 capital” is defined to include: common stockholders’ equity (including retained earnings), qualifying noncumulative perpetual preferred stock and related surplus, qualifying cumulative perpetual preferred stock and related surplus, minority interests in the equity accounts of consolidated subsidiaries (limited to a maximum of 25% of Tier 1 capital), and certain trust preferred securities. The Dodd-Frank Act excludes trust preferred securities issued after May 19, 2010, from being included in Tier 1 capital, unless the issuing company is a bank holding company with less than $500 million in total assets. Trust preferred securities issued prior to that date will continue to count as Tier 1 capital for bank holding companies with less than $15 billion in total assets, such as the Corporation. The trust preferred securities issued by our unconsolidated subsidiary capital trust qualify as Tier 1 capital up to a maximum limit of 25% of total Tier 1 capital. Any additional portion of our trust preferred securities would qualify as “Tier 2 capital.” As of December 31, 2012, the subsidiary trust had $10.3 million in trust preferred securities outstanding, of which $10.0 million qualifies as Tier 1 capital. Also, goodwill and most intangible assets are deducted from Tier 1 capital. For purposes of applicable the total risk-based capital regulatory guidelines, Tier 2 capital (sometimes referred to as “supplementary capital”) is defined to include, subject to limitations: perpetual preferred stock not included in Tier 1 capital, intermediate-term preferred stock and any related surplus, certain hybrid capital instruments, perpetual debt and mandatory convertible debt securities, allowances for loan and lease losses, and intermediate-term subordinated debt instruments. The maximum amount of qualifying Tier 2 capital is 100% of qualifying Tier 1 capital. For purposes of determining total capital under federal guidelines, total capital equals Tier 1 capital, plus qualifying Tier 2 capital, minus investments in unconsolidated subsidiaries, reciprocal holdings of bank holding company capital securities, and deferred tax assets and other deductions.

In addition to the risk-based guidelines described above, federal banking regulators require banking organizations to maintain a minimum amount of Tier 1 capital to total assets, referred to as the leverage ratio. For a banking organization rated in the highest of the five categories used by regulators to rate banking organizations, the minimum leverage ratio of Tier 1 capital to total assets is 3%. For all banking organizations not rated in the highest category, the minimum leverage ratio must be at least 4%. To be deemed “well capitalized” under applicable federal regulations, banks must have a minimum leverage ratio of 5%. As of December 31, 2012, Corporation had a consolidated leverage ratio of 12.71% and the Bank had a leverage ratio of 12.07%.

In addition to these uniform risk-based capital guidelines and leverage ratios that apply across the industry, the regulators have the discretion to set individual minimum capital requirements for specific institutions at rates significantly above the minimum guidelines and ratios. Future changes in regulations or practices could further reduce the amount of capital recognized for purposes of capital adequacy. Such a change could affect our ability to grow and could restrict the amount of profits, if any, available for the payment of dividends.

In addition, the Dodd-Frank Act requires the federal banking agencies to adopt capital requirements that address the risks that the activities of an institution poses to the institution and the public and private stakeholders, including risks arising from certain enumerated activities. The federal banking agencies will likely change existing capital guidelines or adopt new capital guidelines in the future pursuant to the Dodd-Frank Act or other regulatory or supervisory changes. We will be assessing the impact on us of these new regulations, as they are proposed and implemented.

Basel I, Basel II and Basel III Accords. The current risk-based capital guidelines that apply to the Corporation and the Bank are based on the 1988 capital accord of the International Basel Committee on Banking Supervision, a committee of central banks and bank supervisors, as implemented by the Federal Reserve. In 2004, the Basel Committee published a new capital accord, which is referred to as “Basel II,” to replace Basel I. Basel II provides two approaches for setting capital standards for credit risk: an internal ratings-based approach tailored to individual institutions' circumstances and a standardized approach that bases risk weightings on external credit assessments to a much greater extent than permitted in existing risk-based capital guidelines, which became effective in 2008 for large international banks (total assets of $250 billion or more or consolidated foreign exposure of $10 billion or more). Other U.S. banking organizations can elect to adopt the requirements of this rule (if they meet applicable qualification requirements), but they are not required to apply them. Basel II emphasizes internal assessment of credit, market and operational risk, as well as supervisory assessment and market discipline in determining minimum capital requirements.

In December 2010 and January 2011, the Basel Committee published the final texts of reforms on capital and liquidity, which is referred to as "Basel III." Although Basel III is intended to be implemented by participating countries for large, internationally active banks, its provisions are likely to be considered by United States banking regulators in developing new regulations applicable to other banks in the United States. Basel III will require bank holding companies and their bank subsidiaries to maintain substantially more capital, with a greater emphasis on common equity. The implementation of the Basel III final framework will commence January 1, 2013. On that date, banking institutions will be required to meet the following minimum capital ratios: (i) 3.5% common equity Tier 1 (generally consisting of common shares and retained earnings) to risk-weighted assets; (ii) 4.5% Tier 1 capital to risk-weighted assets; and (iii) 8.0% Total capital to risk-weighted assets.

When fully phased-in on January 1, 2019, and if implemented by the U.S. banking agencies, Basel III will require banks to maintain:

· a minimum ratio of common equity Tier 1 to risk-weighted assets of at least 4.5%, plus a 2.5% "capital conservation buffer,"

· a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus the capital conservation buffer,

· a minimum ratio of Total capital to risk-weighted assets of at least 8.0%, plus the capital conservation buffer, and

· a minimum leverage ratio of 3%, calculated as the ratio of Tier 1 capital to balance sheet exposures plus certain off-balance sheet exposures.

Basel III also includes the following significant provisions:

· An additional countercyclical capital buffer to be imposed by applicable national banking regulators periodically at their discretion, with advance notice.

· Restrictions on capital distributions and discretionary bonuses applicable when capital ratios fall within the buffer zone.

· Deduction from common equity of deferred tax assets that depend on future profitability to be realized.

· For capital instruments issued on or after January 13, 2013 (other than common equity), a loss-absorbency requirement that the instrument must be written off or converted to common equity if a triggering event occurs, either pursuant to applicable law or at the direction of the banking regulator. A triggering event is an event that would cause the banking organization to become nonviable without the write off or conversion, or without an injection of capital from the public sector.

Since the Basel III framework is not self-executing, the rules and standards promulgated under Basel III require that the U.S. federal banking regulators adopt them prior to becoming effective in the U.S.

The Dodd-Frank Act requires or permits the federal banking agencies to adopt regulations affecting banking institutions' capital requirements in a number of respects, including potentially more stringent capital requirements for systemically important financial institutions. The Dodd-Frank Act requires the Federal Reserve, the Office of the Comptroller of the Currency (the "OCC") and the FDIC to adopt regulations imposing a continuing "floor" of the Basel I-based capital requirements in cases where the Basel II-based capital requirements and any changes in capital regulations resulting from Basel III otherwise would permit lower requirements. In December 2010, the Federal Reserve, the OCC and the FDIC issued a joint notice of proposed rulemaking that would implement this requirement, which the agencies implemented as proposed, effective July 28, 2011. This final rule applies to large international banks (total assets of $250 billion or more or consolidated foreign exposure of $10 billion or more) and, therefore, will not have any immediate impact on the Corporation or the Bank.

