ITLA CAPITAL CORP
Form 10-K
April 02, 2001

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

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [Fee Required]

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2000

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [No Fee Required]

FOR THE TRANSITION PERIOD FROM __________________ TO __________________

COMMISSION FILE NUMBER 0-26960

ITLA CAPITAL CORPORATION
(Exact Name of Registrant as Specified in its Charter)

DELAWARE	95-4596322
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

888 PROSPECT STREET, SUITE 110, LA JOLLA, CALIFORNIA	92037
(Address of Principal Executive Offices)	(Zip Code)

Registrant's Telephone Number, Including Area Code: (858) 551-0511

Securities Registered Pursuant to Section 12(b) of the Act:
NONE

Securities Registered Pursuant to Section 12(g) of the Act:
COMMON STOCK, $.01 PAR VALUE
(Title of Class)

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of 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. [ ]

As of March 22, 2001, there were issued and outstanding 6,596,413 shares of the Registrant's Common Stock. The aggregate market value of the voting stock held by non-affiliates of the Registrant, computed by reference to the closing price of such stock as of March 22, 2001, was $127.4 million. (The exclusion from such amount of the market value of the shares owned by any person shall not be deemed an admission by the Registrant that such person is an affiliate of the Registrant.)

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ITLA CAPITAL CORPORATION

FORM 10-K

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2000

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FORWARD-LOOKING STATEMENTS

"Safe Harbor" statement under the Private Securities Litigation Reform Act of 1995: This Form 10-K contains forward-looking statements that are subject to risks and uncertainties, including, but not limited to, changes in economic conditions in our market areas, changes in policies by regulatory agencies, the impact of competitive loan products, loan demand risks, fluctuations in interest rates and operating results and other risks detailed from time to time in our filings with the Securities and Exchange Commission. We caution readers not to place undue reliance on forward-looking statements. We do not undertake and specifically disclaim any obligation to revise any forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements. These risks could cause our actual results for 2000 and beyond to differ materially from those expressed in any forward-looking statements by, or on behalf of, us.

As used throughout this report, the terms "we", "our", "ITLA Capital" or the "Company" refer to ITLA Capital Corporation and its consolidated subsidiaries.

PART I

ITEM 1. BUSINESS

GENERAL

ITLA Capital Corporation is the largest financial services company headquartered in San Diego County, California with consolidated assets of $1.4 billion, consolidated net loans of $1.3 billion, deposits of $1.0 billion and consolidated stockholder's equity of $133.6 million as of December 31, 2000. We conduct and manage our business principally through Imperial Capital Bank (the "Bank"), a $1.2 billion California industrial bank, with six offices in California, (San Francisco, Encino, Beverly Hills, Glendale, Costa Mesa and Del Mar). The Bank has been in business for 26 years and was formally known as Imperial Thrift and Loan Association until its name change in January 2000. Our branch offices are primarily used for our deposit services and lending business. The Bank became our principal operating subsidiary upon completion of its holding company reorganization on October 1, 1996. The Bank is primarily engaged in:

- Originating real estate loans secured by income producing properties for retention in its loan portfolio;

- Acquiring pools of single family mortgages in the secondary market for investment purposes; and

- Accepting customer deposits through the following products: certificates of deposits, money market and passbook accounts. Our deposit accounts are insured by the FDIC, up to the appropriate legal limits of individual deposit balances.

During 2000, we acquired through our subsidiary, Imperial Capital Real Estate Investment Trust ("Imperial Capital REIT") all of the equity and certain collateralized mortgage obligations ("CMOs") of the ICCMAC Multi-family and Commercial Trust 1999-1 (the "ICCMAC Trust"). On the date of acquisition, the ICCMAC Trust held assets of $250.5 million as collateral for $205.4 million of investment grade CMO's that had been sold to third party investors by the previous owner. At December 31, 2000, real estate loans held in trust for the CMO's totaled $216.3 million and the CMO's outstanding balance at that date was $161.9 million.

We continuously evaluate business expansion opportunities, including acquisitions or joint ventures with companies that originate or purchase commercial and multi-family real estate loans as well as residential mortgage loans and other types of secured commercial loans. In connection with this activity, we periodically have discussions with and receive financial information about other companies that may or may not lead to the acquisition of the company, a segment or division of that company, or a joint venture opportunity with us in order to enhance the value of our Company to our shareholders.

The executive offices of the Company are located at 888 Prospect Street, Suite 110, LaJolla, California 92037 and its telephone number at that address is (858) 551-0511.

REAL ESTATE LENDING

General. We concentrate our real estate lending activities as follows:

- Originating and purchasing real estate loans secured by income producing properties, both commercial and residential (including apartments).

- Purchasing single-family residential loans.

The interest rates charged on real estate loans generally vary based on a number of factors, including the degree of credit risk, size and maturity of the loan, whether the loan has a fixed or a variable rate, and prevailing market rates for similar types of real estate loans. At December 31, 2000, the Bank's gross real estate loan portfolio increased to $1.1 billion as compared to $974.5 million in the prior year end. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" for additional information regarding the composition of the our portfolio at December 31, 2000.

Marketing and Originations. We originate real estate loans through branch offices located in San Francisco, Glendale, Costa Mesa and Del Mar. These offices are staffed by a total of fifteen loan officers. Loan officers solicit mortgage loan brokers for loan applications that meet our underwriting criteria, and also accept applications directly from borrowers. A majority of the real estate loans funded by us are originated through mortgage loan brokers. Mortgage loan brokers act as intermediaries between us and the property owner in arranging real estate loans and earn a fee based upon the principal amount of each loan funded. Since a large portion of our marketing effort is through the contact of loan officers with mortgage loan brokers, we do not incur significant expenses for advertising our lending services to the general public. We provide only limited deposit products and not a full range of banking services, and generally do not market our lending services to, or receive loan applications from our depositors.

Income Producing Property Loans. We originate and purchase real estate loans secured primarily by first trust deeds on income producing properties. Income property loans consist primarily of the following types of properties:

- Retail centers

- Small office and light industrial buildings

- Apartments

- Hotels

- Mobile home parks

- Mini-storage facilities

- Other mixed use or special purpose commercial properties

At December 31, 2000, the Bank had $833.1 million of income producing property loans outstanding representing 78.1% of its total real estate loans. Most of the Bank's real estate borrowers are business owners, individual investors, investment partnerships or limited liability corporations. The income producing property lending that the Bank engages in typically involves larger loans to a single borrower and is generally viewed as exposing the lender to a greater risk of loss than one-four family residential lending. Income producing property values are also generally subject to greater volatility than residential property values. The liquidation values of income producing properties may be adversely affected by risks generally incident 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, room or occupancy rates in hotels, apartment complexes or commercial properties;

- Increases in other operating expenses (including energy costs);

- The availability of refinancing at lower interest rates or better loan terms;

- Changes in governmental rules, regulations and fiscal policies, including rent control ordinances, environmental legislation and taxation; and

- Increases in interest rates, real estate and personal property tax rates;

- Other factors beyond the control of the borrower or the lender.

Income producing property loans are generally made in amounts up to 75% of the appraised value, however, in certain instances, multifamily originations may be made at a loan to value ratio of 80%. Loans are generally made for terms up to ten years, with amortization periods up to 30 years. Depending on market conditions at the time the loan was originated, certain loan agreements may include prepayment penalties. Most real estate loans are subject to a quarterly adjustment of their interest rate based on one of several interest rate indexes.

As of December 31, 2000, 58.5% of the Bank's real estate loan portfolio was indexed to the Six-Month London Interbank Offered Rate; 10.1% was indexed to the reference rate charged by Bank of America; 3.4% was indexed to the Federal Home Loan Bank 11th District Cost of Funds Index; 23.5% was fixed for an initial period and then adjustable; 1.0% was indexed to either the United States Treasury security indexes or the Federal Home Loan Bank of San Francisco advance rate; and the balance of 3.5% was fixed rate. Most of the Bank's variable rate real estate loans may not adjust downward below their initial rate, with increases generally limited to maximum adjustments of 2% per year up to 4% for the life of the loan. The inability of the Bank's real estate loans to adjust downward can contribute to increased income in periods of declining interest rates, and also assists the Bank in our efforts to limit the risks to earnings and equity value resulting from changes in interest rates. At December 31, 2000, 95.0% of the Bank's variable rate and fixed/adjustable loan portfolio contained interest rate floors. The weighted-average minimum interest rate on this portfolio was 9.47%. At that date, 90.3% of the variable rate loans outstanding had a lifetime interest rate cap. The weighted-average lifetime interest rate cap on this portfolio was 14.35%.

The underwriting standards for loans secured by income producing real estate properties consider the borrower's financial resources and ability to repay and the amount and stability of cash flow, if any, from the underlying collateral, to be comparable in importance to the loan-to-value ratio as a repayment source. Management believes that, in recent years, the California economy has strengthened in some respects, however, a worsening of economic conditions in the state and surrounding regions could have an adverse effect on our real estate lending business, including reducing the demand for new loans, limiting the ability of borrowers to pay financed amounts, and impairing the value of our real estate collateral.

A small portion of the Bank's real estate loan portfolio consists of loans secured by junior liens on real estate. At December 31, 2000, 40 real estate loans in the aggregate amount of $5.0 million, or 0.5% of our real estate loan portfolio, were secured by second trust deeds. Of these loans collateralized by junior liens, 94% were secured by income producing properties and 6% were secured by one-four family residential properties. Of the Bank's real estate loans outstanding at December 31, 2000, $7.9 million represented loans to facilitate the sale of other real estate owned.

In 2000, 1999, and 1998, the Bank purchased income producing real estate loans totaling $110.9 million, none, and $2.4 million, respectively. In its commercial real estate loan purchases, the Bank generally reserves the right to reject particular loans from a loan pool being purchased and does so for loans in a pool that do not meet its underwriting criteria. In determining whether to purchase a commercial real estate loan, the Bank reviews the borrower's financial resources and ability to repay and the amount and stability of cash flow, if any, from the underlying collateral. Similar to its loan originations on commercial real estate loan purchases, the Bank reviews information concerning the income, financial condition, employment and credit history of the applicant, however, current appraisals and borrower credit reports are not obtained. On commercial real estate loan purchases, the Bank reviews the original appraisal and credit report obtained by the loan seller or originator and arranges for a staff member or an outside consultant to perform an analysis of the loan and the value of the underlying collateral, including on-site inspection, before purchasing the loan. In addition, the Bank generally obtains an updated title search separate from that provided by the loan seller. For a further discussion of the Bank's underwriting procedures, see "Lending, Origination, Purchasing and Underwriting" set forth below.

