FIRST PACTRUST BANCORP INC
Form 10-Q
May 10, 2012
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2012

or

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

For the transition period from ______ to ______

Commission file number 001-35522

FIRST PACTRUST BANCORP, INC.

(Exact name of registrant as specified in its charter)

Maryland

(State or other jurisdiction of

incorporation or organization)

04-3639825

(IRS Employer Identification No.)

18500 Von Karman Ave, Suite 1100, Irvine, California

(Address of principal executive offices)

92612

(Zip Code)

(949) 236-5211

(Registrant s telephone number, including area code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock as of the latest practicable date.

As of April 30, 2012 the registrant had outstanding 10,599,677 shares of voting common stock and 1,078,807 shares of Class B non-voting common stock.

Table of Contents

FIRST PACTRUST BANCORP, INC.

Form 10-Q Quarterly Report

Index

		Page
PART I - Financial Information		
Item 1	Financial Statements	4
Item 2	Management s Discussion and Analysis of Financial Condition and Results of Operations	36
Item 3	Quantitative and Qualitative Disclosures About Market Risk	45
Item 4	Controls and Procedures	46
PART II - Other Information		
Item 1	Legal Proceedings	47
Item 1A	Risk Factors	47
Item 2	Unregistered Sales of Equity Securities and Use of Proceeds	58
Item 3	Defaults Upon Senior Securities	58
Item 4	Mine Safety Disclosures	59
Item 5	Other Information	59
Item 6	Exhibits	60
SIGNATURES		63

Table of Contents

Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995

When used in this report and in public shareholder communications, in other documents of First PacTrust Bancorp, Inc. (the Company, we, us and our)) filed with or furnished to the Securities and Exchange Commission (the SEC), or in oral statements made with the approval of an authorized executive officer, the words or phrases believe, will, should, will likely result, are expected to, will continue, is anticipated, project, plans, guidance or similar expressions are intended to identify forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. You are cautioned not to place undue reliance on any forward-looking statements, which speak only as of the date made. These statements may relate to our future financial performance, strategic plans or objectives, revenue, expense or earnings projections, or other financial items. By their nature, these statements are subject to numerous uncertainties that could cause actual results to differ materially from those anticipated in the statements.

Factors that could cause actual results to differ materially from the results anticipated or projected include, but are not limited to, the following: (i) the occurrence of any event, change or other circumstances that could give rise to the termination of the stock purchase agreement for the Company s pending acquisition of Gateway Bancorp or the merger agreement for the Company s pending acquisition of Beach Business Bank; (ii) the inability to complete the Gateway Bancorp or Beach Business Bank transaction due to the failure to satisfy each transaction s respective conditions to completion, including the receipt of regulatory approvals; (iii) risks that the Gateway Bancorp or Beach Business Bank transaction disrupts current plans and operations, the potential difficulties in customer and employee retention as a result of the pending transactions and the amount of the costs, fees, expenses and charges related to the proposed transactions; (iv) continuation or worsening of current recessionary conditions, as well as continued turmoil in the financial markets; (v) the credit risks of lending activities, which may be affected by further deterioration in the real estate markets, may lead to increased loan delinquencies, losses and nonperforming assets in our loan portfolio, and may result in our allowance for loan losses not being adequate to cover actual losses and require us to materially increase our loan loss reserves; (vi) the quality and composition of our securities portfolio; (vii) changes in general economic conditions, either nationally or in our market areas; (viii) changes in the levels of general interest rates, and the relative differences between short- and long-term interest rates, deposit interest rates, our net interest margin and funding sources; (ix) fluctuations in the demand for loans, the number of unsold homes and other properties and fluctuations in commercial and residential real estate values in our market area; (x) results of examinations of us by regulatory authorities and the possibility that any such regulatory authority may, among other things, require us to increase our allowance for loan losses, write-down asset values, increase our capital levels, or affect our ability to borrow funds or maintain or increase deposits, which could adversely affect our liquidity and earnings; (xi) legislative or regulatory changes that adversely affect our business, including changes in the interpretation of regulatory capital or other rules; (xii) our ability to control operating costs and expenses; (xiii) staffing fluctuations in response to product demand or the implementation of corporate strategies that affect our work force and potential associated charges; (xiv) errors in our estimates in determining fair value of certain of our assets, which may result in significant declines in valuation; (xv) the network and computer systems on which we depend could fail or experience a security breach; (xvi) our ability to attract and retain key members of our senior management team; (xvii) costs and effects of litigation, including settlements and judgments; (xviii) increased competitive pressures among financial services companies; (xix) changes in consumer spending, borrowing and saving habits; (xx) adverse changes in the securities markets; (xxi) earthquake, fire or other natural disasters affecting the condition of real estate collateral; (xxii) the availability of resources to address changes in laws, rules or regulations or to respond to regulatory actions; (xxiii) inability of key third-party providers to perform their obligations to us; (xxiv) changes in accounting policies and practices, as may be adopted by the financial institution regulatory agencies or the Financial Accounting Standards Board or their application to our business or final audit adjustments, including additional guidance and interpretation on accounting issues and details of the implementation of new accounting methods; (xxv) war or terrorist activities; and (xxvi) other economic, competitive, governmental, regulatory, and technological factors affecting our operations, pricing, products and services and the other risks described in this report and from time to time in other documents that we file with or furnish to the SEC. You should not place undue reliance on forward-looking statements, and we undertake no obligation to update any such statements to reflect circumstances or events that occur after the date on which the forward-looking statement is made.

Table of Contents

ITEM 1 FINANCIAL STATEMENTS

First PacTrust Bancorp, Inc.

Consolidated Statements of Financial Condition

(In thousands of dollars except share and per share data)

(Unaudited)

	March 31, 2012	December 31, 2011
ASSETS		
Cash and due from banks	$ 7,718	$ 6,755
Interest-bearing deposits	66,115	37,720
Total cash and cash equivalents	73,833	44,475
Securities available for sale	101,452	101,616
Federal Home Loan Bank stock, at cost	6,639	6,972
Loans, net of allowance of $11,173 at March 31, 2012 and $12,780 at December 31, 2011	828,285	775,609
Accrued interest receivable	3,891	3,569
Other real estate owned (OREO), net	12,843	14,692
Premises and equipment, net	12,412	10,585
Capital lease assets, net	126	
Bank owned life insurance investment	18,520	18,451
Prepaid FDIC assessment	2,100	2,405
Other assets	22,981	20,667
Total assets	$ 1,083,082	$ 999,041
LIABILITIES AND SHAREHOLDERS EQUITY		
Deposits		
Noninterest-bearing demand	$ 24,961	$ 20,039
Interest-bearing demand	96,902	68,578
Money market accounts	177,314	188,658
Savings accounts	42,761	39,176
Certificates of deposit	511,905	469,883
Total deposits	853,843	786,334
Advances from Federal Home Loan Bank	35,000	20,000
Capital lease obligation	126	
Accrued expenses and other liabilities	10,111	8,212
Total liabilities	898,080	814,546
Commitments and contingent liabilities		
SHAREHOLDERS EQUITY		
Preferred stock, $.01 par value per share, $1,000 per share liquidation preference for a total of $32,000; 50,000,000 shares authorized, 32,000 shares issued and outstanding at March 31, 2012 and December 31, 2011	31,934	31,934
Common stock, $.01 par value per share, 196,863,844 shares authorized; 11,767,879 shares issued and 10,592,719 shares outstanding at March 31, 2012; 11,756,636 shares issued and 10,581,704 shares outstanding at December 31, 2011	117	117
Class B non-voting non-convertible Common stock, $.01 par value per share, 3,136,156 shares authorized; 1,067,725 shares issued and outstanding at March 31, 2012 and 1,054,991 shares issued and outstanding at	11	11

December 31, 2011		
Additional paid-in capital	151,277	150,786
Retained earnings	26,201	27,623
Treasury stock, at cost (March 31, 2012-1,175,160 shares, December 31, 2011-1,174,932 shares)	(25,110)	(25,037)
Accumulated other comprehensive income/(loss), net	(428)	(939)
Total shareholders equity	184,002	184,495
Total liabilities and shareholders equity	$ 1,083,082	$ 999,041

See accompanying notes to consolidated financial statements.

Table of Contents

First PacTrust Bancorp, Inc.

Consolidated Statements of Income and Comprehensive Income

(In thousands of dollars except share and per share data)

(Unaudited)

	Three months ended March 31, 2012	Three months ended March 31, 2011
Interest and dividend income		
Loans, including fees	$ 9,528	$ 7,666
Securities	737	1,244
Dividends and other interest-earning assets	60	39
Total interest and dividend income	10,325	8,949
Interest expense		
Savings	11	90
NOW	112	16
Money market	137	66
Certificates of deposit	1,089	1,105
Federal Home Loan Bank advances	100	517
Total interest expense	1,449	1,794
Net interest income	8,876	7,155
Provision for loan losses	691	
Net interest income after provision for loan losses	8,185	7,155
Noninterest income		
Customer service fees	361	338
Mortgage loan prepayment penalties	16	
Income from bank owned life insurance	69	64
Net gain/(loss) on sales of securities available for sale	(39)	319
Other	96	46
Total noninterest income	503	767
Noninterest expense		
Salaries and employee benefits	4,867	3,381
Occupancy and equipment	999	664
Advertising	239	60
Professional fees	543	335
Stationery paper, supplies, and postage	113	115
Data processing	407	293
ATM costs	93	64
FDIC expense	318	383
Loan servicing and foreclosure expense (income)	338	(76)
Operating loss on equity investment	76	78
OREO valuation allowance	14	421
Net (gain)/loss on sales of other real estate owned	(316)	768
Other general and administrative	527	330
Total noninterest expense	8,218	6,816

Income before income taxes	470	1,106
Income tax expense	93	413
Net income	$ 377	$ 693
Preferred stock dividends	$ 400	$
Net income/(loss) available to common shareholders	$ (23)	$ 693
Basic earnings/(loss) per common share	$ (0.00)	$ 0.07
Diluted earnings/(loss) per common share	$ (0.00)	$ 0.07
Other comprehensive income, before tax:		
Change in net unrealized gains on securities:		
Net unrealized holding gains arising during the period	829	893
Less: reclassification adjustment for (gains)/losses included in net income	39	(319)
Net unrealized gains, net of reclassification adjustments	868	574
Income tax expense related to items of other comprehensive income	357	229
Total other comprehensive income, net of tax	511	345
Comprehensive income	888	1,038

See accompanying notes to consolidated financial statements.

Table of Contents

First PacTrust Bancorp, Inc.

Consolidated Statements of Shareholder s Equity

(In thousands of dollars, except share and per share data)

(Unaudited)

	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Unearned ESOP	Accumulated Other Comprehensive Income (Loss), net	Total
Balance at January 1, 2011	$	$ 109	$ 123,170	$ 35,773	$ (25,135)	$ (507)	$ 2,599	$ 136,009
Net Loss				(2,728)				(2,728)
Other comprehensive income, net							(3,538)	(3,538)
Forfeiture and retirement of shares and common stock			13		(13)			
Stock option compensation expense			816					816
ESOP forfeitures used to reduce ESOP contribution			7					7
Stock awards earned			412					412
Issuance of stock awards			(611)		107			(504)
Purchase of 5,224 shares of treasury stock					(55)			(55)
Employee stock ownership plan shares earned			98			507		605
Tax benefit/(loss) of restricted share awards vesting			(4)					(4)
Dividends declared ($.45 per common share)			516	(4,888)				(4,372)
Repurchase of warrants TARP			(1,003)					(1,003)
Tax effect of ESOP			256					256
Tax effect of options redeemed			147					147
Reissuance of ESOP shares			(59)		59			
Preferred stock dividends				(534)				(534)
Issuance of 32,000 shares of preferred stock, net of issuance costs of $66	31,934							31,934
Net proceeds from stock issuance		19	27,028					27,047
Balance at December 31, 2011	31,934	128	150,786	27,623	(25,037)		(939)	184,495
Net Income				377				377
Other comprehensive income, net							511	511
Stock option compensation expense			214					214
Stock awards earned			70					70
Purchase of 6,864 shares of treasury stock					(73)			(73)
Tax benefit/(loss) of restricted share awards vesting			(1)					(1)
Dividends declared ($0.12 per common share)			214	(1,399)				(1,185)
Preferred stock dividends				(400)				(400)
Capital raising expenses			(6)					(6)
Balance at March 31, 2012	$ 31,934	$ 128	$ 151,277	$ 26,201	$ (25,110)	$	$ (428)	$ 184,002

See accompanying notes to consolidated financial statements.

Table of Contents

First PacTrust Bancorp, Inc.