In June 2012, the federal banking agencies issued three joint notices of proposed rulemaking that, taken together, would implement the capital reforms of the Basel III framework described above and changes required by the Dodd-Frank Act. The first proposal, the Basel III Proposal, generally follows the final Basel III framework and proposes higher minimum regulatory capital requirements and a more restrictive definition of regulatory capital, as well as introduces limits on dividends and other capital distributions and certain discretionary bonuses if capital conservation buffers are not maintained by the institution. The second proposal, the Standardized Approach Proposal, proposes changes to the current generalized risk-based capital requirements for determining risk-weighted assets by expanding the risk-weighting categories from the current four Basel I-derived categories (0%, 20%, 50%, and 100%) to a much larger number of categories, depending on the nature of the assets, generally ranging from 0% for U.S. government and agency securities to 600% for certain equity exposures. The expanded risk-weighted categories under the standardized approach proposal effectively creates a higher risk weighting for a variety of asset categories. The third proposal, the Advanced Approaches Proposal, incorporates certain changes to the advanced approaches reflected in the Base III framework, as well as changes to the Basel II advanced approaches framework made by the Basel Committee between 2006 and 2009, and revises the current advanced approaches risk-based capital rules to remove references to credit rating agency ratings, as required by the Dodd-Frank Act. Pursuant to the proposals, most of the Basel III provisions, including the application of a common equity Tier 1 requirement, the revised definitions of other components of capital, and higher minimum capital ratios, would apply to all banks and bank holding companies (other than small bank holding companies with $500 million or less in total assets). The federal banking agencies have not proposed rules implementing the final liquidity framework of Basel III and have not determined to what extent they will apply to U.S. banks that are not large, internationally active banks.

The proposed rules were to become effective in stages beginning January 1, 2013 through 2019. In the fourth quarter of 2012, however, the implementation of Basel III and these regulations was postponed indefinitely in response to the large number of comment letters received by the federal banking agencies with regard to the proposed rulemaking. Given that the Basel III rules are subject to change, and the scope and content of capital regulations that the federal banking agencies may adopt under the Dodd-Frank Act is uncertain, we cannot be certain of the impact new capital regulations will have on our capital ratios or our results of operations.

Prompt Corrective Action Regulations. The federal banking regulators are required to take "prompt corrective action" with respect to capital-deficient institutions. Federal banking regulations define, for each capital category, the levels at which institutions are "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" and "critically undercapitalized." A "well capitalized" institution has a total risk-based capital ratio of 10.0% or higher; a Tier I risk-based capital ratio of 6.0% or higher; a leverage ratio of 5.0% or higher; and is not subject to any written agreement, order or directive requiring it to maintain a specific capital level for any capital measure. An "adequately capitalized" institution has a total risk-based capital ratio of 8.0% or higher; a Tier I risk-based capital ratio of 4.0% or higher; a leverage ratio of 4.0% or higher (3.0% or higher if the bank was rated a composite 1 in its most recent examination report and is not experiencing significant growth); and does not meet the criteria for a "well capitalized" bank. An institution is "undercapitalized" if it fails to meet any one of the ratios required to be adequately capitalized. An "undercapitalized" institution has a total risk-based capital ratio that is less than 8.0%; a Tier 1 risk-based capital ratio of less than 4.0% or a leverage ratio of less than 4.0%. A "significantly undercapitalized" institution has a total risk-based capital ratio of less than 6.0%; a Tier 1 risk-based capital ratio of less than 3.0% or a leverage ratio of less than 3.0%. A "critically undercapitalized" institution's tangible equity is equal to or less than 2.0% of average quarterly tangible assets. An institution may be downgraded to, or deemed to be in, a capital category that is lower than indicated by its capital ratios if it is determined to be in an unsafe or unsound condition or if it receives an unsatisfactory examination rating with respect to certain matters. An institution's capital category is determined solely for the purpose of applying prompt corrective action regulations, and the capital category may not constitute an accurate representation of the institution's overall financial condition or prospects for other purposes.

In the event an institution becomes "undercapitalized," it must submit a capital restoration plan. The capital restoration plan will not be accepted by the regulators unless each company having control of the undercapitalized institution guarantees the subsidiary's compliance with the capital restoration plan up to a certain specified amount. Any such guarantee from a depository institution's holding company is entitled to a priority of payment in bankruptcy. The aggregate liability of the holding company of an undercapitalized bank is limited to the lesser of 5% of the institution's assets at the time it became undercapitalized or the amount necessary to cause the institution to be "adequately capitalized." The bank regulators have greater power in situations where an institution becomes "significantly" or "critically" undercapitalized or fails to submit a capital restoration plan. In addition to requiring undercapitalized institutions to submit a capital restoration plan, bank regulations contain broad restrictions on certain activities of undercapitalized institutions including asset growth, acquisitions, branch establishment and expansion into new lines of business. With certain exceptions, an insured depository institution is prohibited from making capital distributions, including dividends, and is prohibited from paying management fees to control persons if the institution would be undercapitalized after any such distribution or payment.

As an institution's capital decreases, the regulators' enforcement powers become more severe. A significantly undercapitalized institution is subject to mandated capital raising activities, restrictions on interest rates paid and transactions with affiliates, removal of management, and other restrictions. A regulator has limited discretion in dealing with a critically undercapitalized institution and is virtually required to appoint a receiver or conservator.

Banks with risk-based capital and leverage ratios below the required minimums may also be subject to certain administrative actions, including the termination of deposit insurance upon notice and hearing, or a temporary suspension of insurance without a hearing in the event the institution has no tangible capital.

In addition, the DFI has authority to take possession of the business and properties of a bank in the event that the tangible stockholders' equity of a bank is less than the greater of (i) 4% of the bank's total assets or (ii) $1.0 million.

As of December 31, 2012, the Bank was "well capitalized" according to the guidelines as generally discussed above.

Dividends. It is the Federal Reserve's policy that bank holding companies, such as the Corporation, should generally pay dividends on common stock only out of income available over the past year, and only if prospective earnings retention is consistent with the organization's expected future needs and financial condition. It is also the Federal Reserve's policy that bank holding companies should not maintain dividend levels that undermine their ability to be a source of strength to its banking subsidiaries. Additionally, in consideration of the current financial and economic environment, the Federal Reserve has indicated that bank holding companies should carefully review their dividend policy and has discouraged payment ratios that are at maximum allowable levels unless both asset quality and capital are very strong.