Construction Loans. We also originate construction loans for income producing properties, as well as for single-family home construction. At December 31, 2000, the Bank had $95.2 million of construction loans outstanding, representing 8.9% of its loans receivable. In addition to the lending risks previously discussed, construction loans also present risks associated with the accuracy of the initial estimate of the property's value upon completion and its actual value, the timely completion of construction activities for their allotted costs and the time needed to stabilize income properties or sell residential tract developments. These risks can be affected by a variety of factors, including the oversight of the project, localized costs for labor and materials, and the weather.

Residential Lending. In 2000, we continued to execute the strategy commenced in 1999 to diversify our product mix and concentration of commercial real estate loans through the bulk purchase of single-family residential loans. Under guidelines established by the Board of Directors, the Company's loan portfolio may consist of up to $165 million of single family residential loans. We determine the bid prices on these loan pools on a pool by pool basis, through an analysis of the pool's return on equity and return on assets, desired yield spreads, acceptable risk characteristics, market conditions and a thorough analysis of the originator/seller. After our bid is accepted by the seller, we conduct a due diligence review of the loans in the pool. Based on due diligence results, individual loans are kept in the proposed pool, rejected from the pool or put on hold pending additional information or a pricing adjustment. The pool and pricing is then finalized, a purchase and sale agreement is signed, and the purchase is

completed. During 2000 and 1999, we bought a total of 667 loans and 805 loans with a total outstanding principal balance of $79.0 million and $90.8 million, paying a total premium of $1.7 million and $2.7 million to acquire these loans, respectively. At December 31, 2000, 1,195 of these loans remained, with an outstanding principal balance of $131.0 million and related unamortized purchase premium of $2.4 million.

Franchise Loans. In 2000, we commenced purchasing franchise loans through relationships with correspondent franchise loan originators. Franchise loans are loans to owners of businesses, both franchisers and franchisees, such as fast food restaurants or gasoline retailers, that are affiliated with nationally or regionally recognized chains and brand names. Various combinations of land, building, business equipment and fixtures may secure these loans, or they may be a general obligation of the borrower based on a valuation of the borrower's business and debt service ability. In each case, the primary source of repayment is the cash flow of the business and not the underlying value of the collateral. Our correspondent relationships, which may change from time to time, allow us to purchase loans in our sole discretion which meet our underwriting and yield criteria. As of December 31, 2000, we had purchased four such loans, with a total commitment of $5.9 million and an outstanding balance of $3.9 million.

Lending, Origination, Purchases and Underwriting. Many of the Bank's income producing property loans are made to lower credit grade borrowers that have marginal credit histories or the property has other factors such as debt-to-income ratios or property location that prevent the borrower from obtaining a prime interest rate. Likewise, residential loans purchased generally do not meet the Federal National Mortgage Association or Federal Home Loan Mortgage Corporation's underwriting standards with respect to credit, debt ratios and documentation, whether as a result of marginal credit histories, the absence of credit history, high debt-to-income ratios, reliance on the borrower's stated income with verification of employment, non-owner occupied property, rural property, balloon payment or a variety of other exceptions from agency guidelines. We attempt to mitigate the risk associated with these loans by charging higher interest rates and through our loan approval and loan purchasing process. The Bank's loan underwriters are responsible for initial reviews of borrowers, properties, loan terms, and submission of loans to the loan committee.

All real estate loans over $1.0 million must be submitted to the loan committee for approval. The Bank's loan underwriters prepare a written presentation on every loan application submitted to its loan committee, which is comprised of the following Bank officers:

- Chairman, Chief Executive Officer, President and Chief Operating Officer

- Vice Chairman and Chief Credit Officer

- Managing Director-New Business Development

- Senior Vice President and Chief Lending Officer

- First Vice President of Credit Quality Control

- First Vice President/Director of Loan Operations

- Vice President/Portfolio Administration

The underwriter's presentation includes a description of the prospective borrower and any guarantors, the collateral, and the proposed use(s) of loan proceeds, as well as borrower and property financial statements and analysis. Each application is evaluated from a number of underwriting perspectives, including property appraised value, level of debt service coverage, remaining economic life, use and condition, as well as borrower liquidity, net worth, cash investment, income, credit history and operating experience. Our real estate loans are originated on both a nonrecourse and full recourse basis and we generally seek to obtain personal guarantees from the principals of borrowers which are single asset or limited liability entities (such as partnerships, corporations or trusts) on properties that have not achieved stabilization.

At least one loan committee member or designee must personally conduct on-site inspections of any property involved in loan recommendations of $1.0 million or more. Loans up to $750,000 may be approved by any loan committee member. Loans of $750,000 to $1.0 million require the approval by any two members of the Bank's loan committee, while loans in excess of $1.0 million require approval of three loan committee members. Additionally, loans over $1.5 million must be approved by the First Vice President of Credit Quality Control; loans

over $3.0 million require the additional signature of the Vice Chairman and Chief Credit Officer; and individual loans over $5.0 million, loans resulting in an aggregate borrowing relationship to one borrower in excess of $7.5 million, and all purchased loan pools must be approved by the executive committee of the Bank's board of directors.

Variable rate loans over $500,000 must generally satisfy an interest rate sensitivity test in order for the loan origination or purchase to be approved; that is, the current stabilized income of real property security must be adequate to achieve a minimum debt service coverage ratio of 90% if the interest rate on the loan was at the maximum amount allowed under the terms of the note, generally the fully indexed start rate plus 400 basis points. Following loan approval and prior to funding, the Bank's underwriting and processing departments assure that all loan approval terms have been satisfied, that they conform with lending policies (or are properly authorized exceptions), and all required documentation is present and in proper form.

All reviews of residential loans being considered for purchase are initially performed through our loan acquisition department. We place bids on pools of loans meeting its investment and credit risk objectives, subject to due diligence and negotiation of an acceptable purchase agreement. The Bank's Vice Chairman and Chief Credit Officer and the Chief Financial Officer must each approve the bid prior to submission. All purchases are made within the parameters set by the Bank's Board of Directors for loan purchases and originations and require the approval of both the loan committee and the asset/liability management committee.

If we are the successful bidder, a due diligence review of each loan in the pool is completed to finalize the pool of loans to be acquired. This review includes an evaluation of the seller's representations and warranties and of the adequacy of the applicable loan documentation (e.g., the existence of a note, including confirmation of the interest rate and outstanding loan balance, mortgage, title policy, borrower financial statements, tax returns, environmental reports, etc.). An estimate of the current value of the real estate collateral is determined by obtaining a brokers' price opinion report for every loan considered for purchase, which is then compared to and reconciled with the original appraisal by staff appraisers from the Bank's appraisal department.

The maximum size of a single real estate loan made by the Bank is limited by California law to 25% of the Bank's equity capital. At December 31, 2000, that limit was approximately $27.7 million. The Bank's largest combined credit extension to related borrowers was $10.9 million at December 31, 2000. At December 31, 2000, the Bank had a total of 137 extensions of credit, with a combined outstanding principal balance of $517.6 million, that were over $2.0 million to a single borrower or related borrowers. Two of these combined extensions of credit, with a total principal balance of $10.4 million (and a net book balance of $8.6 million), were on nonaccrual status at December 31, 2000. All other combined extensions of credit over $2.0 million were performing in accordance with their repayment terms. At December 31, 2000, the Bank had 2,223 secured real estate loans outstanding, with an average balance per loan of approximately $480,000.

Servicing and Collections. Servicing of our purchased residential loans is contracted to Fairbanks Capital Corporation, an organization specializing in the collection and servicing of residential loans. Commercial real estate loans held by the Bank are serviced by the Bank's loan servicing department, which is designed to provide prompt customer service, and accurate and timely information for account follow-up, financial reporting and management review. As discussed below, servicing of the loans held in the ICCMAC Trust is performed by a third-party servicer. Following the funding or purchase of an approved loan, all pertinent loan data is entered into the Bank's data processing system, which provides monthly billing statements, tracks payment performance, and processes contractual interest rate adjustments on variable rate loans. Regular loan service efforts include payment processing and collection follow-up, as well as tracking the performance of additional borrower obligations with respect to the maintenance of casualty insurance coverage, payment of property taxes and senior liens, if any, and periodically requesting required information, including current borrower and property financial and operating statements. Additional services are performed by the Bank in connection with the monitoring of loans to borrowers secured by stabilizing projects. These projects involve lease-up or renovation activities. The Bank monitors these loans to ensure that projects are performing as underwritten. This monitoring allows the Bank to take a proactive approach to addressing projects that do not perform as planned. When payments are not received by their contractual due date, collection efforts begin on the fifth day of delinquency with a telephone contact, and proceed to written notices that progress from reminders of the borrower's payment obligation to an advice that a notice of default may be forthcoming. Accounts delinquent for more than 30 days are generally transferred to the Bank's asset management department which, following a review of the account and management approval, implements a collection or restructure plan, or a disposition strategy, and evaluates any potential loss exposure on the asset.

Competition. Our competition in originating real estate loans is principally from community banks, savings and loan associations, other industrial banks, real estate financing conduits, small insurance companies, and occasionally larger banks. Many of these entities enjoy competitive advantages over us relative to a potential borrower in terms of a prior business relationship, wider geographic presence or more accessible branch office locations, the ability to offer additional services or more favorable pricing alternatives, or a lower cost of funds structure. We attempt to offset the potential effect of these factors by providing borrowers with greater individual attention and a more flexible and time-sensitive underwriting, approval and funding process than they might obtain elsewhere.