Consolidated Statements of Cash Flows

(In thousands of dollars)

(Unaudited)

	Three months ended March 31, 2012	2011
Cash flows from operating activities		
Net income	$ 377	$ 693
Adjustments to reconcile net income to net cash from operating activities		
Provision for loan losses	691	
Net amortization/(accretion) of securities	180	(240)
Depreciation and amortization	220	130
Employee stock ownership plan compensation expense		183
Stock option compensation expense	214	164
Stock award compensation expense	70	32
Bank owned life insurance income	(69)	(64)
Operating loss on equity investment	76	78
Net (gain)/loss on sales of securities available-for-sale	39	(319)
Net (gain)/loss on sales of other real estate owned	(316)	768
Deferred income tax (benefit)/expense	326	(1,018)
Decrease in valuation allowances on other real estate owned	14	(170)
Net change in:		
Deferred loan costs	60	60
Premiums and discounts on purchased loans	(177)	
Accrued interest receivable	(223)	66
Other assets	3,702	2,749
Accrued interest payable and other liabilities	1,499	1,584
Net cash from operating activities	6,683	4,696
Cash flows from investing activities		
Proceeds from sales of securities available-for-sale	2,938	6,478
Proceeds from maturities, calls and principal repayments of securities available-for-sale	8,624	4,826
Purchases of securities available-for-sale	(10,782)	(20,342)
Loan originations and principal collections, net	(43,454)	1,787
Purchase of loans	(19,546)	
Redemption of Federal Home Loan Bank stock	333	330
Proceeds from sales of other real estate owned	5,765	2,517
Additions to premises and equipment	(2,045)	(2,035)
Payments on capital lease obligations	(2)	
Net cash from investing activities	(58,169)	(6,439)
Cash flows from financing activities		
Repurchase of warrants, TARP		(1,003)
Net increase/(decrease) in deposits	67,509	(11,898)
Repayments of Federal Home Loan Bank advances	(20,000)	(15,000)
Proceeds from Federal Home Loan Bank advances	35,000	
SBLF expense	(6)	
Net proceeds from issuance of common stock		(45)
Purchase of treasury stock	(73)	(4)
Tax benefit/(loss) from RRP shares vesting	(1)	(1)

Tax effect of ESOP		148
Tax effect of options redeemed		147
Dividends paid on preferred stock	(400)	
Dividends paid on common stock	(1,185)	(1,018)
Net cash from financing activities	80,844	(28,674)
Net change in cash and cash equivalents	29,358	(30,417)
Cash and cash equivalents at beginning of period	44,475	59,100
Cash and cash equivalents at end of period	$ 73,833	$ 28,683
Supplemental cash flow information		
Interest paid on deposits and borrowed funds	$ 1,425	$ 1,824
Income taxes paid		
Supplemental disclosure of noncash activities		
Transfer from loans to loans provided for sales of other real estate owned		
Transfer from loans to other real estate owned, net	3,614	3,232
Equipment acquired under capital leases	128	

See accompanying notes to consolidated financial statements.

FIRST PACTRUST BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2012

(Amounts in thousands of dollars, except share and per share data)

NOTE 1 BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements include the accounts of First PacTrust Bancorp, Inc. (the Company) and its wholly owned subsidiaries, Pacific Trust Bank (the Bank) and PTB Property Holdings, LLC, as of March 31, 2012 and December 31, 2011 and for the three month periods ended March 31, 2012 and March 31, 2011. Significant intercompany accounts and transactions have been eliminated in consolidation.

The accompanying unaudited interim consolidated financial statements have been prepared pursuant to the rules and regulations for reporting on Form 10-Q. Accordingly, certain disclosures required by U.S. generally accepted accounting principles are not included herein. These interim statements should be read in conjunction with the consolidated financial statements and notes included in the Annual Report on Form 10-K filed by the Company with the Securities and Exchange Commission. The December 31, 2011 balance sheet presented herein has been derived from the audited financial statements included in the Annual Report on Form 10-K filed with the Securities and Exchange Commission, but does not include all of the disclosures required by U.S. generally accepted accounting principles.

Interim statements are subject to possible adjustment in connection with the annual audit of the Company for the year ending December 31, 2012. In the opinion of management of the Company, the accompanying unaudited interim consolidated financial statements reflect all of the adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the consolidated financial position and consolidated results of operations for the periods presented. Certain reclassifications have been made in the prior period financial statements to conform to the current period presentation.

The results of operations for the three month period ended March 31, 2012 are not necessarily indicative of the results to be expected for the full year.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation: The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, the Bank and PTB Property Holdings, LLC. All significant intercompany transactions and balances are eliminated in consolidation.

Nature of Operations: The principal business of the Company is the ownership of the Bank. The Bank is a federally chartered stock savings bank and a member of the Federal Home Loan Bank (FHLB) system, which maintains insurance on deposit accounts with the Federal Deposit Insurance Corporation (FDIC).

The Bank is engaged in the business of retail banking, with operations conducted through its main office, eleven full-service branch offices, three limited-service deposit gathering branches and one loan production office, primarily serving San Diego, Los Angeles, Orange and Riverside Counties, California. There are no significant concentrations of loans to any one industry or customer. However, the customer s ability to repay their loans is dependent on the real estate market and general economic conditions in the area.

The accounting and reporting polices of the Company are based upon U.S. generally accepted accounting principles and conform to predominant practices within the banking industry. Significant accounting policies followed by the Company are presented below.

Use of Estimates in the Preparation of Financial Statements: The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and disclosures provided, and actual results could differ. The allowance for loan losses, other real estate owned, realization of deferred tax assets, and the fair value of financial instruments are particularly subject to change and such change could have a material effect on the consolidated financial statements.

Affordable Housing Fund: The Company has a 19% equity investment in an affordable housing fund originally totaling $4.2 million for purposes of obtaining tax credits and for Community Reinvestment Act purposes. This investment is accounted for using the equity method of accounting. Under the equity method of accounting, the Company recognizes its ownership share of the profits and losses of the fund. The Company obtains tax credits from these investments which reduce income tax expense for a period of 10 years. This investment is regularly evaluated for impairment by comparing the carrying value to the remaining tax credits expected to be received. For the three month periods ending March 31, 2012 and 2011, our share of the fund s operating loss was $76 thousand and $78 thousand, respectively. The balance of the investment at March 31, 2012 and December 31, 2011 was $1.5 million and $1.6 million, respectively, and is included in other assets.

Table of Contents

Concentration of Credit Risk: Most of the Company s business activity is with customers located within San Diego, Los Angeles, Orange and Riverside Counties, California. Therefore, the Company s exposure to credit risk is significantly affected by changes in the economy in these areas.

Allowance for Loan Losses: The allowance for loan losses is maintained at a level considered adequate by management to provide for probable incurred credit losses. The allowance is increased by provisions charged against income, while loan losses are charged against the allowance when management deems a loan balance to be uncollectible. Subsequent recoveries, if any, are credited to the allowance. The Company performs an analysis of the adequacy of the allowance on a monthly basis. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management s judgment, should be charged off. The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired. A loan is impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. The Company evaluates all impaired loans individually under the guidance of ASC 310, primarily through the evaluation of collateral values and cash flows. Loans, for which the terms have been modified, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower s prior payment record, and the amount of the shortfall in relation to the principal and interest owed. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan s existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Troubled debt restructurings are also measured at the present value of estimated future cash flows using the loan s effective rate at inception or at the fair value of collateral if repayment is expected solely from the collateral. Troubled debt restructurings are separately identified for impairment disclosures and are measured at the present value of estimated future cash flows using the loan s effective rate at inception. If a troubled debt restructuring is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral. For troubled debt restructurings that subsequently default, the Company determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

The general component of the allowance for loan losses covers loans that are not impaired and is determined by portfolio segment and is based on actual loss history experienced by the Company. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; effects of changes in credit concentrations and other factors. The historical loss analysis is also combined with a comprehensive loan to value analysis to analyze the associated risks in the current loan portfolio. For 2011 and 2012, the Company used a three year loss look back for determining the level of its allowance for loan losses. Prior to this, the Company used a one year look back. This change, which was not material, was made to better reflect the improving state of the loan portfolio as delinquencies have declined and loan losses have leveled. An updated loan to value analysis is obtained from an independent firm semi-annually, most recently in November 2011. Management uses available information to recognize loan losses, however, future loan loss provisions may be necessary based on changes in the above mentioned factors. In addition, regulatory agencies, as an integral part of their examination process, periodically review the allowance for loan losses and may require the Bank to recognize additional provisions based on their judgment of information available to them at the time of their examination.

The following portfolio segments have been identified: commercial and industrial, commercial real estate mortgage, multi-family, land, residential real estate one-to four- family first mortgage, residential real estate one-to four- family junior lien mortgage, and other revolving credit and installment. The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis includes all loans delinquent over 60 days and non-homogenous loans such as commercial and commercial real estate loans. Classification of problem single-family residential loans is performed on a monthly basis while analysis of non-homogenous loans is performed on a quarterly basis.

Table of Contents

Loans secured by multi-family and commercial real estate properties generally involve a greater degree of credit risk than one-to four- family residential mortgage loans. Because payments on loan secured by multi-family and commercial real estate properties are often dependent on the successful operation or management of the properties, repayment of these loans may be subject to adverse conditions in the real estate market or the economy. Commercial business loans are also considered to have a greater degree of credit risk than one- to four-family residential mortgage loans due to the fact commercial business loans are typically made on the basis of the borrower s ability to make repayment from the cash flow of the borrower s business. As a result, the availability of funds for the repayment of commercial business loans may be substantially dependent on the success of the business itself (which, in turn, is often dependent in part upon general economic conditions). Consumer and other real estate loans may entail greater risk than do one- to four- family residential mortgage loans given that collection of these loans is dependent on the borrower s continuing financial stability and, thus, are more likely to be adversely affected by job loss, divorce, illness, or personal bankruptcy. Negatively amortizing and interest only loans are also considered to carry a higher degree of credit risk due to their unique cash flows. The Bank s Green Account Mortgages tend to have lower levels of delinquencies as a result of the borrower s ability to meet their monthly payments obligations by increasing the level of their line of credit. Credit risk on this asset class is also managed through the completion of regular re-appraisals of the underlying collateral and monitoring of the borrowers usage of this account to determine if the borrower is making monthly payments from external sources or draw downs on their line. In cases where the property values have declined to levels less than the original loan-to-value, or other levels deemed prudent by the Bank, the Bank may freeze the line and/or require monthly payments or principal reductions to bring the loan in balance.

Classified Assets: Federal regulations provide for the classification of loans and other assets, such as debt and equity securities considered by the Office of Thrift Supervision, and, as of July 21, 2011, the Office of the Comptroller of the Currency, its successor regulator (collectively referred to as the the Office of the Comptroller of the Currency or OCC), to be of lesser quality, as substandard, doubtful or loss. An asset is consider substandard if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Substandard assets include those characterized by the distinct possibility that the insured institution will sustain some loss if the deficiencies are not corrected. The Bank includes in its classification of Substandard Assets loans that are performing under terms of a TDR, but where the borrower has yet to make twelve or more payments under the TDR, and where the loan remains impaired, as well as loans where the borrower is current in his or her payments on the subject Classified Loan but may be a guarantor on another loan that is classified as a result of weakness in the credit or collateral (Relationship). TDR loans that have continued to make payments for twelve months or more, but where the collateral remains impaired, retain a Substandard classification. As of March 31, 2012, the Bank had $3.8 million of TDR loans classified as substandard with less than twelve months of payment performance and $6.2 million of TDR loans classified as substandard with payment performance for more than twelve months. Assets classified as doubtful have all of the weaknesses inherent in those classified substandard, with the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. Assets classified as loss are those considered uncollectible and of such little value that their continuance as assets without the establishment of a specific loss reserve is not warranted. When an insured institution classifies problem assets as either substandard or doubtful, it may establish general or specific allowances for loan losses in an amount deemed prudent by management and approved by the Board of Directors. General allowances represent loss allowances which have been established to recognize the inherent risk associated with lending activities, but, unlike specific allowances, have not been allocated to particular problem assets. When an insured institution classifies problem assets as loss, it is required either to establish a specific allowance for losses equal to 100% of that portion of the asset so classified or to charge off such amount. An institution s determination as to the classification of its assets and the amount of its valuation allowances is subject to review by the OCC, which may order the establishment of additional general or specific loss allowances.

In connection with the filing of our periodic reports with the OCC and in accordance with our classification of assets policy, we regularly review the problem assets in our portfolio to determine whether any assets require classification in accordance with applicable regulations.

Purchased Credit-impaired Loans: The Company purchases loans with and without evidence of credit quality deterioration since origination. Evidence of credit quality deterioration as of the purchase date may include statistics such as prior loan modification history, updated borrower credit scores and updated loan-to-value (LTV) ratios, some of which are not immediately available as of the purchase date. Purchased loans with evidence of credit quality deterioration where the Company estimates that it will not receive all contractual payments are accounted for as purchased credit impaired loans (PCI loans). The excess of the cash flows expected to be collected on PCI loans, measured as of the acquisition date, over the estimated fair value is referred to as the accretable yield and is recognized in interest income over the remaining life of the loan using a level yield methodology. The difference between contractually required payments as of the acquisition date and the cash flows expected to be collected is referred to as the nonaccretable difference. PCI loans that have similar risk characteristics, primarily credit risk, collateral type and interest rate risk, are pooled and accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows.