The Bank's ability to pay dividends to the Corporation is subject to restrictions set forth in the Financial Code. The Financial Code provides that a bank may not make a cash distribution to its stockholders in excess of the lesser of a bank's (1) retained earnings; or (2) net income for its last three fiscal years, less the amount of any distributions made by the bank or by any majority-owned subsidiary of the bank to the stockholders of the bank during such period. However, a bank may, with the approval of the DFI, make a distribution to its stockholders in an amount not exceeding the greatest of (a) its retained earnings; (b) its net income for its last fiscal year; or (c) its net income for its current fiscal year. In the event that bank regulators determine that the stockholders' equity of a bank is inadequate or that the making of a distribution by the bank would be unsafe or unsound, the regulators may order the bank to refrain from making a proposed distribution. The payment of dividends could, depending on the financial condition of the Bank, be deemed to constitute an unsafe or unsound practice. Under these provisions, the amount available for distribution from the Bank to the Corporation was approximately $28.94 million at December 31, 2012.

Approval of the Federal Reserve is required for payment of any dividend by a state chartered bank that is a member of the Federal Reserve, such as the Bank, if the total of all dividends declared by the bank in any calendar year would exceed the total of its retained net income for that year combined with its retained net income for the preceding two years. In addition, a state member bank may not pay a dividend in an amount greater than its undivided profits without regulatory and stockholder approval. The Bank is also prohibited under federal law from paying any dividend that would cause it to become undercapitalized.

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

FDIC Insurance of Certain Accounts and Regulation by the FDIC. The Bank is an FDIC insured financial institution whereby the FDIC provides deposit insurance for a certain maximum dollar amount per customer. The Bank, as is the case with all FDIC insured banks, is subject to deposit insurance assessments as determined by the FDIC. Historically, the FDIC imposed insurance premiums based on the amount of deposits held and a risk matrix that takes into account, among other factors, a bank's capital level and supervisory rating.

Since the economic downturn of 2008, bank failures began to deplete the DIF to unsustainable low levels. Subsequently, the FDIC needed to restore the reserve ratios of the FDIC deposit insurance fund to safer operating levels in order to effectively run the FDIC and to manage the resolution of the failed banks. In November 2009, in order to replenish the FDIC deposit insurance fund, the FDIC required banks to prepay three years of FDIC insurance premiums to the FDIC in one upfront payment. This payment was to be used over the prospective future three year period. This additional cash inflow provided the FDIC with the necessary liquidity to operate effectively through the economic downturn.

As required by the Dodd-Frank Act, the FDIC amended its regulations, effective as of the second quarter of 2011, to base the insurance assessment calculation on the average consolidated assets less average tangible equity of the insured institution. The FDIC assessment rates range from approximately five basis points to 35 basis points, depending on applicable adjustments for unsecured debt issued by an institution and brokered deposits (and to further adjustment for institutions that hold unsecured debt of other FDIC-insured institutions), until such time as the FDIC's reserve ratio equals 1.15%. Once the FDIC's reserve ratio reaches 1.15% and the reserve ratio for the immediately prior assessment period is less than 2.0%, the applicable assessment rates may range from three basis points to 30 basis points (subject to adjustments as described above). If the reserve ratio for the prior assessment period is equal to, or greater than 2.0% and less than 2.5%, the assessment rates may range from two basis points to 28 basis points and if the prior assessment period is greater than 2.5%, the assessment rates may range from one basis point to 25 basis points (in each case subject to adjustments as described above). The assessment rate for the Bank during 2012 was 8.5 basis points. Thus, this new FDIC assessment methodology is favorable to smaller community banks due to their smaller asset size. However, the FDIC has indicated that that it may change the methodology of the deposit insurance premium to a more risk-based assessment in the future. Based on the current FDIC insurance assessment methodology and including our participation in the Transaction Account Guarantee Program our FDIC insurance premium expense was $638,000 for 2012, $809,000 for 2011 and $1.3 million in 2010.

Transactions with Related Parties. Depository institutions are subject to the restrictions contained in the Federal Reserve Act (the "FRA") with respect to loans to directors, executive officers and principal stockholders. Under the FRA, loans to directors, executive officers and stockholders who own more than 10% of a depository institution and certain affiliated entities of any of the foregoing, may not exceed, together with all other outstanding loans to such person and affiliated entities, the institution's loans-to-one-borrower limit as discussed in the above section. Federal regulations also prohibits loans above amounts prescribed by the appropriate federal banking agency to directors, executive officers, and stockholders who own more than 10% of an institution, and their respective affiliates, unless such loans are approved in advance by a majority of the board of directors of the institution. Any "interested" director may not participate in the voting. The prescribed loan amount, which includes all other outstanding loans to such person, as to which such prior board of director approval is required, is the greater of $25,000 or 5% of capital and surplus up to $500,000. The Federal Reserve also requires that loans to directors, executive officers, and principal stockholders be made on terms substantially the same as offered in comparable transactions to non-executive employees of the bank and must not involve more than the normal risk of repayment. There are additional limits on the amount a bank can loan to an executive officer.

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

The Dodd-Frank Act generally enhances the restrictions on transactions with affiliates under Section 23A and 23B of the FRA, including an expansion of the definition of "covered transactions" and an increase in the amount of time for which collateral requirements regarding covered credit transactions must be satisfied. Insider transaction limitations are expanded through the strengthening of loan restrictions to insiders and the expansion of the types of transactions subject to the various limits, including derivatives transactions, repurchase agreements, reverse repurchase agreements and securities lending or borrowing transactions. Restrictions are also placed on certain asset sales to and from an insider to an institution, including requirements that such sales be on market terms and, in certain circumstances, approved by the institution's board of directors.

Safety and Soundness Standards. The federal banking agencies have adopted guidelines designed to assist the federal banking agencies in identifying and addressing potential safety and soundness concerns before capital becomes impaired. The guidelines set forth operational and managerial standards relating to (i) internal controls, information systems and internal audit systems; (ii) loan documentation; (iii) credit underwriting; (iv) asset growth; (v) earnings; and (vi) compensation, fees and benefits.

In addition, the federal banking agencies have also adopted safety and soundness guidelines with respect to asset quality and for evaluating and monitoring earnings to ensure that earnings are sufficient for the maintenance of adequate capital and reserves. These guidelines provide six standards for establishing and maintaining a system to identify problem assets and prevent those assets from deteriorating. Under these standards, an insured depository institution should (i) conduct periodic asset quality reviews to identify problem assets; (ii) estimate the inherent losses in problem assets and establish reserves that are sufficient to absorb estimated losses; (iii) compare problem asset totals to capital; (iv) take appropriate corrective action to resolve problem assets; (v) consider the size and potential risks of material asset concentrations; and (vi) provide periodic asset quality reports with adequate information for management and the board of directors to assess the level of asset risk.

Loans-to-One Borrower. Under California law, our ability to make aggregate secured and unsecured loans-to-one-borrower is limited to 25% and 15%, respectively, of unimpaired capital and surplus. At December 31, 2012, the Bank's limit on aggregate secured loans-to-one-borrower was $35.4 million and unsecured loans-to-one borrower was $21.2 million. The Bank has established internal loan limits which are lower than the legal lending limits for a California bank.