IMPERIAL CAPITAL REAL ESTATE INVESTMENT TRUST

During 2000, we acquired all of the equity and certain CMO's of the ICCMAC Trust through our real estate investment trust subsidiary, Imperial Capital REIT. On the date of acquisition, the ICCMAC Trust held assets of $250.5 million, comprised of approximately 65 percent and 35 percent of multifamily and commercial loans, respectively, with over 50 percent of the loans secured by property located in California. Over two-thirds of the loans are adjustable rate mortgages. On the date of acquisition the ICCMAC Trust's loans were held as collateral for $205.4 million of investment grade CMO's sold to third party investors. Through this investment, we established a new source of cash flow for ITLA Capital other than distributions from the Bank. As of December 31, 2000, the ICCMAC Trust's loan pool had decreased to $209.3 million due to normal amortization and payoffs of the loans in the pool. The cash flow from the ICCMAC Trust's loan pool pays principal and interest on the CMO's, and also provides cash flow on a monthly basis to ITLA Capital. At December 31, 2000, the CMO's had an outstanding balance of $161.9 million, and ITLA Capital had recorded $4.6 million of pre-tax income from its investment in the ICCMAC Trust.

Servicing of the ICCMAC Trust loans is performed by Banc One Mortgage Capital Markets, LLC ("Banc One"), a Delaware limited liability company. Under the servicing agreement, Banc One is required to service and administer the commercial mortgage loans held in trust solely on behalf of the best interests of and for the benefit of the holders of the CMO's in accordance with the terms of the servicing agreement and the commercial mortgage loans. Banc One is required to perform other customary functions of a servicer of comparable loans, including monitoring insurance coverage; maintaining escrow or impoundment accounts of borrowers for payment of taxes, insurance and other items required to be paid pursuant to the loan agreement; processing assumptions or substitutions in those cases where the loan servicer has determined not to enforce any applicable due-on-sale clause; demanding that the borrower cure delinquencies; inspecting and managing commercial mortgaged properties under certain circumstances; and maintaining records relating to the commercial mortgage loans.

NONPERFORMING ASSETS AND OTHER LOANS OF CONCERN

At December 31, 2000, nonperforming assets totaled $20.4 million or 1.44% of total assets. Nonperforming assets consisted of $18.1 million of nonaccrual real estate loans and $2.3 million of other real estate owned held by the Bank. Three of our nonperforming real estate loans had an outstanding balance greater than $1.0 million. For additional information regarding nonperforming assets see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations-Credit Risk Elements".

The following is a brief discussion of our three nonaccrual loans where the remaining principal balance of the loan at December 31, 2000, exceeded $1.0 million.

Loan Secured by a Distribution Warehouse Facility - Mississippi. This loan was originated by the Bank in February 1999 with a total loan amount of $8.5 million. In January 2000, the building's single tenant filed for bankruptcy protection. In November 2000, the lease was rejected through the bankruptcy court and tenant vacated the building. The Bank has entered into a forbearance agreement with the borrower who has commenced to market the property for sale or lease.

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Loan Secured by an Office/Restaurant Complex - Arizona. This loan was originated by the Bank in January 1997 with an original loan amount of $1.9 million. In November 1997, an additional advance of $400,000 was funded to complete construction. The loan was placed on nonaccrual status in September 1998 due to delinquent monthly payments and the bankruptcy filing by borrower. During 1999 and 2000, the loan was written down to its book balance at December 31, 2000 of $1.4 million. Although the borrower's plan of reorganization was confirmed on July 26, 2000 and principal and interest payments commenced under the plan on September 26, 2000, we have applied all payments received to date against the principal balance of the loan and intend to do so until a satisfactory payment history has been established.

Loan Secured by a Senior Apartment Complex - California. This loan was originated by the Bank in December 1997 with an original loan commitment of $1.6 million, which included funds to convert the property into senior apartments. No payments have been received since August 2000. The loan balance as of December 31, 2000 was $1.6 million. The loan matured in November 2000, and we have filed a notice of default. The property was 89% occupied as of December 2000.

As of December 31, 2000, we had outstanding loans with an aggregate outstanding balance of $70.9 million with respect to which known information concerning possible credit problems with the borrowers or the cash flows of the properties securing the respective loans has caused management to be concerned about the ability of the borrowers to comply with present loan repayment terms, which may result in the future inclusion of such loans in the nonaccrual loan category. The following is a brief discussion of our "other loans of concern" where the remaining principal balance of the loan at December 31, 2000 exceeded $2.0 million.

Loan Secured by Gas Station, Convenience Store and Car Wash - California. This construction loan was originated by the Bank in August 1999. The outstanding principal balance at December 31, 2000 was $5.0 million. This loan matured on September 1, 2000, and is delinquent more than 90 days due to a dispute among the partners of the borrowing entity. The Bank currently holds $400,000 of the guarantors' funds in a pledged passbook account, and intends to offset these funds against the amounts due on our note. We consider this loan a performing asset because, based on the cash collateral the Bank holds, and the cashflow now being generated from the operations of the real estate collateral, this loan is well secured and in the process of collection.

Loan Secured by a Hotel - California. This is a participation loan where the Bank purchased a 29.4% share ($5.0 million) of a $17.0

million loan that was originated by another financial institution in October 1998. Our outstanding balance was $4.8 million as of December 31, 2000. The loan matured in August 2000 and was extended under a forbearance agreement to October 2000 to allow the borrower time to refinance the property with another lender. Notice of default was filed in October 2000, as no take out financing materialized during the forbearance period. The monthly payments on the loan are being received at the default rate of interest, however, the loan is delinquent due to its matured status. The loan is well secured and in the process of collection, based on the borrowers' efforts to refinance the property, the cash flow from the property's operations, which result in a debt service coverage ratio of 1.67, and the estimated loan to value ratio of 73%.

Loan Secured by Office Complex - Alabama. This loan was originated by the Bank in February 1999 with an original amount of $4.0 million. The outstanding balance as of December 31, 2000 was $3.8 million. In December 2000, a large tenant vacated the space it occupied upon maturity of its lease, which brought the occupancy down to 66%. To date, all monthly payments have been made as agreed. We continue to monitor the borrowers' efforts to lease the vacant space.

Loan Secured by Hotel - Arizona. This loan was originated by the Bank in July 1998 with an original commitment of $4.0 million secured by a 99-unit hotel. The outstanding principal balance at

December 31, 2000 was $3.8 million. The loan has paid as agreed since inception, however, the cash flow from the operations of the collateral has been less than the debt service on our loan for the last three years. We continue to monitor the borrowers' efforts to improve the cashflow of the hotel.

Loan Secured by Hotel - Arizona. This loan was originated by the Bank in March 1998 with an original commitment of $3.5 million secured by a 138-unit hotel. The outstanding principal balance at December 31, 2000 was $3.0 million; as the guarantor made a principal reduction payment of $500,000 in November 2000. The loan has paid as agreed since inception, however, the cash flow from the operations of the collateral has been less than the debt service on our loan, and there has been a deterioration in the value of the property securing the loan. We continue to monitor the borrower's efforts to improve the cash flow of the hotel.

Loan Secured by Office Complex - Nevada. This loan was originated by the Bank in May 2000 as a refinance of a Bank construction loan that was originally funded in 1998. The original loan amount was $4.2 million and the current outstanding balance as of December 31, 2000 was $3.4 million. The loan is being monitored due to the slow lease-up of the office buildings that were built in the complex. At December 31, 2000, three of the four buildings in the complex are nearing stabilized occupancy, and the remaining building is nearing completion and leasing efforts are under way.

Loan Secured by Three Separate Apartment Buildings - Florida. This loan was originated by the Bank in December 1998 with an original balance of $3.2 million and currently has an outstanding balance of $3.1 million as of December 31, 2000. Since inception this loan has been a constant collection problem with several late payments and several payments returned for non-sufficient funds. In October 2000 a foreclosure action was again initiated and is currently progressing. As of December 31, 2000, the loan was delinquent less than 90 days, however, no payments have been received to date.

Loan Secured by a Hotel - Washington. This loan was originated by the Bank in February 1998 with an original commitment of $3.7 million secured by 123-unit hotel. The outstanding principal balance at December 31, 2000 was $3.1 million. The loan has paid as agreed since inception, however, the cash flow from the operations of the collateral has been less than the debt service on our loan and the occupancy rate has been low for the last 2 years. We continue to monitor the borrower's efforts to improve the cash flow of the hotel.

Loan Secured by Motel - Arizona. This loan was originated by the Bank in May 1997 with an original commitment of $2.2 million secured by a 90-unit motel. The outstanding principal balance at December 31, 2000 was $2.0 million. The loan has paid as agreed since inception, however, the cash flow from the operations of the collateral has been less than the debt service on our loan for the last two years. We continue to monitor the borrower's efforts to improve the cash flow of the motel.

CLASSIFIED ASSETS

Management uses a loan classification system consistent with the classification system used by bank regulatory agencies to help it evaluate the risks inherent in its real estate loan portfolio. Loans are identified as "pass", "special mention", "substandard", "doubtful" or "loss" based upon consideration of all sources of repayment, underlying collateral values, current and anticipated economic conditions, trends and uncertainties, and historical experience. Pass loans are further divided into four additional sub-categories, based on the borrower's financial strength and ability to service the debt and/or the value and debt service capacity of the underlying collateral. Underlying collateral values for real estate dependent loans are supported by property appraisals or evaluations. We review our loan classifications on at least a quarterly basis. At December 31, 2000, we classified $45.9 million of loans as "substandard" and $43.1 million as "special mention". Of the loans comprising the $45.9 million in "substandard" loans, $18.1 million were included in the nonperforming assets table in "Item 7. Management's Discussion and Analysis of Results of Operations and Financial Condition - Credit Risk Elements", and the balance was included in the $70.9 million of "other loans of concern", discussed above.

FUNDING SOURCES

The primary source of funding for the Bank's lending operations and investments are investment certificates, which are functionally equivalent to certificates of deposit at banks and savings and loan associations and are hereinafter referred to as "deposits". The Bank's deposits are federally insured by the FDIC to the extent permitted by law. Approximately 90% of the Bank's deposits are term deposits that pay fixed rates of interest for periods ranging from 90 days to five years. The remaining 10% of the Bank's deposits are variable rate passbook accounts and a variable rate money market accounts with limited checking features.