Table of Contents

The Company estimates cash flows expected to be collected over the life of the loan using management s best estimate of current key assumptions such as default rates, loss severity and payment speeds. If, upon subsequent evaluation, the Company determines it is probable that the present value of the expected cash flows have decreased, the PCI loan is considered further impaired which will result in a charge to the provision for credit losses and a corresponding increase to a valuation allowance included in the allowance for loan losses. If, upon subsequent evaluation, it is probable that there is an increase in the present value of the expected cash flows, the Company will reduce any remaining valuation allowance. If there is no remaining valuation allowance, the Company will recalculate the amount of accretable yield as the excess of the revised expected cash flows over the current carrying value resulting in a reclassification from nonaccretable difference to accretable yield. The present value of the expected cash flows is determined using the PCI loans effective interest rate, adjusted for changes in the PCI loans interest rate indexes. Loan dispositions, which may include sales of loans, receipt of payments in full from the borrower or foreclosure, result in removal of the loan from the PCI loan pool. Write-downs are not recorded on the PCI loan pool until actual losses exceed the remaining nonaccretable difference. To date, no write-downs have been recorded for any of the PCI loan pools held by the Company, all of which were purchased by the Company during the three months ended March 31, 2012.

Capital Lease Assets and Capital Lease Obligation: A capital lease asset and capital lease obligation are recorded when the Company determines that the terms of a lease include at least one of the following: (i) transfer of ownership of the leased property at the end of the lease term; (ii) a bargain purchase option; (iii) lease term equal to 75% or more of the estimated economic life of the leased property; (iv) present value of minimum lease payments at the beginning of the lease term equal to or in excess of 90% of the fair value of the leased property. The capital lease asset and capital lease obligation are initially recorded at the present value of the minimum lease payments. The Company calculates the present value of the minimum lease payments using the lower of the interest rate implicit in the lease and the Company s own incremental borrowing rate. If the use of the lower rate results in the present value of minimum lease payments being greater than the fair value of the leased property, the Company records the capital lease asset and capital lease obligation at the fair value of the leased property. The capital lease asset is depreciated using the straight-line method over the appropriate term which is determined through the analysis of criteria (i) through (iv) discussed above. During the lease term, each minimum lease payment is allocated between a reduction of the capital lease obligation and interest expense to produce a constant periodic rate of interest on the remaining balance of the obligation.

Income Taxes: Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized. A tax position is recognized as a benefit only if it is more likely than not that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the more likely than not test, no tax benefit is recorded. The Company had a $1.3 million valuation allowance for its net deferred tax asset at March 31, 2012 and December 31, 2011. See further discussion in Note 11, Income Taxes, of the Notes to Consolidated Financial Statements.

The Company and its subsidiaries are subject to U.S. federal income tax as well as income tax of multiple state jurisdictions. The Company is no longer subject to examination by U.S. Federal taxing authorities for years before 2008 and for all state income taxes before 2007.

The Company recognizes interest and/or penalties related to income tax matters in income tax expense. The Company had $0 accrued for interest and penalties at March 31, 2012 and December 31, 2011.

Table of Contents

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

Reclassifications: Some items in the prior year financial statements were reclassified to conform to the current presentation. Reclassifications had no effect on prior year net income or shareholders equity.

Adoption of New Accounting Standards: In May, 2011, the Financial Accounting Standards Board (FASB) issued an amendment to achieve common fair value measurement and disclosure requirements between U.S. and International accounting principles. Overall, the guidance is consistent with existing U.S. accounting principles; however, there are some amendments that change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. The effect of adopting this standard did not have a material effect on the Company s consolidated operating results or financial condition, but the additional disclosures are included in Note 5.

In June 2011, the FASB amended existing guidance and eliminated the option to present the components of other comprehensive income as part of the statement of shareholder s equity. The amendment requires that comprehensive income be presented in either a single continuous statement or in two separate consecutive statements. The adoption of this amendment changed the presentation of the components of comprehensive income for the Company as part of the consolidated statement of shareholder s equity and the Company has included comprehensive income in a single statement with the consolidated statements of income and comprehensive income.

In September 2011, the FASB issued ASU 2011-08 Intangibles-Goodwill and Other. The amendments in ASU 2011-08 will allow an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Under these amendments, an entity would not be required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. The amendments include a number of events and circumstances for an entity to consider in conducting the qualitative assessment. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted. The adoption of ASU 2011-08 did not impact the Company s consolidated financial statements or disclosures

Newly Issued But Not Yet Effective Accounting Standards: In December 2011, the FASB issued an accounting standards update to increase the disclosure requirements surrounding derivative instruments that are offset within the balance sheet pursuant to the provisions of current generally accepted accounting principles. The objective of the update is to provide greater comparability between issuers reporting under U.S. versus International accounting principles and provide users the ability to evaluate the effect of netting arrangements on a company s financial statements. The provisions of the update are effective for annual and interim periods beginning on or after January 1, 2013 and are not currently expected to add to the Company s current level of disclosures.

Table of Contents

NOTE 3 EMPLOYEE STOCK COMPENSATION

The Company has multiple share based compensation plans as described below. Total compensation cost that has been charged against income for the Company s stock compensation plans was $284 thousand and $196 thousand for the three months ended March 31, 2012 and March 31, 2011, respectively. The total income tax benefit and/or recovery was $1 thousand and $1 thousand for the three months ended March 31, 2012 and March 31, 2011, respectively.

Restricted Share Awards

2003 Recognition and Retention Plan

The Company s 2003 Recognition and Retention Plan (RRP) provides for the issuance of up to 211,600 shares to directors, officers, and employees. Compensation expense is recognized over the vesting period of the shares based on the market value at date of grant. At March 31, 2012, all 211,600 shares were issued. These shares vest over a five-year period. Compensation expense for the RRP awards totaled approximately $10 thousand and $6 thousand for the three months ended March 31, 2012 and March 31, 2011, respectively. As of March 31, 2012, there was $92 thousand of total unrecognized compensation cost related to 8,318 nonvested awards under the RRP. The cost is expected to be recognized over a weighted-average period of less than five years.

A summary of changes in the Company s nonvested shares awarded under the RRP for the three months ended March 31, 2012 follows:

Nonvested shares	Shares	Weighted-Average Grant-Date Fair-Value
Nonvested at January 1, 2012	8,958	$ 18.91
Granted		
Vested	(640)	17.00
Forfeited/expired		
Nonvested at March 31, 2012	8,318	$ 11.78

A summary of changes in the Company s nonvested shares awarded under the RRP for the three months ended March 31, 2011 follows:

Nonvested shares	Shares	Weighted-Average Grant-Date Fair-Value
Nonvested at January 1, 2011	12,378	$ 17.67
Granted		
Vested	(860)	13.60
Forfeited/expired		
Nonvested at March 31, 2011	11,518	$ 17.67

Inducement Grants

One-time inducement restricted shares were granted during 2010 and 2011 to newly hired executive officers. No inducement restricted shares were granted during the three months ended March 31, 2012. These one-time inducement grants were made outside of the RRP and the Omnibus Incentive Plan (described below). These shares vest over a three year period. Compensation expense for the inducement restricted share awards totaled approximately $25 thousand and $21 thousand for the three months ended March 31, 2012 and March 31, 2011, respectively. As of March 31, 2012, there was $197 thousand of total unrecognized compensation cost related to the 19,333 nonvested inducement restricted share awards. The cost is expected to be recognized over a weighted-average period of less than three years.

13

Table of Contents

A summary of changes related to the Company s nonvested inducement restricted share awards for the three months ended March 31, 2012 follows:

	Shares	Weighted Average Exercise Price
Nonvested at January 1, 2012	26,500	$ 12.12
Granted		
Vested	(7,167)	11.57
Forfeited or expired		
Nonvested at March 31, 2012	19,333	$ 12.32

A summary of changes related to the Company s nonvested inducement restricted share awards for the three months ended March 31, 2011 follows:

	Shares	Weighted Average Exercise Price
Nonvested at January 1, 2011	21,500	$ 11.57
Granted		
Vested		
Forfeited or expired		
Nonvested at March 31, 2011	21,500	$ 11.57

2011 Omnibus Incentive Plan

During June, 2011, the Company adopted its 2011 Omnibus Incentive Plan under the terms of which participating employees and directors may be awarded stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, performance units, other stock-based awards or cash awards. The total number of shares of common stock available for awards under the plan is 950,000, of which no more than 300,000 shares may be used for awards other than stock options and stock appreciation rights. There were 43,606 shares awarded as restricted shares from this plan as of March 31, 2012. These shares vest over a one year period. Compensation expense for these awards totaled approximately $17 thousand for the three months ended March 31, 2012. As of March 31, 2012, there was $226 thousand of total unrecognized compensation cost related to the 23,158 nonvested shares awarded under the Omnibus Incentive Plan. The cost is expected to be recognized over a weighted-average period of less than one year.

A summary of changes related to the Company s nonvested restricted share awards under the Omnibus Incentive Plan for the three months ended March 31, 2012 follows:

	Shares	Weighted Average Exercise Price
Nonvested at January 1, 2012	23,158	$ 12.42
Granted		
Vested		
Forfeited or expired		

Nonvested at March 31, 2012	23,158	$ 12.42

Stock Options

2003 Stock Option Plan

In addition to the Omnibus Incentive Plan discussed above, the Company has a 2003 Stock Option Plan (SOP) which provides for the issuance of options to directors, officers, and employees. The Company recorded stock compensation expense of $214 thousand and $164 thousand as salary and employee benefits expense during the three months ended March 31, 2012 and March 31, 2011, respectively. The Company adopted the SOP during 2003 under the terms of which 529,000 shares of the Company s common stock may be awarded. At March 31, 2012, the number of shares available for future awards was 16,500. The options become exercisable in equal installments over a five-year period from the date of grant. The options expire ten years from the date of grant. The fair value of options granted are computed using option pricing models, using the following weighted-average assumptions as of grant date. The fair value of each option is estimated on the date of grant using a closed form option valuation (Black-Scholes) model. Expected volatilities are based on historical volatilities of the Company s common stock. The Company uses historical data to estimate option exercise and post-vesting termination behavior. The expected term of options granted is based on historical data and represents the period of time that options granted are expected to be outstanding, which takes into account that the options are not transferable. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant. There were no options granted in 2012 or 2011 under the SOP. There were no options exercised or forfeited during the three months ended March 31, 2012 or March 31, 2011 and no options are outstanding under this plan at March 31, 2012.

Inducement Grants

During 2010 and 2011, 850,000 inducement options were granted to newly hired executive officers. No inducement options were granted during the three months ended March 31, 2012 or 2011. These one-time inducement options were granted outside of the SOP and the Omnibus Incentive Plan. None of these options were exercised during 2012 or 2011. These options have a three year vesting. As of March 31, 2012, there was $1.2 million of total unrecognized compensation cost related to nonvested inducement options. The cost is expected to be recognized over a weighted-average period of less than three years.

Table of Contents

The following table represents inducement option activity during the three months ended March 31, 2012:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)
Outstanding at January 1, 2012	850,000	$ 11.71	1.91
Granted			
Exercised			
Forfeited or expired			
Outstanding at March 31, 2012	850,000	$ 11.71	1.66
Fully vested and expected to vest	807,500	$ 11.12	1.66
Options exercisable at March 31, 2012	256,664	$ 11.42	1.61

Omnibus Incentive Plan

During 2011, 68,569 shares were awarded as stock options under the Omnibus Incentive Plan. These options were awarded to Company and Bank directors in lieu of, or in combination with cash compensation for director services. No options were issued during the quarter ended March 31, 2012. The options become exercisable one year from the date of grant. The options expire ten years from the date of grant. The fair value of options granted are computed using option pricing models, using the following weighted-average assumptions as of grant date. The fair value of each option award is estimated on the date of grant using a closed form option valuation (Black Scholes) model. Expected volatilities are based on historical volatilities of the Company s common stock. The Company uses historical data to estimate option exercise and post-vesting termination behavior. The expected term of options granted is based on historical data and represents the period of time that options granted are expected to be outstanding, which takes into account that the options are not transferable. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

As of March 31, 2012, there was $100 thousand of total unrecognized compensation cost related to nonvested stock options awarded under the Omnibus Incentive Plan. The cost is expected to be recognized over a weighted-average period of less than 1 year.

The following table represents option activity under the Omnibus Incentive Plan during the three months ended March 31, 2012:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)
Outstanding at January 1, 2012	68,569	$ 15.81	
Granted			
Exercised			
Forfeited or expired			
Outstanding at March 31, 2012	68,569	$ 15.81	.22
Fully vested and expected to vest	65,141	$ 15.02	.22
Options exercisable at March 31, 2012			

The intrinsic value for stock options is calculated based on the exercise price of the underlying awards and the market price of our common stock as of the reporting date. ASC 718 and 505 require the recognition of stock based compensation for the number of awards that are ultimately expected to vest. As a result, recognized stock compensation expense was reduced for estimated forfeitures prior to vesting primarily based on historical annual forfeiture rates of approximately 5% for senior management and the board of directors and 45% for all other employees. Estimated forfeitures will be reassessed in subsequent periods and may change based on new facts and circumstances.