Community Reinvestment Act and the Fair Lending Laws. The Bank is subject to certain fair lending requirements and reporting obligations involving home mortgage lending operations and Community Reinvestment Act ("CRA") activities. The CRA generally requires the federal banking regulators to evaluate the record of a financial institution in meeting the credit needs of their local communities, including low and moderate income neighborhoods. In addition to substantial penalties and corrective measures that may be required for a violation of certain fair lending laws, the federal banking agencies may take compliance with such laws and CRA into account when regulating and supervising other activities. A bank's compliance with its CRA obligations is based on a performance-based evaluation system which bases CRA ratings on an institution's lending service and investment performance, resulting in a rating by the appropriate bank regulator of "outstanding," "satisfactory," "needs to improve" or "substantial noncompliance." Based on its last CRA examination, the Bank received a "satisfactory" rating.

Bank Secrecy Act and Money Laundering Control Act. In 1970, Congress passed the Currency and Foreign Transactions Reporting Act, otherwise known as the Bank Secrecy Act (the "BSA"), which established requirements for recordkeeping and reporting by banks and other financial institutions. The BSA was designed to help identify the source, volume and movement of currency and other monetary instruments into and out of the U.S. in order to help detect and prevent money laundering connected with drug trafficking, terrorism and other criminal activities. The primary tool used to implement BSA requirements is the filing of Suspicious Activity Reports. Today, the BSA requires that all banking institutions develop and provide for the continued administration of a program reasonably designed to assure and monitor compliance with certain recordkeeping and reporting requirements regarding both domestic and international currency transactions. These programs must, at a minimum, provide for a system of internal controls to assure ongoing compliance, provide for independent testing of such systems and compliance, designate individuals responsible for such compliance and provide appropriate personnel training.

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

- due diligence requirements for financial institutions that administer, maintain, or manage private bank accounts or correspondent accounts for non-U.S. persons;
- standards for verifying customer identification at account opening; and
- rules to promote cooperation among financial institutions, regulators, and law enforcement entities in identifying parties that may be involved in terrorism or money laundering.

Consumer Laws and Regulations. The Bank is also subject to certain consumer laws and regulations that are designed to protect consumers in transactions with banks. These laws include, among others, Truth in Lending Act; Truth in Savings Act; Electronic Funds Transfer Act; Expedited Funds Availability Act; Equal Credit Opportunity Act; Fair and Accurate Credit Transactions Act; Fair Housing Act; Fair Credit Reporting Act; Fair Debt Collection Act; Home Mortgage Disclosure Act; Real Estate Settlement Procedures Act; laws regarding unfair and deceptive acts and practices; and usury laws. These laws and regulations mandate certain disclosure requirements and regulate the manner in which financial institutions must deal with customers when taking deposits or making loans to such customers. The Bank must comply with the applicable provisions of these consumer protection laws and regulations as part of their ongoing customer relations. Failure to comply with these laws and regulations could give rise to regulatory sanctions, customer rescission rights, action by state and local attorneys general, and civil or criminal liability. The creation of the CFPB by the Dodd-Frank Act is likely to lead to enhanced and strengthened enforcement of consumer financial protection laws.

In addition, federal law currently contains extensive customer privacy protection provisions. Under these provisions, a financial institution must provide to its customers, at the inception of the customer relationship and annually thereafter, the institution's policies and procedures regarding the handling of customers' nonpublic personal financial information. These provisions also provide that, except for certain limited exceptions, a financial institution may not provide such personal information to unaffiliated third parties unless the institution discloses to the customer that such information may be so provided and the customer is given the opportunity to opt out of such disclosure.

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

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

Federal and State Taxation

The Corporation and the Bank report their income on a consolidated basis using the accrual method of accounting, and are subject to federal income taxation in the same manner as other corporations with some exceptions. The Company has not been audited by the IRS. For its 2012 tax year, the Company was subject to a maximum tax rate of 35.00% and state income tax rate of 10.84%. For its 2011 tax year, Company was subject to a maximum federal income tax rate of 34.00% and state income tax rate of 10.84%.

ITEM 1A. RISK FACTORS

Ownership of our common stock involves certain risks. The risks and uncertainties described below are not the only ones we face. You should carefully consider the risks described below, as well as all other information contained in this Annual Report on Form 10-K. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations. If any of these risks actually occurs, our business, financial condition or results of operations could be materially, adversely affected.

Risks Related to Our Business

The current economic environment poses significant challenges for the Company and could adversely affect our financial condition and results of operations.

From December 2007 through June 2009, the U.S. economy was in recession and economic recovery through 2012 has been slower than expected. Although economic conditions have recently shown signs of improvement, certain sectors, such as real estate and manufacturing, remain weak and unemployment remains high. Continued declines in real estate values, [increased] home sales volumes, and financial stress on borrowers as a result of the uncertain economic environment could have an adverse effect on the Company's borrowers and their ability to repay their loans to us, which could adversely affect the Company's business, financial condition and results of operations. In addition, local governments and many businesses are still experiencing difficulty due to lower consumer spending and decreased liquidity in the credit markets. A sustained weakness or further weakening of these conditions in the markets in which we operate would likely have an adverse effect on us and others in the financial institutions industry. For example, further deterioration in economic conditions in our markets could drive losses beyond that which is provided for in our ALLL. We may also face the following risks in connection with these events:

- Economic conditions that negatively affect real estate values and the job market may result, in the deterioration of the credit quality of our loan portfolio, and such deterioration in credit quality could have a negative impact on our business.
- A decrease in the demand for loans and other products and services offered by us.
- A decrease in deposit balances due to overall reductions in the accounts of customers.
- A decrease in the value of our loans or other assets secured by commercial or residential real estate.
- A decrease in net interest income derived from our lending and deposit gathering activities.
- Sustained weakness or continuing weakness in our markets may affect consumer confidence levels and may cause adverse changes in payment patterns, causing increases in delinquencies and default rates on loans and other credit facilities.
- The processes we use to estimate ALLL and reserves may no longer be reliable because they rely on complex judgments, including forecasts of economic conditions, which may no longer be capable of accurate estimation.
- Our ability to assess the creditworthiness of our customers may be impaired if the models and approaches we use to select, manage, and underwrite its customers become less predictive of future charge-offs.
- We expect to face increased regulation of its industry, and compliance with such regulation may increase our costs, limit our ability to pursue business opportunities and increase compliance challenges.

As these conditions or similar ones exist or worsen, we could experience increased adverse effects on our business, financial condition and results of operations.

Our business is subject to various lending and other economic risks that could adversely impact our results of operations and financial condition.

There was significant disruption and volatility in the financial and capital markets in 2008 and 2009. The financial markets and the financial services industry in particular suffered unprecedented disruption, causing a number of institutions to fail or require government intervention to avoid failure. These conditions were largely the result of the erosion of the U.S. and global credit markets, including a significant and rapid deterioration in the mortgage lending and related real estate markets. Continued decline in real estate values, high unemployment and financial stress on borrowers as a result of the uncertain economic environment could have an adverse effect on our borrowers revenue that would impact their ability to repay their loan obligations to us, which could adversely affect our financial condition and results of operations.