As with many other industrial banks in California, the Bank's strategy with all deposit accounts is to offer rates significantly above those customarily offered by other financial institutions in its market. The Bank has generally accumulated deposits by relying on renewals of term accounts by existing depositors, participating in deposit rate surveys which list the Bank among the higher rate paying insured institutions, and periodically advertising in various local market newspapers and other media. The Bank is able to pursue this strategy by operating a savings branch system offering fewer products and services than many institutions. Because the Bank does not provide demand checking accounts, safe deposit boxes, money orders, trust services, and various other retail banking services, management believes its staffing and overhead costs are significantly lower than banks and savings institutions. Management further believes that its deposits are a reliable funding source and that the cost of funds resulting from the Bank's deposit gathering strategy is comparable to those of other industrial banks pursuing a similar strategy. However, because the Bank competes for deposits primarily on the basis of rates, the Bank could experience difficulties in attracting deposits if it could not continue to offer deposit rates at levels above those of the banks and savings institutions. Management also believes that any efforts to significantly increase the size of its deposit base may require greater marketing efforts and/or increases in deposit rates to the higher levels of the deposit rate surveys in which the Bank is included. Although there were no brokered deposits outstanding at December 31, 2000, the Bank may seek such deposits in the future. For information concerning overall deposits outstanding during the periods indicated and the rates paid thereon, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Net Interest Income".

The Bank has also used advances from the Federal Home Loan Bank of San Francisco as a funding source. The Bank became a member of the Federal Home Loan Bank of San Francisco in 1994 and was subsequently approved for a credit line up to 25% of its total assets. Federal Home Loan Bank advances are collateralized by pledges of qualifying cash equivalents, investment securities, mortgage-backed securities and whole loan collateral. At December 31, 2000, Federal Home Loan Bank advances outstanding totaled $79.3 million, and the remaining available borrowing capacity, based on the loans and securities pledged as collateral, totaled $157.7 million, net of the $8.3 million of additional FHLB Stock that we would be required to purchase to support the additional borrowings. Additionally, the Bank also has uncommitted, unsecured lines of credit with other banks renewable daily in the amount of $30.0 million. See "Item 8. Financial Statements and Supplementary Data - Notes to Consolidated Financial Statements - Notes 2, 3, 7 and 8".

REGULATION

The Bank is an industrial bank that is subject to examination, supervision and regulation by the Department of Financial Institutions of the State of California (the "Department") and, as an insured institution, by the FDIC. As a result of legislation enacted September 30, 2000, industrial banks, formerly known as industrial loan companies, are now generally subject to California banking law. Industrial banks are now generally able to engage in all the activities of a California commercial bank, including, subject to approval, the trust business. Notwithstanding the new legislation, industrial banks such as Imperial Capital Bank may not accept demand deposits. The Bank's holding company, ITLA Capital, is not a bank holding company for federal bank holding company purposes and is not directly regulated or supervised by the Department, the FDIC, the FRB or any other bank regulatory authority, except with respect to the general regulatory and enforcement authority of the Department and the FDIC over transactions and dealings between us and the Bank, and except with respect to both the specific limitations regarding ownership of the capital stock of the parent corporation of any industrial bank.

CALIFORNIA LAW

The industrial banking business conducted by the Bank, formerly governed by the California Industrial Loan Law, is now subject to the California Banking

Laws and the rules and regulations pertaining thereto as regulated by the Department. The regulations of the Department govern most aspects of the Bank's businesses and operations, including, but not limited to, the scope of its business, investments, the nature and amount of any collateral for loans, the issuance of securities, the payment of dividends, bank expansion and bank activities. The Department's supervision of the Bank includes comprehensive reviews of all aspects of the Bank's business and condition, and the Department possesses broad remedial enforcement authority to influence the Bank's operations, both formally and informally.

FEDERAL LAW

Because our deposits are insured by the Bank Insurance Fund of the FDIC, the FDIC, in addition to the Department, also broadly regulates the Bank. As an insurer of deposits, the FDIC issues regulations, conducts examinations, requires the filing of reports, and generally supervises the operations of institutions to which it provides deposit insurance. The FDIC is also the federal agency charged with regulating state-chartered banks that are not members of the Federal Reserve System, such as the Bank. Therefore any person who wishes to acquire control of the Bank must obtain the consent of both the FDIC and the Department of Financial Institutions. Insured depository institutions, and their institution-affiliated parties, may be subject to potential enforcement actions by the FDIC and the Department for unsafe or unsound practices in conducting their businesses or for violations of any law, rule, regulation or any condition imposed in writing by the agency or any written agreement with the agency. Management is not aware of any pending or threatened enforcement actions against the Bank.

Regulatory Capital Requirements. Federally-insured, state-chartered banks, including industrial banks such as the Bank, are required to maintain minimum levels of regulatory capital as specified in the FDIC's capital maintenance regulations. The FDIC also is authorized to impose capital requirements in excess of these standards on individual banks on a case-by-case basis.

The Bank is required to comply with three separate minimum capital requirements: a "tier 1 capital ratio" and two "risk-based" capital requirements. "Tier 1 capital" generally includes common shareholders' equity, including retained earnings, qualifying noncumulative perpetual preferred stock and any related surplus, and minority interests in the equity accounts of fully consolidated subsidiaries, less intangible assets, other than properly valued purchased mortgage servicing rights up to certain specified limits and less net deferred tax assets in excess of certain specified limits.

Tier 1 Capital Ratio. FDIC regulations establish a minimum 3.0% ratio of Tier 1 capital to total average assets for the most highly-rated state-chartered, FDIC-supervised banks. All other FDIC supervised banks must maintain at least a 4.0% tier 1 capital ratio. Under FDIC regulations, highly-rated banks are those that the FDIC determines are not anticipating or experiencing significant growth and have well diversified risk, including no undue interest rate risk exposure, excellent asset quality, high liquidity and good earnings. At December 31, 2000, the Bank's required tier 1 capital ratio was 4.0% and its actual tier 1 capital ratio was 9.1%.

Risk-Based Capital Requirements. The risk-based capital requirements generally require the Bank to maintain a ratio of tier 1 capital to risk-weighted assets of at least 4.0% and a ratio of total risk-based capital to risk-weighted assets of at least 8.0%. To calculate the amount of capital required, assets are placed in one of four categories and given a percentage weight (0%, 20%, 50% or 100%) based on the relative risk of the category. For example, United States Treasury Bills and Ginnie Mae securities are placed in the 0% risk category. Fannie Mae and Freddie Mac securities are placed in the 20% risk category, loans secured by one-to four family residential properties and certain privately-issued mortgage-backed securities are generally placed in the 50% risk category, and commercial and consumer loans and other assets are generally placed in the 100% risk category. In addition, certain off-balance-sheet items are converted to balance sheet credit equivalent amounts and each amount is then assigned to one of the four categories.

For purposes of the risk-based capital requirements, "total capital" means tier 1 capital plus supplementary or tier 2 capital, so long as the amount of supplementary or tier 2 capital that is used to satisfy the requirement does not exceed the amount of tier 1 capital. Tier 2 capital includes cumulative or other perpetual preferred stock, mandatory convertible subordinated debt and perpetual subordinated debt, mandatory redeemable preferred stock, intermediate-term preferred stock, mandatory convertible subordinated debt and subordinated debt, and the allowance for loan losses up to a maximum of 1.25% of risk-weighted assets. At December 31, 2000 the Bank's tier 1 risk-based and total capital ratios were 10.4% and 11.6%, respectively.

The federal banking agencies have adopted regulations specifying that the agencies will include, in their evaluations of a bank's capital adequacy, an assessment of the exposure to declines in the economic value of the bank's capital due to changes in interest rates. The FDIC and the other federal banking agencies have also

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promulgated final amendments to their respective risk-based capital requirements which would explicitly identify concentration of credit risk and certain risks arising from nontraditional activities, and the management of such risk, as important factors to consider in assessing an institution's overall capital adequacy. The FDIC may now require higher minimum capital ratios based on certain circumstances, including where the institution has significant risks from concentration of credit or certain risks arising from nontraditional activities.

For regulatory purposes, the federal banking agencies have adopted Statement of Financial Accounting Standards No. 115 - "Accounting for Certain Investments in Debt and Equity Securities" as amended, which requires that net unrealized gains and losses on certain securities classified available for sale be included in accumulated other comprehensive income. The FDIC requires that the net amount of unrealized losses from available for sale equity securities with readily determinable fair values be deducted for purposes of calculating the tier 1 capital ratio. All other net unrealized holding gains and losses on available for sale securities are excluded from the definition of tier 1 capital. At December 31, 2000, the Bank had no equity securities classified as available for sale.

Prompt Corrective Action Requirements. The FDIC has implemented a system requiring regulatory sanctions against state-chartered banks (which, for this purpose, includes the Bank) that are not adequately capitalized, with the sanctions growing more severe the lower the institution's capital. The FDIC has established specific capital ratios for five separate capital categories: "well capitalized", "adequately capitalized", "undercapitalized", "significantly undercapitalized", and "critically undercapitalized".

An institution is treated as "well capitalized" if its total risk based capital ratio is 10.0% or more, its tier 1 risk-based ratio is 6.0% or more, its tier 1 capital ratio is 5.0% or greater, and it is not subject to any order or directive by the FDIC to meet a specific capital level. The Bank exceeded these requirements at December 31, 2000.

The FDIC is authorized and, under certain circumstances, required to take certain actions against institutions that fail to meet their capital requirements. The FDIC is generally required to take action to restrict the activities of an "undercapitalized" institution. Any such institution must submit a capital restoration plan and, until such plan is approved by the FDIC, may not increase its assets, acquire another institution, establish a branch or engage in any new activities, and generally may not make capital distributions.

In addition, the FDIC must appoint a receiver or conservator for an institution, with certain limited exceptions, within 90 days after it becomes "critically undercapitalized". Any "undercapitalized" institution is also subject to the general enforcement authority of the FDIC, including the appointment of a conservator or a receiver.

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

Safety and Soundness Standards. The federal banking agencies adopted guidelines that establish standards for safety and soundness. The guidelines set forth operational and managerial standards relating to internal controls, information systems and internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, fees and benefits. The guidelines establish the safety and soundness standards that the agencies will use to identify and address problems at insured depository institutions before capital becomes impaired. If an institution fails to comply with a safety and soundness standard, the appropriate federal banking agency may require the institution to submit a compliance plan. Failure to submit a compliance plan or to implement an accepted plan may result in enforcement action.