NOTE 4 EARNINGS/(LOSS) PER COMMON SHARE

Basic earnings/(loss) per common share were computed by dividing net income/(loss) available to common shareholders after subtracting preferred stock dividends by the weighted average number of common shares outstanding. Diluted earnings/(loss) per common share were computed by dividing net income/(loss) available to common shareholders by the weighted average number of shares outstanding, adjusted for the dilutive effect, if any, of the outstanding stock options, restricted stock awards and warrants to purchase common stock. Computations for basic and diluted earnings/(loss) per common share are provided below.

Table of Contents

	Three months ended March 31, 2012	Three months ended March 31, 2011
Basic		
Net income	$ 377	$ 693
Less: Dividends on preferred stock	(400)	
Net income/(loss) available to common shareholders	$ (23)	$ 693
Weighted average common shares outstanding	11,664,797	9,661,447
Basic earnings/(loss) per common share	$ (0.00)	$ 0.07
Diluted		
Net income/(loss) available to common shareholders	$ (23)	$ 693
Weighted average common shares outstanding for basic earnings per common share	11,664,797	9,661,447
Add: Dilutive effects of stock options		
Add: Dilutive effects of stock awards		3,826
Add: Dilutive effects of warrants		
Average shares and dilutive potential common shares	11,664,797	9,665,273
Diluted earnings per common share	$ (0.00)	$ 0.07

All outstanding options, stock awards, and 0 warrants were not considered in computing diluted earnings per common share for the three months ended March 31, 2012 because they were anti-dilutive. All outstanding options and 1,514 stock awards were not considered in computing diluted earnings per common share for the three months ended March 31, 2011 because they were anti-dilutive. They were anti-dilutive since there was a net loss available to common shareholders and/or the exercise prices were greater than the average market price of the common stock.

NOTE 5 FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair Value Hierarchy. ASC 820-10 establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The topic describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity s own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Securities Available for Sale. The fair values of securities available for sale are determined by matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities relationship to other benchmark quoted securities (Level 2 inputs). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3). The fair values of the Company s Level 3 securities are determined by the Company and an independent third-party provider using a discounted cash flow methodology. The methodology uses discount rates that are based upon observed market yields for similar securities. Prepayment speeds are estimated based upon the prepayment history of each bond and a detailed analysis of the underlying collateral. Gross weighted average coupon, geographic concentrations, loan to value, FICO and seasoning are among the different loan attributes that are factored into our prepayment curve. Default rates and severity are estimated based upon geography of the collateral, delinquency, modifications, loan to value ratios, FICO scores, and past performance.

Impaired Loans. The fair value of impaired loans with specific allocations of the allowance for loan losses based on collateral values is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are typically significant and result in a Level 3 classification of the inputs for determining fair value. For the three months ended March 31, 2012, the Company charged off $2.3 million of specific valuation allowance allocations related to changes in reporting requirements for OCC regulated thrifts.

Table of Contents

Other Real Estate Owned Assets. Other real estate owned assets OREO are recorded at the fair value less estimated costs to sell at the time of foreclosure. The fair value of real estate owned assets is generally based on recent real estate appraisals adjusted for estimated selling costs. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are typically significant and result in a Level 3 classification of the inputs for determining fair value. Only OREO with a valuation allowance are considered to be carried at fair value. For the three months ended March 31, 2012 and March 31, 2011, the Company experienced $14 thousand and $421 thousand in valuation allowance expense for those assets, respectively.

Assets and Liabilities Measured on a Recurring and Non Recurring Basis

Available for sale securities are measured at fair value on a recurring basis, impaired loans and other real estate owned are measured at fair value on a non-recurring basis.

		Fair Value Measurements at March 31, 2012 Using		
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level One)	Significant Other Observable Inputs (Level Two)	Significant Unobservable Inputs (Level Three)
Assets				
Available-for-sale securities:				
U.S. government-sponsored entities and agency securities (recurring)	$ 4,009	$	$ 4,009	$
Municipal securities (recurring)	5,753		5,753	
Private label residential mortgage-backed securities (recurring)	91,688			91,688
Federal National Mortgage Association mortgage-backed securities (recurring)	2		2	
Other real estate owned assets (non recurring)				
Real estate 1-4 family first mortgage	2,979			2,979
Multi-family	2,480			2,480
Land	2,518			2,518

17

Table of Contents

The table below presents a reconciliation of all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three month period ended March 31, 2012:

	Investment Securities Available-for-sale
Balance of recurring Level 3 assets at January 1, 2012	$ 91,862
Total gains or (losses) (realized/unrealized):	
Included in earnings realized	(39)
Included in earnings unrealized	
Included in other comprehensive income	860
Amortization of premium/discount	(182)
Purchases	10,743
Sales, issuances and settlements	(11,556)
Net transfers in and/or out of Level 3	
Balance of recurring Level 3 assets at March 31, 2012	$ 91,688

There were no significant transfers between Level 1 and Level 2 during the three months ended March 31, 2012.

Other real estate owned which is measured at fair value less costs to sell having a valuation allowance, had a net carrying amount of $8.0 million, which is made up of the outstanding balance of $11.3 million, net of a valuation allowance of $3.3 million at March 31, 2012.

		Fair Value Measurements at December 31, 2011 Using		
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level One)	Significant Other Observable Inputs (Level Two)	Significant Unobservable Inputs (Level Three)
Assets				
Available-for-sale securities:				
U.S. government-sponsored entities and agency securities (recurring)	$ 4,038	$	$ 4,038	$
Municipal securities (recurring)	5,713		5,713	
Private label residential mortgage-backed securities (recurring)	91,862			91,862
Federal National Mortgage Association mortgage-backed securities (recurring)	3		3	
Impaired loans: (non recurring)				
Real estate 1-4 family first mortgage	6,893			6,893
Multi-family	1,638			1,638
Land	1,164			1,164
Other real estate owned assets: (non recurring)				
Real estate 1-4 family first mortgage	8,224			8,224
Multi-family	2,480			2,480
Land	3,988			3,988

Table of Contents

The table below presents a reconciliation of all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three month period ended March 31, 2011:

	Investment Securities Available-for-sale
Balance of recurring Level 3 assets at January 1, 2011	$ 54,246
Total gains or losses (realized/unrealized):	
Included in earnings realized	319
Included in earnings unrealized	
Included in other comprehensive income (loss)	(2,282)
Purchases	20,342
Sales, issuances and settlements	(20,528)
Net transfers in and/or out of Level 3	
Balance of recurring Level 3 assets at March 31, 2011	$ 52,097

There were no significant transfers between Level 1 and Level 2 during the three months ended March 31, 2011.

Impaired loans measured at fair value on a non-recurring basis with specific allowances allocations are measured for impairment using the fair value of the collateral for collateral dependent loans. These loans totaled $12.6 million and had a carrying amount of $9.7 million, net of specific allowance allocations of $2.9 million at December 31, 2011.

Other real estate owned which is measured at fair value less costs to sell having a valuation allowance, had a net carrying amount of $14.7 million, which is made up of the outstanding balance of $18.8 million, net of a valuation allowance of $4.1 million at December 31, 2011.

The following table presents quantitative information about level 3 fair value measurements at March 31, 2012:

	Fair value	Valuation Technique(s)	Unobservable Input(s)	Range (Weighted Average)
Private label residential mortgage backed securities (recurring)	$ 91,688	Discounted cash flow	Voluntary prepayment rate	36.1 0.9 (8.9)
			Collateral default rate	10.2 1.0 (3.8)
			Loss severity at default	73.1 2.0 (39.1)
Other real estate owned assets 1-4 family first mortgage (non-recurring)	2,979	Sales comparison approach	Adjustment for differences between the comparable sales	-10.845% 11.496% (-1.387%)
Other real estate owned assets Multi-family (non-recurring)	2,480	Sales comparison approach	Adjustment for differences between the comparable sales	-51.200% 50.600% (-18.420%)
Other real estate owned assets Land (non-recurring)	2,518	Sales comparison approach	Adjustment for differences between the comparable sales	-37.700% 6.360% (-12.080%)

The significant unobservable inputs used in the fair value measurement of the Company s private label residential mortgage backed securities are prepayment rates, collateral default rates, and loss severity in the event of default. Significant increases/(decreases) in any of those inputs in isolation would result in a significantly lower/(higher) fair value measurement. Generally, a change in the assumption used for the collateral default rates is accompanied by a directionally similar change in the assumption used for the loss severity and a directionally opposite change in the assumption used for prepayment rates.

Table of Contents

The carrying amounts and estimated fair values of financial instruments, at March 31, 2012 and December 31, 2011 were as follows:

	Carrying Value	Fair Value Measurements at March 31, 2012 Using			
		Level One	Level Two	Level Three	Total
Financial assets					
Cash and cash equivalents	$ 73,833	$ 73,833	$	$	$ 73,833
Securities available-for-sale	101,452		9,764	91,688	101,452
FHLB stock	6,639			N/A	N/A
Loans receivable, net	828,285			827,453	827,453
Accrued interest receivable	3,891	10	28	3,853	3,891
Financial liabilities					
Deposits	853,843	341,938	514,483		856,421
Advances from FHLB	35,000		35,085		35,085
Accrued interest payable	244	5	239		244

	Carrying Value	Fair Value Measurements at December 31, 2011 Using			
		Level One	Level Two	Level Three	Total
Financial assets					
Cash and cash equivalents	$ 44,475	$ 44,475	$	$	$ 44,475
Securities available-for-sale	101,616		9,754	91,862	101,616
FHLB stock	6,972			N/A	N/A
Loans receivable, net	775,609			777,053	777,053
Accrued interest receivable	3,569	3	8	3,558	3,569
Financial liabilities					
Deposits	786,334	316,451	472,509		788,960
Advances from FHLB	20,000		20,095		20,095
Accrued interest payable	217	1	216		217

The methods and assumptions used to estimate fair value are described as follows:

Carrying amount is the estimated fair value for cash and cash equivalents, accrued interest receivable and payable, demand deposits, short-term debt, and variable rate loans or deposits that re-price frequently and fully. The methods for determining the fair values for securities available for sale were described previously. For fixed rate loans or deposits and for variable rate loans or deposits with infrequent re-pricing or re-pricing limits, fair value is based on discounted cash flows using current market rates applied to the estimated life and credit risk. Fair value of long-term debt is based on current rates for similar financing. It was not practicable to determine the fair value of FHLB stock due to restrictions placed on its transferability. The fair value of off-balance-sheet items is not considered material (or is based on the current fees or costs that would be charged to enter into or terminate such arrangements) and is not presented.

Table of Contents

NOTE 6 SECURITIES AVAILABLE FOR SALE

The following tables summarize the amortized cost and fair value of the available-for-sale investment securities portfolio at March 31, 2012 and December 31, 2011, respectively, and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income (loss):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2012				
Available-for-sale				
U.S government-sponsored entities and agency securities	$ 4,000	$ 9	$	$ 4,009
Municipal securities	5,644	114	(5)	5,753
Private label residential mortgage-backed securities	92,532	220	(1,064)	91,688
Federal National Mortgage Association mortgage-backed securities	2			2
Total securities available for sale	$ 102,178	$ 343	$ (1,069)	$ 101,452

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2011				
Available-for-sale				
U.S. government-sponsored entities and agency securities	$ 4,000	$ 38	$	$ 4,038
Municipal securities	5,641	88	(16)	5,713
Private label residential mortgage-backed securities	93,567	148	(1,853)	91,862
Federal National Mortgage Association mortgage-backed securities	3			3
Total securities available for sale	$ 103,211	$ 274	$ (1,869)	$ 101,616

The amortized cost and fair value of the available-for-sale securities portfolio are shown by expected maturity. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

	March 31, 2012	
	Amortized Cost	Fair Value
Maturity		
Available-for-sale		
Within one year	$	$
One to five years	2,519	2,530
Five to ten years	4,000	4,009
Greater than ten years	3,125	3,223
Private label residential mortgage backed and FNMA mortgage-backed securities	92,534	91,690
Total	$ 102,178	$ 101,452

At March 31, 2012 and December 31, 2011, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of shareholders equity.

The following table summarizes the investment securities with unrealized losses at March 31, 2012 by aggregated major security type and length of time in a continuous unrealized loss position:

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-sale						
Municipal securities	$ 1,078	$ (5)	$	$	$ 1,078	$ (5)
Private label residential mortgage-backed securities	62,236	(1,064)			62,236	(1,064)
Total available-for-sale	$ 63,314	$ (1,069)	$	$	$ 63,314	$ (1,069)

The following table summarizes the investment securities with unrealized losses at December 31, 2011 by aggregated major security type and length of time in a continuous unrealized loss position:

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-sale						
Municipal securities	$ 1,072	$ (16)	$	$	$ 1,072	$ (16)
Private label residential mortgage-backed securities	64,911	(1,763)	8,145	(90)	73,056	(1,853)
Total available-for-sale	$ 65,983	$ (1,779)	$ 8,145	$ (90)	$ 74,128	$ (1,869)

As of March 31, 2012, the Company s securities available for sale portfolio consisted of sixty-one securities, thirty-two of which were in an unrealized loss position. The unrealized losses are related to the Company s municipal securities and private label residential mortgage-backed securities as discussed below.