As a consequence of the difficult economic environment, we experienced losses, resulting primarily from significant provisions for loan losses and impairment charges on our investment securities. There can be no assurance that the economic conditions that have adversely affected the financial services industry, and the capital, credit and real estate markets generally, will substantially improve in the near term, in which case we could continue to experience losses and write-downs of assets, and could face capital and liquidity constraints or other business challenges. A further deterioration in economic conditions, particularly within our geographic region, could result in the following consequences, any of which could have a material adverse effect on our business:

- Loan delinquencies may increase causing increases in our provision and allowance for loan losses.
- Our ability to assess the creditworthiness of our customers may be impaired if the models and approaches we use to select, manage, and underwrite our customers become less predictive of future charge-offs.
- Collateral for loans, especially real estate, may continue to decline in value, in turn reducing a client’s borrowing power, and reducing the value of assets and collateral associated with our loans held for investment.
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Consumer confidence levels may decline and cause adverse changes in payment patterns, resulting in increased delinquencies and default rates on loans and other credit facilities and decreased demand for our products and services.
- Performance of the underlying loans in the private label mortgage backed securities may continue to deteriorate potentially causing further OTTI markdowns to our investment portfolio.

We may suffer losses in our loan portfolio in excess of our allowance for loan losses.

Our total nonperforming assets amounted to $4.5 million, or 0.38% of our total assets, at December 31, 2012, down from $7.3 million or 0.76% at December 31, 2011. We had $1.3 million of net loan charge-offs for 2012, down from $3.6 million in 2011. Our provision for loan losses was $751,000 in 2012, down from $3.3 million in 2011. . If increases in our nonperforming assets occur in the future, our net loan charge-offs and/or provision for loan losses may also increase which may have an adverse effect upon our future results of operations.

We seek to mitigate the risks inherent in our loan portfolio by adhering to specific underwriting practices. These practices include analysis of a borrower's prior credit history, financial statements, tax returns and cash flow projections, valuation of collateral based on reports of independent appraisers and liquid asset verifications. Although we believe that our underwriting criteria are appropriate for the various kinds of loans we make, we may incur losses on loans that meet our underwriting criteria, and these losses may exceed the amounts set aside as reserves in our ALLL. We create an allowance for estimated loan losses in our accounting records, based on analysis of the following:

- Historical experience with our loans;
- Industry historical losses as reported by the FDIC;
- Evaluation of economic conditions;
- Regular reviews of the quality, mix and size of the overall loan portfolio;
- Regular reviews of delinquencies;
- The quality of the collateral underlying our loans; and
- The effect of external factors, such as competition, legal developments and regulatory requirements.

Although we maintain an ALLL at a level that we believe is adequate to absorb losses inherent in our loan portfolio, changes in economic, operating and other conditions, including the sharp decline in real estate values and changes in interest rates, which are beyond our control, may cause our actual loan losses to exceed our current allowance estimates. If the actual loan losses exceed the amount reserved, it will adversely affect our financial condition and results of operations.

In addition, the Federal Reserve and the DFI, as part of their supervisory function, periodically review our ALLL. Either agency may require us to increase our provision for loan losses or to recognize further loan losses, based on their judgments, which may be different from those of our management. Any increase in the allowance required by them could also adversely affect our financial condition and results of operations.

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

Our business activities and credit exposure are concentrated in Southern California. As a result of continued difficult economic conditions, including state and local government deficits, in Southern California may cause us to incur losses associated with higher default rates and decreased collateral values in our loan portfolio. In addition, demand for our products and services may decline. Any further decline in the Southern California real estate market could hurt our business, because the vast majority of our loans are secured by real estate located within Southern California. As of December 31, 2012, approximately 90% of our loans secured by real estate were located in Southern California. If real estate values were to decline, especially in Southern California, the collateral for our loans provide less security. As a result, our ability to recover on defaulted loans by selling the underlying real estate would be diminished, and we would be more likely to suffer losses on defaulted loans.

Our level of credit risk is increasing due to our focus on commercial lending and the concentration on small and middle market business customers with heightened vulnerability to economic conditions.

As of December 31, 2012, our commercial real estate loans amounted to $409.8 million, or 41.5% of our total loan portfolio, and our commercial business loans amounted to $468.9 million, or 47.6% of our total loan portfolio. At such date, our largest multiple borrower relationship and largest outstanding commercial business loan was $33.4 million and our largest outstanding commercial real estate loan was $11.1 million. Commercial real estate and commercial business loans generally are considered riskier than single-family residential loans because they have larger balances to a single borrower or group of related borrowers. Commercial real estate and commercial business loans involve risks because the borrowers' ability to repay the loans typically depends primarily on the successful operation of the businesses or the properties securing the loans. Most of the Company's commercial business loans are made to small business or middle market customers who may have a heightened vulnerability to economic conditions. Moreover, a portion of these loans have been made or acquired by us in recent years and the borrowers may not have experienced a complete business or economic cycle. Furthermore, the deterioration of our borrowers' businesses may hinder their ability to repay their loans with us, which could adversely affect our results of operations.

Nonperforming assets take significant time to resolve and adversely affect our results of operations and financial condition.

Nonperforming assets adversely affect our net income in various ways. Until economic and market conditions improve significantly, we can expect to continue to incur losses relating to nonperforming assets and higher loan administration costs. We generally do not record interest income on nonperforming loans or OREO, which adversely affects our income. When we take collateral in foreclosures and similar proceedings, we are required to mark the related asset to the then fair market value of the collateral, which may ultimately result in a loss. An increase in the level of nonperforming assets increases our risk profile and may impact the capital levels our regulators believe are appropriate in light of the ensuing risk profile. While we reduce problem assets through loan sales, workouts, restructurings and otherwise, decreases in the value of the underlying collateral, or in these borrowers' performance or financial condition, whether or not due to economic and market conditions beyond our control, could adversely affect our business, results of operations and financial condition. In addition, the resolution of nonperforming assets requires significant commitments of time from management and our directors, which can be detrimental to the performance of their other responsibilities. There can be no assurance that we will not experience future increases in nonperforming assets.

We may be unable to successfully compete in our industry.

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

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

Our profitability depends to a large extent upon net interest income, which is the difference between interest income and dividends on interest-earning assets, such as loans and investments, and interest expense on interest-bearing liabilities, such as deposits and borrowings. Any change in general market interest rates, whether as a result of changes in the monetary policy of the Federal Reserve or otherwise, may have a significant effect on net interest income. The assets and liabilities may react differently to changes in overall interest rates or conditions. In general, higher interest rates are associated with a lower volume of loan originations while lower interest rates are usually associated with higher loan originations. Further, if interest rates decline, our loans may be refinanced at lower rates or paid off and our investments may be prepaid earlier than expected. If that occurs, we may have to redeploy the loan or investment proceeds into lower yielding assets, which might also decrease our income. Also, as many of our loans currently have interest rate floors, a rise in rates may increase the cost of our deposits while the rates on the loans remain at their floors, which could decrease our net interest margin. Accordingly, changes in levels of market interest rates could materially and adversely affect our net interest margin, asset quality and loan origination volume.