Regulatory Guidance on Subprime Lending. The federal banking agencies have recently issued interagency guidance on subprime lending, which is defined in the guidance as extending credit to borrowers who have a significantly higher risk of default than traditional bank lending customers. The guidance provides that institutions should recognize the additional risks inherent in subprime lending and determine if these risks are acceptable and controllable given the institution's staff, financial condition, size and level of capital support. Institutions that engage in subprime lending in any significant way should have board-approved policies and procedures, as well as internal controls that identify, measure, monitor and control these additional risks. If assets are considered subprime, additional capital is required, ranging from 1.5 times to three times the amount of capital required for like kind assets that are not subprime. We believe that the Bank is conducting its residential lending operations in accordance with the regulatory guidance that is currently in effect.

FDIC Insurance Assessments. The FDIC assesses deposit insurance premiums under a risk-based assessment system, which is based on the probability that the deposit insurance fund will incur a loss with respect to the institution, the likely amount of any loss, and the revenue needs of the deposit insurance fund. For the fiscal year ended December 31, 2000, the Bank paid $188,000 of assessments to the FDIC.

Restrictions on Imperial Capital Bank's Investments and Activities. A state-chartered bank and its subsidiaries may not engage as principal in any activities that are not permissible for national banks and their subsidiaries unless: (1) the bank meets the applicable FDIC capital standards described above; and (2) the FDIC has determined that the activity would pose no significant risk to the Bank Insurance Fund. With limited exceptions, the FDIC may not use this authority to permit a state-chartered bank to engage in equity investments (other than investments in subsidiaries) or in insurance underwriting. The Bank's activities are permissible activities for national banks.

In addition, federal law imposes restrictions on transactions between the Bank and its affiliates. All these transactions, including leases and service contracts, must be on terms and under circumstances that are substantially the same, or at least as favorable to the Bank, as those prevailing at the time for comparable transactions involving nonaffiliated companies. The California banking law also applies certain restrictions to transactions with affiliates. Federal and state law also places limitations on loans by the Bank to its directors, officers and controlling persons. Among other things, such loans must be made on terms substantially the same as for loans to unaffiliated persons.

Community Reinvestment Act and Fair Lending Developments. The Bank is subject to certain fair lending requirements and reporting obligations involving lending operations and Community Reinvestment Act activities. Federal banking agencies are required to evaluate the record of financial institutions 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 into account when regulating and supervising other activities. In its most recent examination, the FDIC rated the Bank "satisfactory" in complying with its Community Reinvestment Act obligations.

Fiscal and Monetary Policies. Our business and earnings are affected significantly by the fiscal and monetary policies of the federal government and its agencies. We are particularly affected by the policies of the Federal Reserve Board, which regulates the supply of money and credit in the United States. Among the instruments of monetary policy available to the Federal Reserve Board are (a) conducting open market operations in United States government securities; (b) changing the discount rates of borrowings of depository institutions, (c) imposing or changing reserve requirements against depository institutions' deposits, and (d) imposing or changing reserve requirements against certain borrowings by banks and their affiliates. These methods are used in varying degrees and combinations to directly affect the availability of bank loans and deposits, as well as the interest rates charged on loans and paid on deposits. The policies of the Federal Reserve Board may have a material effect on the Company's business, results of operations and financial condition.

Privacy Provisions of the Gramm-Leach-Bliley Act. Federal banking regulators, as required under the Gramm-Leach-Bliley Act (the "GLB Act"), have adopted rules limiting the ability of banks and other financial institutions to disclose nonpublic information about consumers to nonaffiliated third parties. The rules became effective November 13, 2000, but compliance before July 1, 2001 is optional. The rules require disclosure of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to nonaffiliated third parties. The privacy provisions of the GLB Act will affect how consumer information is transmitted through diversified financial service companies and conveyed to outside vendors. It is not possible at this time to assess fully the impact of the privacy provisions on our business, results of operations or financial condition.

Future Legislation. Various legislation, including proposals to change substantially the financial institution regulatory system, is from time to time introduced in Congress. This legislation may change banking statutes and the operating environment of the Company in substantial and unpredictable ways. If enacted, this legislation could increase or decrease the cost of doing business, limit or expand permissible activities or affect the competitive balance among banks, savings associations, credit unions, and other financial institutions. We cannot predict whether any of this potential legislation will be enacted and, if enacted, the effect that it, or any implementing regulations, would have on our business, results of operations or financial condition.

DATA PROCESSING AGREEMENT

We have an agreement with a third party to provide data processing services, including loan portfolio accounting and transaction processing, deposit account processing, and general ledger accounting. The fees under the agreement consist of a base monthly fee, which may vary based on the number of accounts processed, as well as other charges based on usage. This agreement is renewed on an annual basis. Charges under the agreement totaled approximately $356,000 in 2000. As of December 31, 2000, the estimated remaining payments due under the contract, at current portfolio and service levels, were approximately $425,000.

ITEM 2. PROPERTIES

ITLA Capital leases approximately 62,000 square feet of office space for its operations as shown below.

LOCATIONS	OFFICE USES	SQUARE FOOTAGE	YEAR CURR LEASE TE EXPIRE
La Jolla, CA	Corporate Headquarters	10,582	2003
Glendale, CA	Loan Operations Division / Real Estate Lending	8,932	2005
San Francisco, CA	Retail Deposit Branch / Real Estate Lending	5,005	2002
Beverly Hills, CA	Retail Deposit Branch	2,218	2005
Costa Mesa, CA	Retail Deposit Branch / Money Desk Operations / Real Estate Lending	3,609	2006
Del Mar, CA	Retail Deposit Branch / Savings Operations Division / Real Estate Lending	2,847	2004
Encino, CA	Retail Deposit Branch / Operations Support Division	5,298	2004
Glendale, CA	Retail Deposit Branch / Loan Administration Division	23,498	2006

For additional information regarding our premises, see "Item 8. Financial Statements and Supplementary Data - Notes to Consolidated Financial Statements - Note 15".

Management believes that ITLA Capital's present facilities are adequate for its current needs, and that alternative or additional space, if necessary, will be available on reasonable terms.

ITEM 3. LEGAL PROCEEDINGS

We are party to certain legal proceedings incidental to our business. Management believes that the outcome of such proceedings, in the aggregate, will not have a material effect on our business, financial condition or results of operations.

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

No matter was submitted to a vote of security holders, through the solicitation of proxies or otherwise, during the quarter ended December 31, 2000.

PART II

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

Our common stock is traded on the NASDAQ national market system under the symbol "ITLA". At December 31, 2000, there were approximately eight holders of record of our common stock representing approximately 1,000 shareholders and 6,660,413 shares outstanding.

The following table sets forth, for the periods indicated, the range of high and low trade prices for our common stock. Stock price data on NASDAQ reflects interdealer prices, without retail mark-up, mark-down or commission.

	Market Price			Average D
	High	Low	Close	Closing P
2000				
4th Quarter	$19.13	$14.25	$19.13	$15.09
3rd Quarter	15.31	13.88	14.81	14.45
2nd Quarter	15.00	12.75	14.50	13.51
1st Quarter	13.00	10.75	12.75	11.71
1999				
4th Quarter	$15.25	$12.00	$12.56	$14.16
3rd Quarter	16.50	14.63	14.75	15.68
2nd Quarter	17.50	14.50	15.75	15.35
1st Quarter	15.50	13.38	14.50	14.69

The following table includes supplementary quarterly operating results and per share information for the past two years. The data presented should be read along with "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and with "Item 8. Financial Statements and Supplementary Data" included elsewhere in this report.

QUARTERLY OPERATIONS (UNAUDITED)

	For the Quarter Ended			
	March 31	June 30	September 30	December 31
	(in thousands except per share amounts)			
2000				
Net interest income	$12,917	$13,880	$14,080	$ 14,256
Provision for loan losses	600	1,200	1,525	1,450
Noninterest income	1,574	144	208	405
General and administrative expense	6,665	5,101	5,006	5,282
Total real estate owned expense, net	159	(54)	36	(3)
Provision for income taxes	2,823	3,184	2,999	2,874
Net income	4,244	4,593	4,623	4,679
Basic Earnings Per Share	$ 0.59	$ 0.64	$ 0.66	$ 0.69
Diluted Earnings Per Share	$ 0.58	$ 0.63	$ 0.65	$ 0.66
1999				
Net interest income	$12,670	$13,271	$13,318	$ 13,494
Provision for loan losses	1,200	1,200	1,400	1,150
Noninterest income	278	310	201	112
General and administrative expense	5,102	5,425	5,117	5,113
Total real estate owned expense, net	8	147	21	296
Provision for income taxes	2,724	2,788	2,862	2,896
Net income	3,914	4,021	4,119	4,151
Basic Earnings Per Share	$ 0.55	$ 0.56	$ 0.57	$ 0.58
Diluted Earnings Per Share	$ 0.53	$ 0.54	$ 0.55	$ 0.57

ITEM 6. SELECTED FINANCIAL DATA

The following condensed statements of operations and financial condition and selected performance ratios as of December 31, 2000, 1999, 1998, 1997, and 1996 and for the years then ended have been derived from our audited consolidated financial statements. The information below is qualified in its entirety by the detailed information included elsewhere herein and should be read along with "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations".