The Company s private label residential mortgage-backed securities that are in an unrealized loss position had a fair value of $62.2 million with unrealized losses of $1.1 million at March 31, 2012. These non-agency private label residential mortgage-backed securities were rated AA or above at purchase and are not within the scope of ASC 325. The Company monitors to insure it has adequate credit support and as of March 31, 2012, the Company believes there is no OTTI and it does not have the intent to sell these securities and it is not likely that it will be required to sell the securities before their anticipated recovery. Of the $101.5 million securities portfolio, $97.1 million were rated AAA, AA or A, and $4.4 million were rated BBB based on the most recent credit rating as of March 31, 2012. The Company considers the lowest credit rating for identification of OTTI. During the first quarter of 2012, the Company sold one downgraded security for a net loss of $39 thousand.

During the three months ended March 31, 2012 and 2011, the Company determined that no securities were other-than-temporarily impaired due to current market conditions.

NOTE 7 LOANS

Loans receivable consist of the following:

	Loans Receivable Outstanding (1)		Purchased Credit-Impaired Loan Portfolio	
	March 31, 2012	December 31, 2011	March 31, 2012	December 31, 2011
Commercial:				
Commercial and industrial	$ 8,967	$ 9,019	$	$
Real estate mortgage	160,018	124,013		

Multi-family	84,220	87,290		
Land	1,070	2,375		
Consumer:				
Real estate 1-4 family first mortgage	547,264	546,760	19,452	
Real estate 1-4 family junior lien mortgage	9,129	9,219		
Other revolving credit and installment	8,289	8,604		
Total	818,957	787,280	19,452	
Less: Net deferred loan costs	1,049	1,109		
Allowance for loan losses	(11,173)	(12,780)		
Loans receivable, net	$ 808,833	$ 775,609	$ 19,452	$

(1) Does not include purchased credit-impaired loans.

At March 31, 2012, the Company had a total of $385.7 million in interest only mortgage loans (including Green Account loans) and $21.8 million in loans with potential for negative amortization. At December 31, 2011, the Company had a total of $382.0 million

Table of Contents

in interest only mortgage loans (including Green Account loans) and $23.4 million in loans with potential for negative amortization. These loans pose a potentially higher credit risk because of the lack of principal amortization and potential for negative amortization, however, management believes the risk is mitigated through the Company s loan terms and underwriting standards, including its policies on loan-to-value ratios.

Activity in the allowance for loan losses is summarized as follows for the three months ended March 31, 2012 and March 31, 2011:

	2012	2011
Balance at beginning of year	$ 12,780	$ 14,637
Loans charged off	(2,299)	(2,735)
Recoveries of loans previously charged off	1	3
Provision for loan losses	691	
Balance at end of period	$ 11,173	$ 11,905

23

Table of Contents

The following table presents the activity in the allowance for loan losses and the recorded investment in loans, excluding accrued interest receivable and net deferred loan costs as they are not considered to be material, in loans by portfolio segment and is based on the impairment method for the three months ended March 31, 2012. Total accrued interest receivable and net deferred loan costs were $3.4 million and $1.0 million, respectively at March 31, 2012.

	Commercial and Industrial	Commercial Real Estate Mortgage	Multi-family	Land	Real Estate 1-4 family first mortgage	Real Estate 1-4 family junior lien mortgage	Other Revolving Credit and Installment	TOTAL
Allowance for loan losses:								
Balance as of December 31, 2011	$ 128	$ 1,998	$ 1,541	$ 236	$ 8,635	$ 110	$ 132	$ 12,780
Charge-offs				(236)	(2,060)		(3)	(2,299)
Recoveries							1	1
Provision	1	922	60	8	(258)	(44)	2	691
Balance as of March 31, 2012	$ 129	$ 2,920	$ 1,601	$ 8	$ 6,317	$ 66	$ 132	$ 11,173
Individually evaluated for impairment	$	$ 357	$ 732	$	$ 164	$	$	$ 1,253
Collectively evaluated for impairment	129	2,563	869	8	6,153	66	132	9,920
Total ending allowance balance	$ 129	$ 2,920	$ 1,601	$ 8	$ 6,317	$ 66	$ 132	$ 11,173
Loans:								
Loans individually evaluated for impairment	$	$ 3,071	$ 5,485	$ 487	$ 15,704	$	$ 4	$ 24,751
Loans collectively evaluated for impairment	8,967	156,947	78,735	583	551,012	9,129	8,285	813,658
Total ending loans balance	$ 8,967	$ 160,018	$ 84,220	$ 1,070	$ 566,716	$ 9,129	$ 8,289	$ 838,409

Table of Contents

The following table presents the activity in the allowance for loan losses and the recorded investment in loans, excluding accrued interest receivable and net deferred loan costs as they are not considered to be material, by portfolio segment and is based on the impairment method for the three months ended March 31, 2011. Total accrued interest receivable and net deferred loan costs totaled $3.1 million and $1.8 million, respectively at March 31, 2011. Total accrued interest receivable and net deferred loan costs totaled $3.3 million and $1.1 million, respectively at December 31, 2011.

	Commercial and Industrial	Commercial Real Estate Mortgage	Multi-family	Land	Real Estate 1-4 family first mortgage	Real Estate 1-4 family junior lien mortgage	Other Revolving Credit	TOTAL
Allowance for loan losses:								
Balance as of December 31, 2010	$ 50	$ 332	$ 2,389	$ 1,067	$ 10,191	$ 258	$ 350	$ 14,637
Charge-offs				(1,674)	(1,053)		(8)	(2,735)
Recoveries							3	3
Provision	2	13	(32)	867	(668)	(70)	(112)	
Balance as of March 31, 2011	$ 52	$ 345	$ 2,357	$ 260	$ 8,470	$ 110	$ 233	$ 11,905
Balance as of December 31, 2011:								
Individually evaluated for impairment	$	$	$ 663	$ 236	$ 2,815	$	$	$ 3,714
Collectively evaluated for impairment	128	1,998	878		5,820	110	132	9,066
Total ending allowance balance	$ 128	$ 1,998	$ 1,541	$ 236	$ 8,635	$ 110	$ 132	$ 12,780
Loans:								
Loans individually evaluated for impairment	$	$	$ 5,001	$ 1,887	$ 20,650	$	$	$ 27,538
Loans collectively evaluated for impairment	9,019	124,013	82,289	488	526,110	9,219	8,604	759,742
Total ending loans balance	$ 9,019	$ 124,013	$ 87,290	$ 2,375	$ 546,760	$ 9,219	$ 8,604	$ 787,280

Table of Contents

The following table presents loans individually evaluated for impairment by class of loans as of March 31, 2012. The recorded investment included represents customer balances net of any partial charge-offs recognized on the loans, net of any deferred fees and costs and accrued interest receivable.

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment YTD	Interest Income Recognized YTD	Cash Basis Interest Recognized YTD
With no related allowance recorded:						
Commercial:						
Commercial and industrial	$	$	$	$	$	$
Real estate mortgage	289	293		294	4	4
Multi-family						
Land	487	487		487	7	7
Consumer:						
Real estate 1-4 family first mortgage	11,179	11,199		11,616	100	63
Real estate 1-4 family junior lien mortgage						
Other revolving credit and installment	4	4		4		
With an allowance recorded:						
Commercial:						
Commercial and industrial						
Real estate mortgage	2,782	2,792	357	2,792	12	12
Multi-family	5,485	5,495	732	5,499	77	58
Land						
Consumer:						
Real estate 1-4 family first mortgage	4,525	4,517	164	4,518	55	20
Real estate 1-4 family junior lien mortgage						
Other revolving credit and installment						
Total	$ 24,751	$ 24,787	$ 1,253	$ 25,210	$ 255	$ 164

	Three months ended March 31,	
	2012	2011
Average of individually impaired loans during the period	$ 25,852	$ 24,019
Interest income recognized during impairment	255	112
Cash-basis interest income recognized	164	90

Table of Contents

The following table presents loans individually evaluated for impairment by class of loans as of December 31, 2011. The recorded investment included represents customer balances net of any partial charge-offs recognized on the loans, net of any deferred fees and costs and accrued interest.

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment YTD	Interest Income Recognized YTD	Cash Basis Interest Recognized YTD
With no related allowance recorded:						
Commercial:						
Commercial and industrial	$	$	$	$	$	$
Real estate mortgage						
Multi-family						
Land	487	488		493	28	28
Consumer:						
Real estate 1-4 family first mortgage	6,849	6,915		6,872	92	39
Real estate 1-4 family junior lien mortgage						
Other revolving credit and installment		2		74	19	
With an allowance recorded:						
Commercial:						
Commercial and industrial						
Real estate mortgage						
Multi-family	5,001	5,013	663	5,030	134	43
Land	1,400	1,686	236	1,608		
Consumer:						
Real estate 1-4 family first mortgage	13,801	13,964	2,815	13,831	402	218
Real estate 1-4 family junior lien mortgage						
Other revolving credit and installment						
Total	$ 27,538	$ 28,068	$ 3,714	$ 27,908	$ 675	$ 328

Nonaccrual loans and loans past due 90 days still on accrual were as follows:

	March 31, 2012	December 31, 2011
Loans past due over 90 days still on accrual	$	$
Nonaccrual loans	$ 18,343	$ 19,254

Nonaccrual loans consist of the following:

	March 31, 2012	December 31, 2011
Commercial:		
Commercial and industrial	$	$
Real estate mortgage	3,071	
Multi-family	5,484	3,090
Land	487	1,887
Consumer:		
Real estate 1-4 family first mortgage	9,299	14,272
Real estate 1-4 family junior lien mortgage		
Other revolving credit and installment	2	5
Total	$ 18,343	$ 19,254

Nonaccrual loans at March 31, 2012 and December 31, 2011 of $17.1 million and $16.3 million were net of specific allowance allocations of $1.2 million and $2.9 million, respectively.

Table of Contents

The following table presents the aging of the principal balances in past due loans as of March 31, 2012 by class of loans:

	30-59 Days Past Due	60-89 Days Past Due	Greater than 89 Days Past Due	Total Past Due	Current	Total Gross Financing Receivables	Considered Current That Have been Modified in Previous Year
March 31, 2012							
Commercial:							
Commercial and industrial	$	$	$	$	$ 8,967	$ 8,967	$
Real estate mortgage					160,018	160,018	
Multi-family	179			179	84,041	84,220	
Land					1,070	1,070	487
Consumer:							
Real estate 1-4 family first mortgage	2,746	806	2,555	6,107	541,157	547,264	2,192
Real estate 1-4 family junior lien mortgage	698			698	8,431	9,129	
Other revolving credit and installment	47	4	2	53	8,236	8,289	
Total	$ 3,670	$ 810	$ 2,557	$ 7,037	$ 811,920	$ 818,957	$ 2,679

The following table presents the aging of principal balances in past due loans for the Company s portfolio of purchased credit-impaired loans as of March 31, 2012, by class of loans:

	30-59 Days Past Due	60-89 Days Past Due	Greater than 89 Days Past Due	Total Past Due	Current	Total Gross Financing Receivables	Considered Current That Have been Modified in Previous Year
March 31, 2012							
Commercial:							
Commercial and industrial	$	$	$	$	$	$	$
Real estate mortgage							
Multi-family							
Land							
Consumer:							
Real estate 1-4 family first mortgage	785	86		871	18,581	19,452	
Real estate 1-4 family junior lien mortgage							
Other revolving credit and installment							
Total	$ 785	$ 86	$	$ 871	$ 18,581	$ 19,452	$

The following table displays the Company s non-performing and performing substandard loan portfolio (using unpaid principal balance).

	March 31, 2012	
	# of Loans	Balance
Substandard Loans:		
Non-Performing	9	$ 2,557

Performing:		
TDR	12	10,341
Rated substandard due to borrower relationship to distressed loans	6	4,545
Rated substandard due to other credit factors	15	8,024
Total Performing:	33	$ 22,910
Total Substandard Loans	42	$ 25,467

Table of Contents

The following table presents the aging of the principal balances in past due loans as of December 31, 2011 by class of loans:

	30-59 Days Past Due	60-89 Days Past Due	Greater than 89 Days Past Due	Total Past Due	Current	Total Financing Receivables	Considered Current That Have been Modified in Previous Year
December 31, 2011							
Commercial:							
Commercial and industrial	$	$	$	$	$ 9,019	$ 9,019	$
Real estate mortgage	291			291	123,722	124,013	
Multi-family					87,290	87,290	
Land			1,400	1,400	975	2,375	487
Consumer:							
Real estate 1-4 family first mortgage	8,133	2,536	6,385	17,054	529,706	546,760	3,760
Real estate 1-4 family junior lien mortgage					9,219	9,219	
Other revolving credit and installment	4		5	9	8,595	8,604	
Total	$ 8,428	$ 2,536	$ 7,790	$ 18,754	$ 768,526	$ 787,280	$ 4,247

The following table displays the Company s non-performing and performing substandard loan portfolio (using unpaid principal balance).