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

We are currently involved in litigation relating to the origination of certain subprime mortgages that prior management purchased on the secondary market (and later sold), as well as other actions arising in the ordinary course of business. A significant judgment against us in connection with any pending or future litigation could harm our business and results of operations.

Changes in the fair value of our securities may reduce our stockholders' equity and net income.

At December 31, 2012, $84.1 million of our securities were classified as available-for-sale. At such date, the aggregate net unrealized gain on our available-for-sale securities were $1.9 million. We increase or decrease stockholders' equity by the amount of change from the unrealized gain or loss (the difference between the estimated fair value and the amortized cost) of our available-for-sale securities portfolio, net of the related tax, under the category of accumulated other comprehensive income/loss. Therefore, a decline in the estimated fair value of this portfolio will result in a decline in reported stockholders' equity, as well as book value per common share and tangible book value per common share. This decrease will occur even though the securities are not sold. In the case of debt securities, if these securities are never sold and there are no credit impairments, the decrease will be recovered over the life of the securities. In the case of equity securities which have no stated maturity, the declines in fair value may or may not be recovered over time.

For the year ended December 31, 2012, we reported a non-cash, OTTI charge of $159,000 on our securities portfolio. We continue to monitor the fair value of our entire securities portfolio as part of our ongoing OTTI evaluation process. No assurance can be given that we will not need to recognize additional OTTI charges related to securities in the future. In addition, as a condition to membership in the FHLB of San Francisco, we are required to purchase and hold a certain amount of FHLB stock. Our stock purchase requirement is based, in part, upon the outstanding principal balance of advances from the FHLB. At December 31, 2012, we had stock in the FHLB of San Francisco totaling $9.2 million. The FHLB stock held by us is carried at cost and is subject to recoverability testing under applicable accounting standards. For the year ended December 31, 2012, we did not recognize an impairment charge related to our FHLB stock holdings. There can be no assurance, however, that future negative changes to the financial condition of the FHLB may not require us to recognize an impairment charge with respect to such FHLB stock holdings.

Conditions in the financial markets may limit our access to additional funding to meet our liquidity needs.

Liquidity is essential to our business, as we must maintain sufficient funds to respond to the needs of depositors and borrowers. An inability to raise funds through deposits, repurchase agreements, federal funds purchased, FHLB advances, the sale or pledging as collateral of loans and other assets could have a substantial negative effect on our liquidity. Our access to funding sources in amounts adequate to finance our activities, or on terms attractive to us, could be impaired by factors that affect us specifically or the financial services industry in general. Factors that could negatively affect our access to liquidity sources include a reduction in our credit ratings, if any, an increase in costs of capital in financial capital markets, negative operating results, a decrease in the level of our business activity due to a market downturn, a decrease in depositor or investor confidence or adverse regulatory action against us. Our ability to borrow could also be impaired by factors that are not specific to us, such as severe disruption of the financial markets or negative news and expectations about the prospects for the financial services industry as a whole.

The soundness of other financial institutions could negatively affect us.

Financial services institutions are interrelated as a result of trading, clearing, counterparty, or other relationships. We have exposure to many different industries and counterparties, and we routinely execute transactions with counterparties in the financial services industry, including commercial banks, brokers and dealers, investment banks and other institutional clients. Many of these transactions expose us to credit risk in the event of a default by a counterparty or client. In addition, our credit risk may be exacerbated when the collateral held by us cannot be realized upon or is liquidated at prices not sufficient to recover the full amount of the credit or derivative exposure due to us. Any such losses could have a material adverse effect on our financial condition and results of operations.

We are subject to extensive regulation which could adversely affect our business.

Our operations are subject to extensive regulation by federal, state and local governmental authorities and are subject to various laws and judicial and administrative decisions imposing requirements and restrictions on part or all of our operations. Given the current disruption in the financial markets and potential new regulatory initiatives, new regulations and laws that may affect us are increasingly likely. Because our business is highly regulated, the laws, rules and regulations applicable to us are subject to regular modification and change. There are currently proposed laws, rules and regulations that, if adopted, would impact our operations. These proposed laws, rules and regulations, or any other laws, rules or regulations, may be adopted in the future, which could (1) make compliance much more difficult or expensive, (2) restrict our ability to originate, broker or sell loans or accept certain deposits, (3) further limit or restrict the amount of commissions, interest or other charges earned on loans originated or sold by us, or (4) otherwise adversely affect our business or prospects for business.

Moreover, banking regulators have significant discretion and authority to prevent or remedy unsafe or unsound practices or violations of laws or regulations by financial institutions and holding companies in the performance of their supervisory and enforcement duties. The exercise of regulatory authority may have a negative impact on our financial condition and results of operations.

Additionally, in order to conduct certain activities, including acquisitions, we are required to obtain regulatory approval. There can be no assurance that any required approvals can be obtained, or obtained without conditions or on a timeframe acceptable to us.

The enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 may have a material effect on our operations.

On July 21, 2010, President Obama signed into law the Dodd-Frank Act, which imposes significant regulatory and compliance changes. The key provisions of the Dodd-Frank Act that are anticipated to affect our operations include:

- Changes to regulatory capital requirements and how we plan capital and liquidity levels;

- Creation of new government regulatory agencies, including the recently formed CFPB, which possesses broad rule-making and enforcement authorities;
- Restrictions that will impact the nature of our incentive compensation programs for executive officers;
- Changes in insured depository institution regulations and assessments;
- Mortgage loan origination and risk retention; and
- Potential new and different litigation and regulatory enforcement risks.

Many of the requirements of the Dodd-Frank Act will continue to be implemented over time and most will be subject to regulations implemented over the course of several years. Given the uncertainty associated with the manner in which the provisions of the Dodd-Frank Act will be implemented by the various regulatory agencies and through regulations, the full extent of the impact such requirements will have on our operations is unclear. The changes resulting from the Dodd-Frank Act may impact the profitability of our business activities, require changes to certain of our business practices, impose upon us more stringent capital, liquidity and leverage requirements or otherwise adversely affect our business. These changes may also require us to invest significant management attention and resources to evaluate and make any changes necessary to comply with new statutory and regulatory requirements. Failure to comply with the new requirements or with any future changes in laws or regulations may negatively impact our results of operations and financial condition.

Changes in laws, government regulation and monetary policy may have a material effect on our results of operations.

Financial institutions have been the subject of substantial legislative and regulatory changes and may be the subject of further legislation or regulation in the future, none of which is within our control. Significant new laws or regulations or changes in, or repeals of, existing laws or regulations may cause our results of operations to differ materially. In addition, the cost and burden of compliance with applicable laws and regulations have significantly increased and could adversely affect our ability to operate profitably. Further, federal monetary policy significantly affects credit conditions for us, as well as for our borrowers, particularly as implemented by the Federal Reserve, primarily through open market operations in U.S. government securities, the discount rate for bank borrowings and reserve requirements. A material change in any of these conditions could have a material impact on us or our borrowers, and therefore on our results of operations.

We expect to face increased regulation and supervision of our industry as a result of the recent financial crisis. The effects of such recently enacted, and proposed, legislation and regulatory programs on us cannot reliably be determined at this time.