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	AS OF AND FOR THE YEAR		
	2000	1999	19
		(IN THOUSANDS EXCEPT	
CONDENSED STATEMENTS OF OPERATIONS			
Total interest income	$ 123,775	$ 101,213	$ 10
Total interest expense	68,642	48,460	5
Net interest income before provisions for loan losses and valuation allowance on loans held			

for sale	55,133	52,753	5
Provision for loan losses	4,775	4,950	
Provision for valuation allowance on loans held for sale	--	--	
Net interest income after provisions for losses and valuation allowance on loans held for sale	50,358	47,803	4
Noninterest income	2,331	901	
Noninterest expense:			
Compensation and benefits	9,958	9,739	1
Occupancy and equipment	2,567	2,788	
Other general and administrative expenses	8,129	8,230	
Real estate owned expense, net	138	472	
Total recurring noninterest expense	20,792	21,229	2
Nonrecurring expense	1,400(1)	--	
Total noninterest expense	22,192	21,229	2
Income before provision for income taxes and minority interest income of subsidiary	30,497	27,475	2
Minority interest in income of subsidiary	478	--	
Income before provision for income taxes	30,019	27,475	2
Provision for income taxes	11,880	11,270	1
NET INCOME	$ 18,139	$ 16,205	$ 1
BASIC EARNINGS PER SHARE	$ 2.57	$ 2.26	$
DILUTED EARNINGS PER SHARE	$ 2.51	$ 2.21	$
Dividends paid	$ --	$ --	$

CONDENSED STATEMENTS OF FINANCIAL CONDITION

Cash and cash equivalents	$ 70,950	$ 72,242	$ 12
Investment securities available for sale, at fair value	46,325	59,247	
Stock in Federal Home Loan Bank	3,963	8,894	1
Investment and mortgage-backed securities held to maturity	--	--	
Real estate loans, net	1,045,927	951,480	86
Real estate loans held in trust	211,722	--	
Loans held for sale, at lower of cost or fair market value	--	--	1
Interest receivable	11,821	7,383	
Other real estate owned, net	2,250	1,041	
Premises and equipment, net	2,690	3,253	
Deferred income taxes	11,302	9,401	
Other assets	8,193	2,882	
Total assets	$1,415,143	$1,115,823	$1,03
Deposit accounts	$1,015,699	$ 913,613	$ 86
Collateralized mortgage obligations	161,852	--	
Federal Home Loan Bank advances	79,250	67,250	4
Accounts payable and other liabilities	11,269	11,265	1
Guaranteed preferred beneficial interests in Company's junior subordinated deferrable interest debentures	13,519	--	

Shareholders' equity	133,554	123,695	10
Total liabilities and shareholders' equity	$1,415,143	$1,115,823	$1,03
Book value per share	$ 20.05	$ 17.22	$

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(1) Represents expenses related to the consolidation of the Bank's headquarters with ITLA Capital's headquarters in La Jolla, California.

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	AS OF AND FOR THE YEARS ENDE		
	2000	1999	1998
SELECTED PERFORMANCE RATIOS			
Return on average assets	1.47%	1.57%	1.46%
Return on average shareholders' equity	13.95%	14.23%	13.95%
Net interest margin (1)	4.47%	5.11%	4.96%
Average interest-earning assets to average interest-bearing liabilities	113.49%	113.74%	113.06%
Noninterest expense to average assets	1.79%	2.05%	2.13%
Efficiency ratio (2)	38.62%	39.57%	41.06%
Efficiency ratio excluding real estate operations, and nonrecurring expense, net	35.94%	38.69%	39.19%
General and administrative expense to average assets	1.78%	2.01%	2.04%
Average shareholders' equity to average assets	10.86%	11.01%	10.47%
Nonperforming assets to total assets	1.44%	0.81%	0.64%
Allowance for loan losses to loans held for investment, net (3)	2.12%	2.05%	1.91%
Allowance for loan losses to nonaccrual loans (4)	149.85%	249.40%	309.37%
Net loan charge-offs (recoveries) to average loans held for investment, net	0.18%	0.20%	(0.01%)

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

(2) Efficiency ratio represents noninterest expense divided by noninterest

income and net interest income before provision for loan losses.

(3) Real estate loans before allowance for loan losses and net of unearned finance charges and loan fees.

(4) Excludes nonaccrual loans held for sale totaling $783,000 in 1996.

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

GENERAL

The following discussion and analysis reviews the financial condition and results of our consolidated operations, including our consolidated subsidiaries: Imperial Capital Bank and the Imperial Capital Real Estate Investment Trust.

The following discussion and analysis is intended to identify the major factors that influenced our financial condition as of December 31, 2000 and 1999 and our results of operations for the years ended December 31, 2000, 1999 and 1998. Our business involves the origination and purchase of loans secured primarily by income producing real estate, located predominately in California and, to a lesser extent, the purchase of pools of non-conventional residential mortgage loans located throughout the United States.

Consolidated net income in 2000 was $18.1 million, or $2.51 per diluted share, compared to $16.2 million, or $2.21 per diluted share, in 1999 and $14.8 million, or $1.89 per diluted share, in 1998. The increase in net earnings in 2000 was primarily due to an increase in net interest income to $55.1 million for 2000 as compared to $52.8 million in 1999 and gain on sale of investment securities available for sale of $1.4 million in 2000. These

items were partially offset by nonrecurring expenses of $1.4 million relating to the consolidation of the Bank's headquarters with ITLA Capital's headquarters in La Jolla, California and a $600,000 increase in provision for income taxes.

The increase in net earnings in 1999 was primarily due to an increase in net interest income to $52.8 million in 1999 compared to $50.3 million in 1998, a decrease in provisions for loan losses and valuation allowance on loans held for sale to $5.0 million in 1999 compared to $6.0 million in 1998, and a decline in real estate owned expense to $472,000 in 1999 compared to $984,000 in 1998, partially offset by a decrease in noninterest income derived from mortgage banking activities to $73,000 in 1999 compared to $1.6 million in 1998 and an increase in provision for income taxes to $11.3 million in 1999 compared to $10.3 million in 1998

The return on average assets was 1.47% in 2000 compared to 1.57% and 1.46% in 1999 and 1998, respectively. The return on average shareholders' equity was 13.95% in 2000 compared to 14.23% in 1999 and 13.95% in 1998. During 2000, we purchased all the equity securities and certain collateralized mortgage obligations ("CMO's") of the ICCMAC Multifamily and Commercial Trust 1999-1 ("ICCMAC Trust"). On the date of acquisition, the ICCMAC Trust held assets of $250.5 million. Primarily as a result of this acquisition, average total assets increased to $1.2 billion in 2000 compared to $1.0 billion in 1999.

Total loan production, including the unfunded portion of construction loans, was $653.9 million for the year ended December 31, 2000, consisting of $198.2 million originated for the portfolio, $440.4 million purchased for the portfolio, and $15.3 million brokered for outside investors, compared to total loan production of $394.3 million and $531.1 million for the years ended December 31, 1999 and 1998, respectively.

Average deposit accounts totaled $913.6 million in 2000 compared to $870.1 million in 1999, an increase of $43.5 million, or 5.0%. This increase was primarily utilized to fund the increase in the loan portfolio. Federal Home Loan Bank advances averaged $30.4 million in 2000 compared to $37.2 million in 1999, a decrease of $6.8 million, or 18.2%. The average balance of the CMO's was $141.8 million during 2000.

RESULTS OF OPERATIONS

NET INTEREST INCOME

The following table presents, for the periods indicated, our condensed average balance sheet information, together with interest income and yields earned on average interest-earning assets and interest expense and rates paid on average interest-bearing liabilities. Average balances are computed using daily average balances. Nonaccrual loans are included in loans receivable.

	YEARS ENDED DECEMBER			
	2000			
	AVERAGE BALANCE	INCOME/ EXPENSE	YIELD/ RATE	AVERA BALAN
			(DOLLARS IN THOUSA	
ASSETS				
Cash and investments	$ 84,660	$ 5,164	6.10%	$ 106
Mortgage-backed securities	--	--		
Real estate loans (1)	964,620	102,419	10.62%	925
Real estate loans held in trust	182,982	16,192	8.85%	
Total loans receivable	1,147,602	118,611	10.34%	925
Total interest-earning assets	1,232,262	$123,775	10.04%	1,032
Noninterest-earning assets	28,963			20
Allowance for loan losses	(24,571)			(18
Total assets	$1,236,654			$1,034
LIABILITIES AND SHAREHOLDERS' EQUITY				
Deposit accounts:				
Money market and passbook accounts	$ 115,035	$ 6,384	5.55%	$ 130
Time certificates	798,599	49,584	6.21%	739
Total deposit accounts	913,634	55,968	6.13%	870
Collateralized mortgage obligations	141,796	10,901	7.69%	

FHLB advances	30,366	1,773	5.84%	37
Total interest-bearing liabilities	1,085,796	$ 68,642	6.32%	907
Noninterest-bearing liabilities	16,586			12
Shareholders' equity	134,272			113
Total liabilities and shareholders' equity	$1,236,654			$1,034
Net interest spread (2)			3.72%	
Net interest income before provisions for estimated credit losses and valuation allowance on loans held for sale		$ 55,133		
Net interest margin (3)			4.47%	

	YEARS ENDED DECEMBER 31,		
	1998		
	AVERAGE BALANCE	INCOME/ EXPENSE	YIELD/ RATE
ASSETS			
Cash and investments	$ 146,514	$ 7,849	5.36%
Mortgage-backed securities	19,162	1,209	6.31%
Real estate loans (1)	847,219	92,607	10.93%
Real estate loans held in trust	--	--	--
Total loans receivable	847,219	92,607	10.93%
Total interest-earning assets	1,012,895	$101,665	10.04%
Noninterest-earning assets	16,281		
Allowance for loan losses	(14,841)		
Total assets	$1,014,335		
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposit accounts:			
Money market and passbook accounts	$ 104,461	$ 5,505	5.27%
Time certificates	734,856	42,548	5.79%
Total deposit accounts	839,317	48,053	5.73%
Collateralized mortgage obligations	--	--	--
FHLB advances	56,542	3,334	5.90%
Total interest-bearing liabilities	895,859	$ 51,387	5.74%

Noninterest-bearing liabilities	12,256		
Shareholders' equity	106,220		
Total liabilities and shareholders' equity	$1,014,335		
Net interest spread (2)			4.30%
Net interest income before provisions for estimated credit losses and valuation allowance on loans held for sale		$ 50,278	
Net interest margin (3)			4.96%

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(1) Before allowance for loan losses and net of deferred loan fees and costs. Net loan fee amortization of $2.8 million, $2.5 million and $2.7 million was included in net interest income for 2000, 1999 and 1998, respectively.

(2) Average yield on interest-earning assets minus average rate paid on interest-bearing liabilities.

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

Our primary source of revenue is net interest income. Our net interest income is affected by (a) the difference between the yields recognized on interest-earning assets, including loans and investments, and the interest rates paid on interest-bearing liabilities, which is referred to as "net interest spread", and (b) the relative amounts of interest-earning assets and interest-bearing liabilities. When interest-earning assets equal or exceed interest-bearing liabilities, any positive net interest spread will generate net interest income; if interest-bearing liabilities exceed interest-earning assets, we may incur a decline in net interest income even when the net interest spread is positive. For 2000, 1999 and 1998, our ratio of average interest-earning assets to average interest-bearing liabilities was 113.49%, 113.74% and 113.06%, respectively.