	December 31, 2011	
	# of Loans	Balance
Substandard Loans:		
Non-Performing	16	$ 7,788
Performing:		
TDR	22	13,271
Rated substandard due to borrower relationship to distressed loans	13	7,811
Rated substandard due to other credit factors	7	3,660
Total Performing:	42	$ 24,742
Total Substandard Loans	58	$ 32,530

Troubled Debt Restructurings:

The Company has allocated $678 thousand and $2.1 million of specific allowance allocations to customers whose loan terms have been modified in troubled debt restructurings as of March 31, 2012 and December 31, 2011. The Company did not have any commitments to lend to customers with outstanding loans that are classified as troubled debt restructurings as of March 31, 2012 and December 31, 2011.

During the three months ended March 31, 2012, the Company did not modify any loans that would qualify as troubled debt restructurings.

The Company also did not make any loan modifications through arrangements that would not have qualified as troubled debt restructurings during the three months ended March 31, 2012.

The following table presents loans by class modified as troubled debt restructurings for which there was a payment default within twelve months following the modification during the three months ended March 31, 2012:

	Three Months Ended March 31, 2012		
	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings That Subsequently Defaulted:			
Commercial:			
Commercial and industrial		$	$
Real estate mortgage			

29

Table of Contents

	Three Months Ended March 31, 2012		
	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Multi-family			
Land			
Consumer:			
Real estate 1-4 family first mortgage	2	1,060	831
Real estate 1-4 family junior lien mortgage			
Other revolving credit and installment			
Total	2	$ 1,060	$ 831

A loan is considered to be in payment default once it is 30 days contractually past due under the modified terms.

The troubled debt restructurings that subsequently defaulted described above did not affect the allowance for loan losses and resulted in charge offs of $141 thousand during the three months ended March 31, 2012.

In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the Company s internal underwriting policy.

Troubled debt restructured loans consist of the following (in thousands):

	At March 31, 2012	At December 31, 2011
Commercial:		
Commercial and industrial	$	$
Real estate mortgage		
Multi-family	3,090	3,090
Land	487	487
Consumer:		
Real estate 1-4 family first mortgage	13,150	14,613
Real estate 1-4 family junior lien mortgage		
Other revolving credit and installment	2	2
Total	$ 16,729	$ 18,192

Troubled debt restructured loans at March 31, 2012 and December 31, 2011 totaling $16.1 million and $16.1 million were net of specific allowance allocations of $678 thousand and $2.1 million, respectively.

Credit Quality Indicators:

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company performs an historical loss analysis that is combined with a comprehensive loan to value analysis to analyze the associated risks in the current loan portfolio. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis includes all loans delinquent over 60 days and non-homogenous loans such as commercial and commercial real estate loans. Classification of problem single family residential loans is performed on a monthly basis while analysis of non-homogenous loans is performed on a quarterly basis. The Company uses the following definitions for risk ratings:

Special Mention. Loans classified as special mention have a potential weakness that deserves management s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the Company s credit position at some future date.

Substandard. Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

30

Doubtful. Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans. Consumer loans are evaluated based on payment history.

The following table displays the Company s risk categories as of March 31, 2012.

	Pass	Special Mention	Substandard	Doubtful	Loss	Not Rated	TOTAL
Commercial:							
Commercial and industrial	$ 8,967	$	$	$	$	$	$ 8,967
Real estate mortgage	155,219	816	3,983				160,018
Multi-family	78,557	179	5,484				84,220
Land	583		487				1,070
Consumer:							
Real estate 1-4 family first mortgage	516,413	15,520	15,331			19,452	566,716
Real estate 1-4 family junior lien mortgage	7,794	1,157	178				9,129
Other revolving credit and installment	8,038	243	4		4		8,289
Total	$ 775,571	$ 17,915	$ 25,467	$	$ 4	$ 19,452	$ 838,409

The loans not rated totaled $19.5 million at March 31, 2012 and represented credit impaired loans that were purchased during the quarter. See further discussion below under Purchased Credit Impaired Loans.

The following table displays the Company s risk categories as of December 31, 2011.

	Pass	Special Mention	Substandard	Doubtful	Loss	Not Rated	TOTAL
Commercial:							
Commercial and industrial	$ 9,019	$	$	$	$	$	$ 9,019
Real estate mortgage	108,841	11,463	3,709				124,013
Multi-family	81,792	497	5,001				87,290
Land	488		1,887				2,375
Consumer:							
Real estate 1-4 family first mortgage	498,794	26,381	21,585				546,760
Real estate 1-4 family junior lien mortgage	8,177	698	344				9,219
Other revolving credit and installment	8,385	215	4				8,604
Total	$ 715,496	$ 39,254	$ 32,530	$	$	$	$ 787,280

Purchased Credit Impaired Loans:

During the three months ended March 31, 2012, the Company began purchasing loans, for which there was, at acquisition, evidence of deterioration of credit quality since origination and it was probable, at acquisition, that all contractually required payments would not be collected. The carrying amount of those loans at March 31, 2012 is as follows. There were no such loans in 2011.

March 31, 2012

Commercial	$	
Consumer - Real estate 1-4 family first mortgage		19,452
Outstanding balance	$	19,452
Carrying amount, net of allowance of $0	$	19,452

The loans identified as purchased with credit impairments were approximately $33.5 million as of the acquisition date, net of accrued interest and escrow fees of $139 thousand. A credit discount of approximately $7.7 million was recorded and an additional $6.4 million of yield discount was also recorded. The yield discount is being recognized on a method that approximates a level yield over the expected life of the loan. The Company does not accrete the credit discount into income until such time as the loan is paid off. The only exception would be on a case-by-case basis

Table of Contents

when a material event that significantly improves the quality of the loans and reduces the risk to the Bank such that management believes it would be prudent to start recognizing some of the discount is documented. The credit discount represents approximately 22.9% of the transaction date value of the credit impaired loans.

Accretable yield, or income expected to be collected, is as follows:

	Yield Discount	Credit Discount
Balance at January 1, 2012	$	$
New loans purchased	6,447	7,664
Accretion of income	(177)	
Reclassifications from nonaccretable difference		
Disposals		
Balance at March 31, 2012	$ 6,270	$ 7,664

For those purchased loans disclosed above, no allowance for loan losses was recorded during three months ended March 31, 2012. No allowances for loan losses were reversed during the three months ended March 31, 2012.

Purchased loans for which it was probable at acquisition that all contractually required payments would not be collected are as follows:

	March 31, 2012
Contractually required payments receivable of loans purchased during the period:	
Commercial	$
Consumer - Real estate 1-4 family first mortgage	33,387
	$ 33,387
Cash flows expected to be collected at acquisition	$ 25,854
Fair value of acquired loans at acquisition	$ 19,407

Income is not recognized on certain purchased loans if the Company cannot reasonably estimate cash flows expected to be collected. The Company held no such loans during the three months ended March 31, 2012.

NOTE 8 OTHER REAL ESTATE OWNED

Activity in other real estate owned was as follows for the three months ended March 31, 2012 and March 31, 2011:

	2012	2011
Beginning of period	$ 14,692	$ 6,562
Additions	3,614	3,232
Sales	(6,234)	(6,735)
Net change in valuation allowance	771	3,374
Balance at end of period	$ 12,843	$ 6,433

Activity in the other real estate owned valuation allowance was as follows for the three months ended March 31, 2012 and March 31, 2011:

	2012	2011
Beginning of period	$ 4,081	$ 3,379
Additions charged to expense	14	421
Net direct write-downs or removal upon sale	(786)	(3,795)
Balance at end of period	$ 3,309	$ 5

32

Expenses related to foreclosed assets included in loan servicing and foreclosure expenses on the consolidated statements of income and comprehensive income are as follows for the three months ended March 31, 2012 and March 31, 2011:

	2012	2011
Net (gain)/loss on sales of other real estate owned	$ (316)	$ 768
Operating expenses, net of rental income	250	(611)
	$ (66)	$ 157

Loans provided for sales of other real estate owned, included in other assets on the consolidated statements of financial condition, and deferred gain on real estate sold on contract, included in accrued expenses and other liabilities on the consolidated statements of financial condition are as follows at March 31, 2012 and December 31, 2011:

	March 31, 2012	December 31, 2011
Loans provided for sales of other real estate owned on contract	$ 1,144	$ 1,145
Deferred gain on other real estate owned sold on contract	$ 10	$ 50

NOTE 9 LOAN COMMITMENTS AND OTHER RELATED ACTIVITIES

Some financial instruments such as loan commitments, credit lines, letters of credit, and overdraft protection are issued to meet customer financing needs. These are agreements to provide credit or to support the credit of others, as long as conditions established in the contact are met, and usually have expiration dates. Commitments may expire without being used. Risk of credit loss exists up to the face amount of these instruments, although material losses are not anticipated. The same credit policies are used to make such commitments as are used for loans, including obtaining collateral at exercise of the commitment.

The contractual amount of financial instruments with off-balance-sheet risk was as follows as of the dates indicated:

	Contract Amount			
	March 31, 2012		December 31, 2011	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Financial instruments whose contract amounts represent credit risk				
Commitments to extend credit	$ 2,475	$ 2,130	$ 1,000	$ 579
Unused lines of credit	5,870	38,014	6,249	36,472
Standby letters of credit	10	10	10	10

Commitments to make loans are generally made for periods of 30 days or less.

Financial instruments that potentially subject the Bank to concentrations of credit risk include interest-bearing deposit accounts in other financial institutions, and loans. At March 31, 2012 and December 31, 2011, the Bank had interest-bearing deposit accounts with balances totaling approximately $66.1 million and $37.7 million, respectively, in other financial institutions.

NOTE 10 PREMISES AND EQUIPMENT

Premises and equipment at March 31, 2012 and December 31, 2011 are summarized as follows:

	March 31, 2012	December 31, 2011
Land and improvements	$ 1,638	$ 1,638
Buildings	8,367	8,363
Furniture, fixtures, and equipment	5,572	4,753
Leasehold improvements	2,397	1,714
Construction in process	1,156	618
Total	19,130	17,086
Less accumulated depreciation and amortization	(6,718)	(6,501)
Premises and equipment, net	$ 12,412	$ 10,585

Depreciation expense was $218 thousand and $130 thousand for the three months ended March 31, 2012 and March 31, 2011, respectively.

Table of Contents

Operating Leases: The Company leases certain branch properties under operating leases. Total rent expense for the three months ended March 31, 2012 and March 31, 2011 amounted to $332 thousand and $104 thousand, respectively.

Capital Leases: The Company leases certain equipment under capital leases. The lease arrangements require monthly payments through 2017.

The Company has included these leases in capital lease assets as follows:

	2012	2011
Furniture, fixtures, and equipment	$ 128	$
Less accumulated depreciation and amortization	(2)	
Premises and equipment, net	$ 126	$

Depreciation expense was $2 thousand and $0 for the three months ended March 31, 2012 and March 31, 2011, respectively.

NOTE 11   INCOME TAXES

The Company accounts for income taxes by recognizing deferred tax assets and liabilities based upon temporary differences between the financial reporting and tax basis of its assets and liabilities. A valuation allowance is established when necessary to reduce deferred tax assets when it is more-likely-than-not that a portion or all of the net deferred tax assets will not be realized. Each quarter, the Company reviews its analysis of whether a valuation allowance should be recorded against its net deferred tax assets. Accounting literature states that a deferred tax asset should be reduced by a valuation allowance if, based on the weight of all available evidence, it is more likely than not (a likelihood of more than 50%) that some portion or the entire net deferred tax asset will not be realized. The determination of whether a net deferred tax asset is realizable is based on weighting all available evidence, including both positive and negative evidence. In making such judgments, significant weight is given to evidence that can be objectively verified. Although realization is not assured, the Company believes that the realization of all but approximately 15% of the recognized net deferred tax asset (DTA) at March 31, 2012 and December 31, 2011 is more likely than not based upon available tax planning strategies and expectations as to future taxable income. At March 31, 2012 and December 31, 2011, the Company had a net deferred tax asset of $7.3 million and $7.6 million, net of a $1.3 million valuation allowance at each date. There have been no material changes to the DTA assessment from December 31, 2011 to March 31, 2012. This note should be read in conjunction with Note 15 Income Taxes, from the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

34

Table of Contents

NOTE 12 MERGER AGREEMENTS AND OTHER EVENTS

On June 3, 2011, the Company entered into a definitive agreement to acquire all of the outstanding stock of Gateway Bancorp, the holding company for Gateway Business Bank for an aggregate purchase price of up to $17 million in cash, subject to adjustment for failure to deliver a certain minimum amount of regulatory Tier I Capital. The closing of the transaction is subject to the satisfaction of certain conditions, including the receipt of all necessary or advisable regulatory approvals. No assurance can be given as to when or whether these approvals will be received. The success of our pending acquisition of Gateway Bancorp will depend on, among other things, our ability to realize anticipated cost savings and to combine the businesses of Pacific Trust Bank (sometimes referred to below as the Bank) and Gateway Business Bank in a manner that does not materially disrupt the existing customer relationships of either institution or result in decreased revenues from our respective customers. If we are not able to successfully achieve these objectives, the anticipated benefits of the acquisition may not be realized fully or at all or may take longer to realize than expected. The acquisition will be accounted for under the acquisition method of accounting and is expected to close in 2012, subject to regulatory approvals and certain conditions. No assurance can be given as to when or whether these approvals will be received and conditions will be met. The Company has incurred $1.3 million of costs related to this acquisition that would be expensed if the transaction does not close.