The repeal of federal prohibitions on payment of interest on demand deposits could increase our interest expense.

All federal prohibitions on the ability of financial institutions to pay interest on demand deposit accounts were repealed as part of the Dodd-Frank Act. As a result, financial institutions can offer interest on demand deposits to compete for clients. Our interest expense will increase and our net interest margin will decrease if the Bank begins offering interest on demand deposits to attract additional customers or maintain current customers, which could have a material adverse effect on our business, financial condition and results of operations.

Federal and state banking agencies periodically conduct examinations of our business, including compliance with laws and regulations, and our failure to comply with any supervisory actions to which we are or become subject as a result of such examinations may adversely affect us.

Federal and state banking agencies, including the Federal Reserve, the FDIC and the DFI, periodically conduct examinations of our business, including compliance with laws and regulations. If, as a result of an examination, a federal banking agency were to determine that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity or other aspects of any of our operations had become unsatisfactory, or that the Company or its management was in violation of any law or regulation, it may take a number of different remedial actions as it deems appropriate. These actions include the power to enjoin "unsafe or unsound" practices, to require affirmative actions to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in our capital, to restrict our growth, to assess civil monetary penalties against our officers or directors, to remove officers and directors and, if it is concluded that such conditions cannot be corrected or there is an imminent risk of loss to depositors, to terminate our deposit insurance. If we become subject to such regulatory actions, our business, results of operations and reputation may be negatively impacted.

We may in the future engage in additional FDIC-assisted transactions, which could present additional risk to our business.

On February 11, 2011 and April 27, 2012, we completed acquisitions of assets and assumption of deposits and liabilities of Canyon National and Palm Desert National, respectively, from the FDIC. We acquired the assets and assumed the liabilities of Canyon National and Palm Desert National without entering into a loss sharing agreement with the FDIC. In the current economic environment, and subject to any requisite regulatory consent, we may potentially be presented with additional opportunities to acquire the assets and liabilities of other failed banks in FDIC-assisted transactions. The Canyon National Acquisition, the Palm Desert National Acquisition and any future acquisitions involve risks similar to acquiring existing banks even though the FDIC might provide assistance to mitigate certain risks such as sharing in exposure to loan losses and providing indemnification against certain liabilities of the failed institution. However, because FDIC-assisted transactions are structured in a manner that would not allow us the time normally associated with preparing for and evaluating an acquisition, including preparing for integration of an acquired institution, we may face additional risks if we engage in FDIC-assisted transactions. The risks related to the Canyon National Acquisition, the Palm Desert National Acquisition and other future FDIC-assisted transactions include, among other things, the loss of customers, strain on management resources related to collection and management of problem loans and problems related to integration of personnel and operating systems. We may not be successful in overcoming these risks or any other problems encountered in connection with the Canyon National Acquisition, the Palm Desert National Acquisition or other future FDIC-assisted transactions. Our inability to overcome these risks could have an adverse effect on our ability to achieve our business strategy and maintain our market value and profitability.

Moreover, even if we were inclined to participate in additional FDIC-assisted transactions, there are no assurances that the FDIC would allow us to participate or what the terms of such transaction might be or whether we would be successful in acquiring the bank or assets that we are seeking. We may be required to raise additional capital as a condition to, or as a result of, participation in FDIC-assisted transactions. Any such transactions and related issuances of stock may have a dilutive effect on earnings per share and share ownership.

Furthermore, to the extent we are allowed to, and choose to, participate in additional FDIC-assisted transactions, we may face competition from other financial institutions with respect to the proposed FDIC-assisted transactions. To the extent that our competitors are selected to participate in FDIC-assisted transactions, our ability to identify and attract acquisition candidates and/or make acquisitions on favorable terms may be adversely affected.

FAB's business is substantially dependent upon its relationship with Associa, which is the entity that owns and controls the HOA management companies that manage the HOAs from which FAB receives a majority of its deposits.

On October 15, 2012, we entered into a definitive merger agreement to acquire FAB, and anticipate such acquisition to be consummated in March 2013, subject to satisfaction of customary closing conditions. FAB is exclusively focused on providing deposit and other services to HOAs and HOA management companies nationwide. A majority of FAB's HOA customers are also customers of the HOA management companies controlled by Associations, Inc. (“Associa”). At December 31, 2012, approximately 86% of the HOA deposits held by FAB were derived from its relationship with Associa. We will continue to rely on the relationship with Associa to solicit HOA deposits following the consummation of the FAB acquisition. If Associa or its HOA management companies lose some or all of their HOA customers, fall into financial or legal difficulty or elect to reduce the amount of HOA customers that it directs to us, it could have a material and adverse effect upon the business of FAB that we propose to acquire, including the decline or total loss of all of the deposits from the HOA management companies and the HOAs. We cannot assure you that we would be able to replace the relationship with Associa and its HOA management companies if any of these events occurred, which could result in the business of FAB that we propose to acquire operating with less HOA deposit generation or no HOA deposit generation, which would have a material and adverse impact on our business, financial condition and results of operations. In connection with the closing of the FAB acquisition, we intend to appoint John Carona to the boards of directors of the Company and the Bank. Mr. Carona is currently a director and largest stockholder of FAB and is also the chief executive officer and majority shareholder of Associa.

Termination of the merger agreement with FAB or SDTB may negatively affect us.

If the merger agreement with either FAB or SDTB is terminated, we may suffer adverse consequences, including:

• The market price of our common stock may decline to the extent that the market price prior to termination reflects a market assumption that such acquisitions will be completed;
• Recognizing substantial expenses incurred in connection with the negotiation and completion of the transactions contemplated by the merger agreement without realizing the expected benefits of such acquisitions; and
• Our business may have been adversely impacted by the failure to pursue other beneficial opportunities due to the focus of management on the acquisition of FAB, without realizing any of the anticipated benefits of completing the transaction.

Potential acquisitions may disrupt our business and dilute stockholder value.

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

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

· Potential exposure to unknown or contingent liabilities of the target company;
· Exposure to potential asset quality issues of the target company;
· Difficulty and expense of integrating the operations and personnel of the target company;
· Potential disruption to our business;
· Potential diversion of management's time and attention;
· The possible loss of key employees and customers of the target company;
· Difficulty in estimating the value of the target company; and

- Potential changes in banking or tax laws or regulations that may affect the target company.

Our controls and procedures may fail or be circumvented.

Management regularly reviews and updates our internal controls, disclosure controls and procedures, and corporate governance policies and procedures. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of our controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on our business, results of operations and financial condition.

Environmental liabilities with respect to properties on which we take title may have a material effect on our results of operations.

We could be subject to environmental liabilities on real estate properties we foreclose and take title in the normal course of our business. In connection with environmental contamination, we may be held liable to governmental entities or to third parties for property damage, personal injury, investigation and clean-up costs incurred by these parties, or we may be required to investigate or clean-up hazardous or toxic substances at a property. The investigation or remediation costs associated with such activities could be substantial. Furthermore, we may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination even if we were the former owner of a contaminated site. The incurrence of a significant environmental liability could adversely affect our business, financial condition and results of operations.