The following table sets forth a summary of the changes in interest income and interest expense resulting from changes in average interest-earning asset and interest-bearing liability balances and changes in average interest rates. The change in interest due to both volume and rate has been allocated to change due to volume and rate in proportion to the relationship of absolute dollar amounts of each.

	2000 VS. 1999 INCREASE (DECREASE) DUE TO:			
	VOLUME	RATE	TOTAL	VOLU
			(IN THOUSANDS)	
Interest and fees earned on:				

Real estate loans, net	$ 4,175	$ 2,941	$ 7,116	$ 8,
Cash and investment securities	(1,357)	611	(746)	(2,
Real estate loans held in trust	16,192	--	16,192	
Mortgage-backed securities	--	--	--	(1,
Total increase (decrease) in interest income	19,010	3,552	22,562	4,
Interest paid on:				
Deposit accounts	2,661	6,855	9,516	1,
Collateralized mortgage obligations	10,901	--	10,901	
FHLB advances	(402)	167	(235)	(1,
Total increase (decrease) in interest expense	13,160	7,022	20,182	
Increase (decrease) in net interest income	$ 5,850	$(3,470)	$ 2,380	$ 4,

2000 Compared to 1999

Net interest income increased $2.3 million or 4.4% to $55.1 million in 2000 compared to $52.8 million in 1999. The increase in net interest income was due primarily to net interest income related to the acquisition of the ICCMAC Trust and an increase in interest income on our loans. These items were partially offset by an increase in interest expense on deposits and a decrease in interest income on investment securities.

Interest income increased $22.6 million or 22.3% to $123.8 million in 2000 compared to $101.2 million in 1999. The increase in interest income was due primarily to a $7.1 million increase in real estate loan income to $102.4 million and the acquisition of the ICCMAC Trust, which generated $16.2 million in interest income. Interest and fee income from loans increased due to higher loan volume in 2000 and an increase in loan yield. The average balance of the Bank's real estate loans increased $39.6 million to $964.6 million in 2000 compared to $925.1 million in 1999. The average yield on these real estate loans was 10.62% in 2000 compared to 10.30% in 1999. The increase in yield was due to increases in market interest rates (which increased the yield of our adjustable rate loans upon repricing and the yield received at the time of origination). Market interest rates have recently declined which could result in our achieving lower average yields in future operating periods. Interest and fee income earned on real estate loans in 2000 and 1999 includes income recognized from the early payoff of loans. Excluding this income from prepayments, the yields on the Bank's real estate loans would have been 10.34% in 2000 and 10.06% in 1999.

Interest income from cash and investments decreased to $5.2 million in 2000 compared to $5.9 million in 1999, due primarily to a decrease in the average outstanding balance, partially offset by an increase in yield. The average balance of cash and investment securities decreased $22.3 million or 20.8% to $84.7 million in 2000 compared to $107.0 million in 1999. The average yield on cash and investment securities was 6.10% in 2000 compared to 5.53% in 1999, which was consistent with the increase in short-term market interest rates.

Interest expense increased $20.1 million or 41.4% to $68.6 million in 2000 compared to $48.5 million in 1999 primarily due to increases in interest expense on deposits and the addition of the CMO's, partially offset by a decrease in interest expense on Federal Home Loan Bank advances. Interest expense from deposit accounts increased $9.5 million or 20.4% to $56.0 million in 2000 compared to $46.5 million in 1999 due to increases in the average rate paid on deposits and to a lesser extent the average balance of deposit accounts. The average rate paid on deposits was 6.13% in 2000 compared to 5.34% in 1999. The average balance of deposits increased $43.5 million or 5.00% to $913.6 million in 2000 compared to $870.1 million in 1999 as we increased deposits to fund growth in the loan portfolio.

Interest expense from the CMO's totaled $10.9 million in 2000. The increase was due to the acquisition of the ICCMAC Trust in 2000. The average balance and average yield on the CMO's from the date of acquisition through December 31, 2000 was $141.8 million and 7.69%, respectively.

Interest expense from Federal Home Loan Bank advances decreased $200,000 to $1.8 million in 2000 compared to $2.0 million in 1999, due to a decrease in the average outstanding balance partially offset by an increase in the average rate paid on Federal Home Loan Bank advances. The average balance of Federal Home Loan Bank advances decreased $6.8 million or 18.3% to $30.4 million in 2000 compared to $37.2 million in 1999. The average rate paid on Federal Home Loan Bank advances was 5.84% in 2000 compared to 5.39% in 1999.

1999 Compared to 1998

Net interest income totaled $52.8 million in 1999 compared to $50.3 million in 1998, an increase of $2.5 million or 4.9%. The increase in net interest income was due primarily to growth in average interest-earning assets, which increased $19.1 million or 1.9%.

Interest income totaled $101.2 million in 1999 compared to $101.7 million in 1998, a decrease of $452,000, or 0.4%. Interest and fee income from loans receivable totaled $95.3 million in 1999 compared to $92.6 million in 1998, an increase of $2.7 million, or 2.9%. Interest and fee income from loans increased due to higher loan volume in 1999, partially offset by a decrease in loan yield. The average balance of loans receivable was $925.1 million in 1999 compared to $847.2 million in 1998, an increase of $77.9 million, or 9.2% reflecting the increase in loans held for investment. The average yield on loans receivable was 10.30% in 1999 compared to 10.93% in 1998. The decline in yield on loans receivable was due to declines in market interest rates (which reduced the yield of adjustable rate loans in the portfolio upon repricing and the yield received at the time of origination) and due to the payoff of higher yielding commercial mortgages, as borrowers refinanced these loans at lower interest rates. Interest and fee income earned on loans receivable in 1999 and 1998 includes income recognized from the early payoff of loans. Excluding this income from prepayments, the yields on loans receivable would have been 10.06% in 1999 and 10.62% in 1998.

There was no interest income from mortgage-backed securities in 1999 compared to $1.2 million in 1998. The mortgage-backed securities were sold in the fourth quarter of 1998.

Interest income from cash and investments totaled $5.9 million in 1999 compared to $7.8 million in 1998, a decrease of $1.9 million, or 24.7%, due primarily to a decrease in the average outstanding balance, partially offset by an increase in yield. The average balance of cash and investment securities was $107.0 million in 1999 compared to $146.5 million in 1998, a decrease of $39.5 million, or 27.0%. The average yield on cash and investment securities was 5.53% in 1999 compared to 5.36% in 1998, which was consistent with the increase in short-term market interest rates.

Interest expense totaled $48.5 million in 1999 compared to $51.4 million in 1998, a decrease of $2.9 million or 5.7%. Interest expense from deposit accounts totaled $46.5 million in 1999 compared to $48.1 million in 1998, a decrease of $1.6 million or 3.3%, due to a decrease in the average rate paid on deposits, partially offset by an increase in the average balance of deposit accounts. The average rate paid on deposits was 5.34% in 1999 compared to 5.73% in 1998. The average balance of deposits was $870.1 million in 1999 compared to $839.3 million in 1998, an increase of $30.8 million, or 3.7%, as we increased deposits to fund growth in the loan portfolio.

Interest expense from Federal Home Loan Bank advances totaled $2.0 million in 1999 compared to $3.3 million in 1998, due to decreases in both the average outstanding balance and in the average rate paid on Federal Home Loan Bank advances. The average balance of Federal Home Loan Bank advances was $37.2 million in 1999 compared to $56.5 million in 1998, a decrease of $19.3 million, or 34.1%. The average rate paid on Federal Home Loan Bank advances was 5.39% in 1999 compared to 5.90% in 1998.

PROVISION FOR LOAN LOSSES

Provision for loan losses totaled $4.8 million, $5.0 million and $4.6 million in 2000, 1999 and 1998, respectively.

2000 Compared to 1999

Provision for loan losses decreased slightly to $4.8 million in 2000 compared to $5.0 million in 1999. The provision in 2000 reflects the growth in loans held by us, including the increase in purchased residential loans. Generally, we consider first mortgage loans on one-four family owner occupied residential properties to involve a lesser degree than compared to loans secured by commercial real estate properties. Purchased residential loans increased to $134.1 million at December 31, 2000 compared to $90.6 million at December 31, 1999. Additionally, the provision was due to the increase in our nonperforming loans to 1.42% of total gross loans at December 31, 2000, compared to 0.82% of total gross loans as of December 31, 1999. See also "Credit Risk Elements -- Allowance for Loan Losses and Nonperforming Assets."

1999 Compared to 1998

Provision for loan losses totaled $5.0 million in 1999 compared to $4.6 million in 1998, an increase of $0.4 million, or 8.8%. The increase in the provision in 1999 reflects the growth in our portfolio of real estate loans, which increased by $92.5 million, or 10.5% from $878.9 million at December 31, 1998 to $971.4 million at December 31, 1999. The provision also increased due to an increased concentration in construction lending and the continued geographic expansion of the commercial and residential real estate loan portfolios to loans outside of the state of California. Construction loans totaled $107.8 million at December 31, 1999 compared to $71.4 million at December 31, 1998, an increase of $36.4 million or 51.0%. Loans outside the state of California totaled $326.5 million at December 31, 1999 compared to $191.1 million at December 31, 1998, to comprise 33.5% of our total real estate loan portfolio at year end compared to 21.4% at the prior year end. Because of the increased risk profile resulting from these changes to the composition of our loan portfolio, the provision for loan losses was increased in 1999.

PROVISION FOR VALUATION ALLOWANCE ON LOANS HELD FOR SALE

There was no provision for valuation allowance on loans held for sale in 2000 and 1999 compared to $1.4 million in 1998, respectively. The $1.4 million provision for valuation allowance on loans held for sale was recorded in 1998 in conjunction with the marketing and sale of a $12.0 million portfolio of loans.

NONINTEREST INCOME

Noninterest income totaled $2.3 million, $901,000 and $2.4 million in 2000, 1999 and 1998, respectively.