On August 30, 2011, the Company entered into a definitive merger agreement with Beach Business Bank, providing for the merger of Beach Business Bank with and into a wholly owned subsidiary of the Company. In the merger, each share of Beach Business Bank common stock will be converted into the right to receive 0.33 of a share of Company common stock, with cash paid in lieu of fractional shares, and $4.61 in cash, subject to certain adjustments. If the value of a share of Company common stock at the closing of the transaction (measured as set forth in the merger agreement) is less than $13.50 or the Company determines that there is a reasonable possibility that the merger will not be treated as a reorganization for tax purposes, (1) the merger will be restructured as a merger of a Company subsidiary with and into Beach Business Bank, and (2) each outstanding share of Beach Business Bank common stock will instead be converted into the right to receive $9.12 in cash and a one-year warrant to purchase 0.33 shares of Company common stock at an exercise price of $14.00 per whole share of Company common stock. Because the merger was not completed on or before April 2, 2012 due to the failure to obtain required regulatory approvals, the aggregate consideration payable to Beach Business Bank shareholders will be increased by $100,000 for each month beginning on February 1, 2012 until the merger is completed. However, this additional consideration will not exceed the net income of Beach Business Bank during the period beginning on February 1, 2012 and ending on the date of the completion of the merger. The Company will have the option to deliver this increase to the merger consideration in cash, shares of Company common stock or any combination thereof, unless the merger is restructured as described in the third sentence of this paragraph, in which case such increase will be paid in cash. The transaction, which has already been approved by the shareholders of Beach Business Bank, is expected to close in 2012, subject to regulatory approvals and other closing conditions. No assurance can be given as to when or whether these approvals will be received and conditions will be met. The Company has incurred $228 thousand of costs related to this acquisition that would be expensed if the transaction does not close.

On March 5, 2012, the Company moved its corporate headquarters to Irvine, California. The Company also opened new branches in Santa Monica and Tustin, California during March 2012. The Company expects to open its newest branch in Newport Beach, California during the second quarter of 2012.

NOTE 13 SUBSEQUENT EVENTS

On April 5, 2012, the Company announced that the Office of the Comptroller of the Currency terminated the August 2009 Memorandum of Understanding between the Office of Thrift Supervision and Pacific Trust Bank, effective April 4, 2012.

On April 23, 2012, the Company issued $33 million aggregate principal amount of 7.50% Senior Notes due April 15, 2020. Net proceeds after discounts, commissions and expenses were approximately $31.2 million and are expected to be used for possible acquisitions, support of organic growth, investments in, or extensions of credit to, its subsidiaries, investments in securities and for general corporate purposes.

ITEM 2 - MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion compares the consolidated financial condition of First PacTrust Bancorp, Inc. (the Company or Bancorp), at March 31, 2012, to its financial condition at December 31, 2011, and the results of operations for the three months ended March 31, 2012 to the same period in 2011. This discussion should be read in conjunction with the unaudited interim consolidated financial statements and footnotes included herein.

The Company is a community-oriented financial institution deriving substantially all of its revenue from providing banking services through its wholly owned subsidiary, Pacific Trust Bank (the Bank), to individuals within its market area, primarily San Diego, Riverside, Orange, and Los Angeles Counties, CA. The Company currently has 15 banking offices, including 11 full-service deposit taking branches, three limited-service deposit gathering branches and one loan production office. The Company s assets consist primarily of loans and investment securities, which are funded by deposits, borrowings and capital. The primary source of revenue is net interest income, the difference between interest income on loans and investments, and interest expense on deposits and borrowed funds. The Company s basic strategy is to maintain and grow net interest income by the retention of its existing customer base and the expansion of its core businesses and branch offices within its current market and plans to expand further into southern California. The Company s primary market risk exposure is interest rate risk and credit risk.

Comparison of Financial Condition at March 31, 2012 and December 31, 2011

Assets. The Company s total assets increased by $84.0 million, or 8.4%, to $1.1 billion at March 31, 2012 from $999.0 million at December 31, 2011 primarily due to an increase in the balance in loans receivables, net of allowance, in the amount of $52.7 million, an increase in total cash and cash equivalents of $29.4 million, an increase of $2.3 million in the balance of other assets, and an increase in premises and equipment of $1.8 million. The increase in total assets was partially reduced by a $1.8 million decline in balance of OREO.

Cash and cash equivalents. Cash and cash equivalents increased $29.4 million, or 66.0%, to $73.8 million at March 31, 2012 from $44.5 million at December 31, 2011. Cash and cash equivalents were increased by cash generated through operations of $6.7 million, an increase in time and core deposits of $67.5 million, proceeds from the sale of other real estate owned of $5.8 million, and net FHLB advances of $15.0 million (net of repayments of maturing advances). Cash and cash equivalents were reduced by increased loan receivable balances of $43.5 million, net of allowance, (also net of loans transferring to OREO status), the purchase of $19.5 million of credit impaired loans, and purchases of premises and equipment of $2.0 million. The remaining net increase in cash and cash equivalents was the result of small fluctuations in various accounts.

Loans. Loans receivable, net of allowance, increased by $52.7 million, or 6.8%, to $828.3 million at March 31, 2012 from $775.6 million at December 31, 2011. This increase was the result of loan originations exceeding net loan principal repayments, charge-offs and foreclosures during the three months ended March 31, 2012, as well as the purchase of $19.5 million of credit impaired loans. During the three months ended March 31, 2012, the Company transferred a total of $3.6 million of loans, net of specific valuation allowances, to other real estate owned.

Investments. Securities classified as available-for-sale of $101.5 million at March 31, 2012 decreased $164 thousand from December 31, 2011. Private label mortgage-backed securities totaling $10.7 million were purchased during the three months ended March 31, 2012. In addition, the Company sold a security for $2.9 million and recognized a net loss on sale of $39 thousand during the three months ended March 31, 2012.

Other Assets. Other assets increased $2.3 million, or 11.2% to $23.0 million at March 31, 2012 from $20.7 million at December 31, 2011. The increase was primarily the result of increased receivables due to the sale of an OREO property in the amount of $1.6 million.

Premises and Equipment. Premises and equipment increased $1.8 million, or 17.3%, to $12.4 million at March 31, 2012 from $10.6 million at December 31, 2011 primarily due to the relocation of the corporate headquarters to Irvine, California and the opening of two new branches in Santa Monica and Tustin, California during the first quarter.

Allowance for Loan Losses. The allowance for loan losses at March 31, 2012 was $11.2 million, which represented 1.3% of the gross loans outstanding at March 31, 2012, as compared to $12.8 million, or 1.6%, of the gross loans outstanding at December 31, 2011. Of the $11.2 million allowance, $1.3 million were allocated to impaired loans, including loans which are subject to troubled debt restructurings, with $9.9 million serving as a general reserve for loan losses. The reduction in the allowance partially resulted from the Company charging off $2.3 million of previously established specific allowance allocations, primarily as a result of changes in reporting requirements for Thrifts regulated by the Office of the Comptroller of the Currency. Of the $2.3 million total specific valuation allowances charged off during the three months ended March 31, 2012, $2.1 million related to one-to four-family first mortgage loans and $236 thousand related to land loans. The remaining charges-offs related to other revolving credit and installment

36

Table of Contents

loans. The decline of the Company s allowance for loan losses as a percentage of gross loans was reduced by the purchase of $19.4 million credit impaired loans during the three months ended March 31, 2012. The balance of these loans totaled $19.5 million at March 31, 2012. Excluding these loans, the Company s allowance for loan losses as a percentage of gross loans outstanding at March 31, 2012 would be 1.4%. The Company s non-performing loans, including non-performing and restructured loans, also reflected the improved credit quality in the portfolio with a $911 thousand decline in gross non-performing loans from $19.3 million at December 31, 2011 to $18.3 million at March 31, 2012. The Company added $691 thousand to its allowance for loan losses during the three months ended March 31, 2012 related primarily to new commercial real estate production as well as an increase in general reserves to compensate for higher economic uncertainty.

The Company maintains an allowance for loan losses to absorb probable incurred losses inherent in the loan portfolio at the balance sheet date. The allowance is based on ongoing assessment of the estimated probable losses presently inherent in the loan portfolio. In evaluating the level of the allowance for loan losses, management considers the types of loans and the amount of loans in the loan portfolio, peer group information, historical loss experience, adverse situations that may affect the borrower s ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. This methodology takes into account many factors, including the Company s own historical and peer loss trends, loan-level credit quality ratings, loan specific attributes along with a review of various credit metrics and trends. The process involves subjective as well as complex judgments. The Company uses a rolling three year loss experience in analyzing an appropriate reserve factor for all loans. Management tested this enhancement and determined that it did not have a material effect on the prior year s allowance calculation. In addition, the Company uses adjustments for numerous factors including those found in the Interagency Guidance on Allowance for Loan and Lease Losses, which include current economic conditions, loan seasoning, underwriting experience, and collateral value changes among others. The Company evaluates all impaired loans individually using guidance from ASC 310 primarily through the evaluation of cash flows or collateral values

Nonaccrual Loans. The following table summarizes our nonaccrual loans, at March 31, 2012 and December 31, 2011. This table includes troubled debt restructured loans on nonaccrual. There were no loans past due 90 days or more and still accruing interest at March 31, 2012 and December 31, 2011. Nonaccrual loans at March 31, 2012 and December 31, 2011 totaling $17.1 million and $16.3 million were net of specific allowance allocations of $1.2 million and $2.9 million, respectively.

	March 31, 2012	December 31, 2011
Commercial:		
Commercial and industrial	$	$
Real estate mortgage	3,071	
Multi-family	5,484	3,090
Land	487	1,887
Consumer:		
Real estate 1-4 family first mortgage	9,299	14,272
Real estate 1-4 family junior lien mortgage		
Other revolving credit and installment	2	5
Total	$ 18,343	$ 19,254

37

Table of Contents

Non-Performing Assets. The following table is a summary of our non-performing assets at March 31, 2012 and December 31, 2011, consisting of non-performing loans and other real estate loans as of such dates. Non-performing loans include all nonaccrual loans that are past due 90 days or more, including troubled debt restructured loans on nonaccrual, and loans past due 90 days and still accruing interest, of which there were none at March 31, 2012 and December 31, 2011. Non-performing loans at March 31, 2012 and December 31, 2011 totaling $17.1 million and $16.3 million were net of specific allowance allocations of $1.2 million and $2.9 million, respectively. Other real estate owned at March 31, 2012 and December 31, 2011 totaling $12.8 million and $14.7 million were net of valuation allowances of $3.3 million and $4.1 million, respectively.

	At March 31, 2012	At December 31, 2011
Nonperforming loans		
Commercial:		
Commercial and industrial	$	$
Real estate mortgage	3,071	
Multi-family	5,484	3,090
Land	487	1,887
Consumer:		
Real estate 1-4 family first mortgage and green	9,299	14,272
Real estate 1-4 family junior lien mortgage and green		
Other revolving credit and installment	2	5
Total nonperforming loans	$ 18,343	$ 19,254
Other real estate owned	$ 12,843	$ 14,692
Total nonperforming assets	$ 31,186	$ 33,946
Ratios		
Non-performing loans to total gross loans	2.19%	2.45%
Non-performing assets to total assets	2.88%	3.40%

Troubled Debt Restructured Loans (TDRs). As of March 31, 2012, the Company had 23 loans with an aggregate balance of $16.7 million classified as TDRs compared to loans with an aggregate balance of $18.2 million at December 31, 2011 classified as TDRs. Specific allowance allocations totaling $678 thousand have been established for these loans as of March 31, 2012 compared to $2.1 million at December 31, 2011. The difference in specific allowance allocations was largely due to a charge offs during the three months ended March 31, 2012, and were largely related to changes in reporting requirements for Thrifts by the OCC. When a loan becomes a TDR the Company ceases accruing interest, and classifies it as non-accrual until the borrower demonstrates that the loan is again performing.

As of March 31, 2012, of the 23 loans classified as TDRs, 22 loans totaling $16.4 million are making payments according to their modified terms and are less than 90-days delinquent. Of the performing TDRs, $12.8 million in loans are secured by single family residences, $487 thousand are secured by land, $3.1 million are secured by multi-family residences, and the remaining is comprised of an unsecured $2 thousand consumer loan. One TDR loan with a balance of $371 thousand is over 90 days delinquent and is secured by a single family residence. This loan will either return to a performing TDR status or move through the Bank s normal collection and foreclosure process for non-performing loans.