Confidential customer information transmitted through the Bank's online banking service is vulnerable to security breaches and computer viruses, which could expose the Bank to litigation and adversely affect its reputation and ability to generate deposits.

The Bank provides its customers the ability to bank online. The secure transmission of confidential information over the Internet is a critical element of online banking. The Bank's network could be vulnerable to unauthorized access, computer viruses, phishing schemes and other security problems. The Bank may be required to spend significant capital and other resources to protect against the threat of security breaches and computer viruses, or to alleviate problems caused by security breaches or viruses. To the extent that the Bank's activities or the activities of its customers involve the storage and transmission of confidential information, security breaches and viruses could expose the Bank to claims, litigation and other possible liabilities. Any inability to prevent security breaches or computer viruses could also cause existing customers to lose confidence in the Bank's systems and could adversely affect its reputation and ability to generate deposits.

We are dependent on our key personnel.

Our future operating results depend in large part on the continued services of our key personnel, including Steven R. Gardner, our President and Chief Executive Officer, who developed and implemented our new business strategy. The loss of Mr. Gardner could have a negative impact on the success of our business strategy. In addition, we rely upon the services of Eddie Wilcox, our Executive Vice President and Chief Operating Officer, and our ability to attract and retain highly skilled personnel. We do not maintain key-man life insurance on any employee other than Mr. Gardner. We cannot assure you that we will be able to continue to attract and retain the qualified personnel necessary for the development of our business. The unexpected loss of services of our key personnel could have a material adverse impact on our business because of their skills, knowledge of our market, years of industry experience and the difficulty of promptly finding qualified replacement personnel. In addition, recent regulatory proposals and guidance relating to compensation may negatively impact our ability to retain and attract skilled personnel.

A natural disaster or recurring energy shortage, especially in California, could harm our business.

We are based in Irvine, California, and approximately 90% of our loans secured by real estate were located in Southern California at December 31, 2012. In addition, the computer systems that operate our Internet websites and some of their back-up systems are located in Irvine and San Diego, California. Historically, California has been vulnerable to natural disasters. Therefore, we are susceptible to the risks of natural disasters, such as earthquakes, wildfires, floods and mudslides. Natural disasters could harm our operations directly through interference with communications, including the interruption or loss of our websites, which would prevent us from gathering deposits, originating loans and processing and controlling our flow of business, as well as through the destruction of facilities and our operational, financial and management information systems. A natural disaster or recurring power outages may also impair the value of our largest class of assets, our loan portfolio, which is comprised substantially of real estate loans. Uninsured or underinsured disasters may reduce borrowers' ability to repay mortgage loans. Disasters may also reduce the value of the real estate securing our loans, impairing our ability to recover on defaulted loans through foreclosure and making it more likely that we would suffer losses on defaulted loans. California has also experienced energy shortages, which, if they recur, could impair the value of the real estate in those areas affected. Although we have implemented several back-up systems and protections (and maintain business interruption insurance), these measures may not protect us fully from the effects of a natural disaster. The occurrence of natural disasters or energy shortages in California could have a material adverse effect on our business prospects, financial condition and results of operations.

Risks Related to Ownership of Our Common Stock

The price of our common stock may fluctuate significantly, and this may make it difficult for you to resell your shares of common stock at times or at prices you find attractive.

Stock price volatility may make it difficult for holders of our common stock to resell their common stock when desired and at desirable prices. Our stock price can fluctuate significantly in response to a variety of factors including, among other things:

- Actual or anticipated variations in quarterly results of operations;
- Recommendations by securities analysts;
- Operating and stock price performance of other companies that investors deem comparable to us;
- News reports relating to trends, concerns and other issues in the financial services industry, including the failures of other financial institutions in the current economic downturn;
- Perceptions in the marketplace regarding us and/or our competitors;
- New technology used, or services offered, by competitors;
- Significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving us or our competitors;
- Failure to integrate acquisitions or realize anticipated benefits from acquisitions;
- Changes in government regulations; and
- Geopolitical conditions such as acts or threats of terrorism or military conflicts.

General market fluctuations, industry factors and general economic and political conditions and events, such as economic slowdowns or recessions, interest rate changes or credit loss trends, could also cause our stock price to decrease regardless of operating results as evidenced by the current volatility and disruption of capital and credit markets.

A limited trading market has historically existed for our common stock, which could lead to significant price volatility.

Our common stock is traded on the NASDAQ Global Market under the trading symbol "PPBI," but there has historically been a relatively low trading volume in our common stock. Although we recently completed a public offering of our securities and expect to issue additional shares of our common stock in our pending acquisitions of FAB and SDTB, we may continue to experience a limited trading market for our common stock, which may cause fluctuations in the market value of our common stock to be exaggerated, leading to price volatility in excess of that which would occur in a more active trading market of our common stock. Future sales of substantial amounts of common stock in the public market, or the perception that such sales may occur, could adversely affect the prevailing market price of the common stock. In addition, even if a more active market in our common stock develops, we cannot assure you that such a market will continue.

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

We do not intend to pay cash dividends on our common stock in the foreseeable future. Instead, we intend to reinvest our earnings in our business. In addition, in order to pay cash dividends to our stockholders, we would most likely need to obtain funds from the Bank. The Bank's ability, in turn, to pay dividends to us is subject to restrictions set forth in the Financial Code. The Financial Code provides that a bank may not make a cash distribution to its stockholders in excess of the lesser of (1) a bank's retained earnings; or (2) a bank's net income for its last three fiscal years, less the amount of any distributions made by the bank or by any majority-owned subsidiary of the bank to the stockholders of the bank during such period. However, a bank may, with the approval of the DFI, make a distribution to its stockholders in an amount not exceeding the greatest of (a) its retained earnings; (b) its net income for its last fiscal year; or (c) its net income for its current fiscal year. In the event that banking regulators determine that the stockholders' equity of a bank is inadequate or that the making of a distribution by the bank would be unsafe or unsound, the regulators may order the bank to refrain from making a proposed distribution.

Approval of the Federal Reserve is required for payment of any dividend by a state chartered bank that is a member of the Federal Reserve Board System, such as the Bank, if the total of all dividends declared by the bank in any calendar year would exceed the total of its retained net income for that year combined with its retained net income for the preceding two years. In addition, a state member bank may not pay a dividend in an amount greater than its undivided profits without regulatory and stockholder approval. The Bank is also prohibited under federal law from paying any dividend that would cause it to become undercapitalized.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. PROPERTIES

Location	Leased or Owned	Original Year Leased or Acquired	Date of Lease Expiration	Net Book Value of Property or Leasehold Improvements at December 31, 2012

Corporate Headquarters:					
17901 Von Karman, Suites 200 & 1200					
Irvine, CA 92614	Leased	2012	2017	$	9,263
Branch Office:					
19011 Magnolia Avenue					
Huntington Beach, CA 92646	Owned (a) (b)	2005	2023	$	992,735
Branch Office:					