2000 Compared to 1999

Noninterest income increased $1.4 million to $2.3 million in 2000 compared to $901,000 in 1999. The increase in noninterest income was due primarily to a $1.4 million gain realized on the sale investment securities. Other noninterest income increased slightly in the aggregate to $919,000 in 2000 compared to $901,000 in 1999.

1999 Compared to 1998

Noninterest income totaled $901,000 in 1999 compared to $2.4 million in 1998, a decrease of $1.5 million, or 63.2%. The decrease in noninterest income in 1999 was due primarily to a decrease in fee income earned. In 1999, $9.1 million of commercial real estate loans for third-party investors were originated compared to $136.2 million of loans funded in 1998. The demand for fixed rate commercial real estate loans of the type originated for purchase by third-party investors declined significantly in the third quarter of 1998 due to a disruption in the market for the securities created from these loans. Accordingly, we experienced a reduction in the volume of loans originated for third-party investors and a corresponding decline in fee income from these originations.

NONINTEREST EXPENSE

General and Administrative Expense

General and administrative expense totaled $22.1 million, $20.8 million and $20.7 million in 2000, 1999 and 1998, respectively. In 2000, our ratio of recurring general and administrative expenses to average assets was 1.67%, compared to 2.01% and 2.04% in 1999 and 1998, respectively. Our efficiency ratio, excluding real estate owned and nonrecurring expenses, was 35.94% in 2000 compared to 38.69% and 39.19% in 1999 and 1998, respectively.

2000 Compared to 1999

General and administrative expense increased $1.3 million to $22.1 million in 2000 compared to $20.8 million in 1999. The increase in noninterest expense was due primarily to $1.4 million of nonrecurring general and administrative expenses recorded in the first quarter of 2000 related to the consolidation of the Bank's headquarters with ITLA Capital's headquarters in La Jolla, California. Excluding this nonrecurring relocation expense, general and administrative expenses did not change significantly in 2000 as compared to 1999.

1999 Compared to 1998

General and administrative expense totaled $20.8 million in 1999 compared to $20.7 million in 1998, an increase of $0.1 million, or 0.5%.

Compensation and benefits expense totaled $9.7 million in 1999 compared to $10.6 million in 1998, a decrease of $825,000, or 7.8%. The decrease in compensation and benefits expense was due primarily to a decrease in staffing, as the number of average full-time equivalent employees totaled 132 during 1999 compared to 167 during 1998. The decrease in staffing was due to the discontinued operations of our subsidiary ITLA Funding Corporation, as well as a 15% workforce reduction, including management positions, in the third quarter as a result of a decrease in loan production and general cost saving initiatives. Compensation and benefits also decreased due to a decrease in commissions paid for loans sold to third party investors, due to the decline in loan volume.

Occupancy and equipment expense totaled $2.8 million in both 1999 and 1998. Other general and administrative expenses totaled $8.1 million in 1999 compared to $7.2 million in 1998, an increase of $913,000 or 12.6%. The increase in other general and administrative expenses was due primarily to an increase in expenses incurred for corporate development activities.

REAL ESTATE OWNED EXPENSE

Real estate owned expense, net, totaled $138,000, $472,000 and $984,000 in 2000, 1999 and 1998, respectively.

2000 Compared to 1999

Real estate owned expense, net, decreased to $138,000 in 2000 compared to $472,000 in 1999. The decrease in real estate owned expense in 2000 compared to 1999 was primarily due to a decrease in losses from the accelerated disposition of other real estate owned in 1999. The outstanding balance of other real estate owned was $2.3 million at December 31, 2000 compared to $1.0 million at December 31, 1999. Provision for losses on other real estate owned totaled $167,000 in 2000 compared to $195,000 in 1999. Other real estate owned income was $31,000 in 2000 compared to expenses of $72,000 in 1999. The net loss from sales of other real estate owned decreased to $2,000 in 2000 compared to $205,000 in 1999.

1999 Compared to 1998

Real estate owned expense, net, decreased to $472,000 in 1999 compared to $984,000 in 1998, a decrease of $512,000, or 52.0%. The decrease in real estate owned expense in 1999 compared to 1998 was primarily due to a decrease in provisions for estimated losses recorded due to the accelerated disposition of other real estate owned. Provision for estimated losses on other real estate owned totaled $195,000 in 1999 compared to $608,000 in 1998. Other real estate owned expenses totaled $72,000 in 1999 compared to $252,000 in 1998. The loss from sales of other real estate owned increased to $205,000 in 1999 compared to $124,000 in 1998.

INCOME TAXES

Provision for income taxes totaled $11.9 million, $11.3 million and $10.3 million in 2000, 1999 and 1998, respectively.

2000 Compared to 1999

Provision for income taxes increased to $11.9 million in 2000 compared to $11.3 million in 1999. The increase in provision for income taxes was due to the increase in pretax net income. The effective tax rate was 39.6% and 41.0% for 2000 and 1999, respectively. The effective tax rate differed from the applicable statutory federal tax rate due to state income taxes and the state income tax deduction for tax exempt income on loans located in designated redevelopment and enterprise zones and due to federal income tax credits received from a low income housing tax credit investment.

At December 31, 2000, we had a net deferred tax asset of $11.3 million. The deferred tax asset related primarily to loss provisions recognized on our financial statements which have not yet been recognized on our income tax returns. During 2000, we had no deferred tax assets relating to net operating loss carryforward deductions. The deferred tax asset is considered fully realizable, as when the temporary differences associated with the deferred tax asset are recognized for income tax purposes, those deductions are expected to be fully offset, either by carryback against previously taxed income or by future taxable income. Accordingly, we have not established a valuation allowance on the deferred tax asset.

1999 Compared to 1998

Provision for income taxes totaled $11.3 million in 1999 compared to $10.3 million in 1998, an increase of $1.0 million, or 9.4%. The increase in provision for income taxes was due to the increase in pretax net income. The effective tax rate was 41.0% for both 1999 and 1998.

The effective tax rate differed from the applicable statutory federal tax rate due to state income taxes and the state income tax deduction for tax exempt income on loans located in designated redevelopment and enterprise zones.

FINANCIAL CONDITION

At December 31, 2000 Compared with December 31, 1999

Total assets increased by $299.3 million, or 26.8%, to $1.4 billion at December 31, 2000 compared to $1.1 billion at December 31, 1999. This increase was primarily due to a $306.2 million, or 32.2%, increase in net real estate loans receivable, including real estate loans held in trust, to $1.3 billion at December 31, 2000 from $951.5 million at December 31, 1999. Asset growth also included increases in interest receivable of $4.4 million, deferred income taxes of $1.9 million, other real estate owned, net, of $1.2 million and other assets of $5.3 million. These increases were partially offset by reductions in investment securities available for sale of $12.9 million, cash and cash equivalents of $1.3 million, Federal Home Loan Bank stock of $4.9 million, and premises and equipment, net, of $563,000. The growth in assets was funded primarily by an increase in deposits of $102.1 million and CMO'S of $161.9 million. Deposit growth was concentrated in time certificates, which increased from $787.1 million at December 31, 1999 to $912.8 million at December 31, 2000, partially offset by a decrease in money market and passbook accounts, which decreased from $126.5 million at December 31, 1999 to $102.9 million at December 31, 2000. Shareholders' equity increased primarily due to the retention of $18.1 million of net income as retained earnings for the year, partially offset by the purchase of $7.7 million of ITLA Capital's stock currently held as treasury stock and a $615,000 decrease due to unrealized losses on investment securities available for sale.

At December 31, 1999 Compared with December 31, 1998

Total assets increased by $83.2 million, or 8.1%, to $1.1 billion at

December 31, 1999 compared to $1.0 billion at December 31, 1998. This increase was primarily due to a $77.2 million, or 8.8%, increase in net real estate loans receivable, including real estate loans held for sale, to $951.5 million at December 31, 1999 from $874.3 million at December 31, 1998. Asset growth also included increases in investment securities available for sale of $58.9 million, deferred income taxes of $3.1 million, interest receivable of $1.1 million and other assets of $361,000. These increases were partially offset by reductions in cash and cash equivalents of $53.4 million, Federal Home Loan Bank stock of $3.7 million, other real estate owned, net, of $160,000 and premises and equipment, net, of $240,000. The growth in assets was funded primarily by an increase in deposits of $46.8 million. Deposit growth was concentrated in time certificates, which increased from $734.1 million at December 31, 1998 to $787.1 million at December 31, 1999, partially offset by a slight decrease in money market and passbook accounts, which decreased from $132.7 million at December 31, 1998 to $126.5 million at December 31, 1999. Shareholders' equity increased due to the retention of $16.2 million of net income as retained earnings for the year, the vesting of $725,000 of shares allocated under the Supplemental Executive Retirement Plan (SERP) funded by the Recognition and Retention Plan (RRP) previously approved by the shareholders, and a $856,000 increase due to unrealized appreciation of investment securities available for sale, partially offset by the purchase of $515,000 of ITLA Capital's stock currently held as treasury stock.

REAL ESTATE LOANS

The following table shows the comparison of our real estate loan portfolio by major categories as of the dates indicated.

		DECEMBER	
	2000	1999	1998
			(IN THOUSA
REAL ESTATE LOANS			
Real estate loans	$ 1,176,988	$ 864,048	$ 811,07
Construction loans	95,206	107,833	71,38
Other	3,912	--	-
	1,276,106	971,881	882,46
Unamortized premium	11,300	2,590	-
Deferred loan origination fees and costs	(2,571)	(3,096)	(3,56
	1,284,835	971,375	878,90
Allowance for loan losses	(27,186)	(19,895)	(16,81
	$ 1,257,649	$ 951,480	$ 862,08
REAL ESTATE LOANS HELD FOR SALE (AT LOWER OF COST OR FAIR MARKET VALUE)			
Real estate loans	$ --	$ --	$ 12,18
Other loans	--	--	-

Gross loans held for sale	--	--	12,18
Unearned income			
Deferred loan origination fees and costs	--	--	-
Net loans held for sale	$ --	$ --	$ 12,18
TOTAL REAL ESTATE LOANS			
Real estate loans	1,176,988	864,048	823,26
Construction loans	95,206	107,833	71,38
Other loans	3,912	--	-
	1,276,106	971,881	894,64