The following table presents the seasoning of the Bank s performing restructured loans, their effective balance (principal balance less specific allowance allocations charged-off), and their weighted average interest rates (dollars in thousands):

Performing Restructured Loans As of March 31, 2012

Payments	# of loans	Effective Balance	Average Loan Size	Weighted Average Interest Rate
		(Dollars in Thousands)		
1 Payment		$	$	
2 Payments				

3 Payments				
4 Payments	1	153	153	6.25%
5 Payments	1	3,600	3,600	5.00%
6 Payments				
7 Payments				
8 Payments				
9 Payments	1	679	679	3.00%
10 Payments				
11 Payments				
12+ Payments	19	11,926	628	5.34%
Total	22	$ 16,358	$ 744	5.18%

Other Real Estate Owned Assets (OREO). During the first quarter of 2012, the Company foreclosed on 9 single family residential properties totaling $3.6 million. Additionally, the Company sold ten single family residential properties at a net gain of $316 thousand. The Company also recorded a $14 thousand write-down of its OREO properties during the first quarter.

Deposits. Total deposits increased by $67.5 million, or 8.6%, to $853.8 million at March 31, 2012 from $786.3 million at December 31, 2011. Certificates of deposit increased $42.0 million, savings accounts increased $3.6 million and checking accounts increased $33.2 million. Growth was achieved primarily from the opening of two new branches during the period as well as the formation of new customer relationships and the attraction of additional funds from existing customers. Money market accounts declined $11.3 million. Total core deposits (total deposits less CDs) increased by 8.1% to $341.9 million at March 31, 2012, compared to $316.5 million at December 31, 2011. The Bank completed the opening of two new branches in Santa Monica and Tustin, California during the first quarter of 2012, which the Company hopes will contribute to future growth. The Bank is actively seeking additional production offices in core Southern California banking markets including Orange County and the Los Angeles area.

Federal Home Loan Bank (FHLB) Advances. During the three months ended March 31, 2012, $20 million of long term FHLB advances matured and $35 million of FHLB advances were obtained, resulting in a 75.0% increase to $35.0 million at March 31, 2012, from $20.0 million at December 31, 2011. The $35 million of advances have an average current yield of 1.06% and mature between 2012 and 2015.

Shareholders Equity. Shareholders equity decreased $493 thousand, or 0.3% to $184.0 million at March 31, 2012 from $184.5 million at December 31, 2011. Equity decreased due to the payment of common stock dividends of $1.2 million and preferred stock dividends of $400 thousand. Equity increased due to net income of $377 thousand, a $511 thousand increase in the fair value of securities available-for-sale, net of tax, and stock option compensation expense of $284 thousand.

Comparison of Operating Results for the Three Months Ended March 31, 2012 and 2011

General. Net income decreased $316 thousand to $377 thousand for the three months ended March 31, 2012 compared to net income of $693 thousand in the same period of the prior year as a result of the factors discussed below.

Interest and Dividend Income. Interest and dividend income increased by $1.4 million, or 15.4% to $10.3 million for the three months ended March 31, 2012, compared to $8.9 million for the three months ended March 31, 2011 as described below.

Interest income on loans increased $1.9 million, or 24.3% to $9.5 million for the three months ended March 31, 2012 from $7.7 million for the three months ended March 31, 2011. The primary factor for the increase was a $134.2 million increase in the average balance of loans receivable from $672.5 million for the three months ended March 31, 2011 to $806.6 million for the three months ended March 31, 2012. The increase in interest income on loans receivable was further increased by a 16 basis point increase in the average yield on loans receivable to 4.72% due primarily to the increase in commercial real estate loan production yielding higher rates.

Interest income on securities decreased $507 thousand to $737 thousand for the three months ended March 31, 2012 from $1.2 million for the three months ended March 31, 2011. Although there was a $35.2 million increase in the average balance of investments to $105.3 million, there was a 430 basis point decline in the average yield on the portfolio from 7.10% at March 31, 2011 to 2.80% at March 31, 2012. The decline in the average yield on the portfolio was due to the sale of higher yielding securities in the prior year as the Company took the opportunity to divest several of its private label residential mortgage-backed securities.

Table of Contents

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

The following table presents for the periods indicated the total dollar amount of interest income from average interest-earning assets and the resultant yields, as well as the interest expense on average interest-bearing liabilities, expressed both in dollars and rates. Also presented is the weighted average yield on interest-earning assets, rates paid on interest-bearing liabilities and the resultant spread for the three months ended March 31, 2012 and March 31, 2011. No tax equivalent adjustments were made. All average balances are daily average balances. Non-accruing loans have been included in the table as loans carrying a zero yield.

	Three Months Ended March 31, (dollars in thousands)					
	2012			2011		
	Average Balance	Interest	Annualized Average Yield/ Cost	Average Balance	Interest	Annualized Average Yield/ Cost
INTEREST-EARNING ASSETS						
Loans receivable(1)	$ 806,648	$ 9,528	4.72%	$ 672,491	$ 7,666	4.56%
Securities(2)	105,254	737	2.80%	70,073	1,244	7.10%
Other interest-earning assets(3)	61,498	60	0.39%	46,370	39	0.34%
Total interest-earning assets	973,400	10,325	4.24%	788,934	8,949	4.52%
Non-interest earning assets(4)	74,633			62,320		
Total assets	$ 1,048,033			$ 851,254		
INTEREST-BEARING LIABILITIES						
NOW	$ 102,670	112	0.43%	$ 61,304	16	0.10%
Money market	178,238	137	0.31%	89,814	66	0.29%
Savings	40,443	11	0.11%	129,042	90	0.28%
Certificates of deposit	492,764	1,089	0.88%	359,228	1,105	1.23%
FHLB advances	37,802	100	1.06%	68,750	517	3.01%
Total interest-bearing liabilities	851,917	1,449	0.68%	708,138	1,794	1.00%
Non-interest-bearing liabilities	10,075			7,159		
Total liabilities	861,992			715,297		
Total shareholders equity	186,041			135,957		
Total liabilities and shareholders equity	$ 1,048,033			$ 851,254		
Net interest/spread		$ 8,876	3.56%		$ 7,155	3.52%
Margin(5)			3.65%			3.63%
Ratio of average interest-earning assets to average interest-bearing liabilities	114.26%			111.41%		

(1) Average balances of nonperforming loans are included in the above amounts. Calculated net of deferred fees, premiums/discounts, and loss reserves.
(2) Calculated based on average amortized cost.
(3) Includes average FHLB stock at cost and average term deposits with other financial institutions.
(4) Includes average balance of bank-owned life insurance (BOLI) investments of $18.5 million in 2012 and $18.1 million in 2011.
(5) Net interest income divided by average interest-earning assets.

Table of Contents

Rate/Volume Analysis

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

	Three Months Ended March 31, 2012 compared to March 31, 2011		
	Total Change	Change Due To Volume	Change Due To Rate
		(In thousands)	
Income from interest earning assets:			
Loans, gross	$ 1,862	$ 1,576	$ 286
Securities	(507)	453	(960)
Interest-bearing deposits in other financial institutions	21	14	7
Total interest income from interest earning assets	1,376	2,043	(667)
Expense on interest bearing liabilities:			
NOW	96	17	79
Money market	71	68	3
Savings	(79)	(42)	(37)
Certificates of Deposit	(16)	345	(361)
FHLB Advances	(417)	(171)	(246)
Total interest expense on interest-bearing liabilities	(345)	217	(562)
Net interest income	$ 1,721	$ 1,826	$ (105)

Interest Expense. Interest expense decreased $345 thousand or 19.3% to $1.4 million for the three months ended March 31, 2012 from $1.8 million for the three months ended March 31, 2011. Interest expense on deposits increased $72 thousand, or 5.6% to $1.3 million for the three months ended March 31, 2012 from $1.3 million for the three months ended March 31, 2011. The primary factor for the increase was a $174.7 million increase in the average balance of deposits to $814.1 million for the three months ended March 31, 2012 from $639.4 million for the three months ended March 31, 2011, partially offset by an 11 basis point decline in the Company s overall average cost of deposits to 0.69% for the three months ended March 31, 2012 from 0.80% for the three months ended March 31, 2011, due to lower market interest rates.

Interest expense on FHLB advances decreased $417 thousand, or 80.6% to $100 thousand for the three months ended March 31, 2012 from $517 thousand for the three months ended March 31, 2011. The decline in interest expense was primarily due to the average balance of FHLB advances decreasing $30.9 million from $68.8 million for the three months ended March 31, 2011 to $37.8 million for the three months ended March 31, 2012, and a 195 basis point reduction in the average cost of advances to 1.06% for the three months ended March 31, 2012 from 3.01% for the three months ended March 31, 2011.

Net Interest Income. As a result of the combined effect of the factors mentioned above, net interest income before the provision for loan losses increased $1.7 million, or 24.1%, to $8.9 million for the three months ended March 31, 2012 from $7.2 million for the three months ended March 31, 2011. The Company s net interest margin increased 2 basis point from 3.63% for the three months ended March 31, 2011 to 3.65% for the three months ended March 31, 2012. Continued improvement in the Bank s liability mix and average cost of deposits resulted in an 11 basis point reduction in the average cost of deposits from 0.80% for the three months ended March 31, 2011 to 0.69% for the three months ended March 31, 2012. These benefits were enhanced by a 16 basis point increase in the average yield on the Bank s loan portfolio from 4.56% for the three months ended March 31, 2011 to 4.72% for the three months ended March 31, 2012 due to the repricing of adjustable rate loans and reversal of accrued interest on a number of loans delinquent more than 90 days. The Company also experienced declines in the average yield on securities from 7.10% for the three months ended March 31, 2011 to 2.80% for the three months ended March 31, 2012 as the Company diluted the high yields on its core portfolio by selling some of the portfolio and investing excess liquidity into shorter term lower yielding securities.

Provision for Loan Losses. The Company maintains an allowance for loan losses to absorb probable incurred losses presently inherent in the loan portfolio. The allowance is based on ongoing assessments of the estimated probable losses presently inherent in the loan portfolio. In evaluating the level of the allowance for loan losses, management considers the types of loans and the amount of loans in the loan portfolio, peer group information, historical loss experience, adverse situations that may affect the borrower s ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. The Company currently takes into account many factors, including the Company s own historical and peer loss trends, loan-level credit quality ratings, loan specific attributes along with a review of various credit metrics and trends. In addition, the Company uses adjustments for numerous factors including those found in the Interagency Guidance on Allowance for Loan and Lease Losses, which include current economic conditions, loan seasoning, underwriting experience, and collateral value changes among others. The Company evaluates all impaired loans individually, primarily through the evaluation of cash flows or collateral values. Management uses available information to recognize loan losses, however, future loan loss provisions may be necessary based on changes in the above mentioned factors. In addition, regulatory agencies, as an integral part of their examination process, periodically review the allowance for loan losses and may require the Bank to recognize additional provisions based on their judgment of information available to them at the time of their examination. The allowance for loan losses as of March 31, 2012 was maintained at a level that represented management s best estimate of incurred losses in the loan portfolio to the extent they were both probable and reasonably estimable as of the balance sheet date. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available or as future events change.

Provisions for loan losses are charged to operations at a level required to reflect probable incurred credit losses in the loan portfolio. In this regard, a majority of the Company s loans are to individuals and businesses in Southern California. During the three months ended March 31, 2012, the Company provided $691 thousand to its provision for loan losses related primarily to increased general reserves on new loan originations and loan purchases and an increase to general reserves to compensate for higher economic uncertainty.

Non-performing loans, including all loans on nonaccrual or loans past due over 90 days that are on accrual, decreased by $911 thousand and totaled $18.3 million as of March 31, 2012, compared to $19.3 million at December 31, 2011. Net charge-offs totaled $2.3 million for the first quarter of 2012 which primarily resulted from the charge-off of specific allowance allocations for various one-to four- family properties and land loans . These levels compare to $2.7 million in net charge-offs in the prior year s first quarter.

Noninterest Income. Noninterest income decreased $264 thousand for the three months ended March 31, 2012 to $503 thousand compared to $767 thousand for the same period of the prior year primarily due to a $319 thousand gain on the sale of securities in the prior year s first quarter.

Noninterest Expense. Noninterest expense increased $1.4 million, or 20.6% to $8.2 million for the three months ended March 31, 2012 compared to $6.8 million for the same period of the prior year. This net increase was primarily the result of a $1.5 million increase in salaries and employee benefits, a $414 thousand increase in loan servicing and foreclosure, a $208 thousand increase in professional fees, and a $335 thousand increase in occupancy and equipment expenses. These increases were partially offset by a $407 thousand decrease in valuation allowance expense for other real estate owned, a $1.1 million decrease in loss on sale of other real estate owned property, and a $65 thousand decrease in FDIC expenses due to a decline in the multiplier used for FDIC assessments.

Salaries and employee benefits represented 59.2% and 49.6% of total noninterest expense for the three months ended March 31, 2012 and March 31, 2011, respectively. Total salaries and employee benefits increased $1.5 million, or 44.0%, to $4.9 million for the three months ended March 31, 2012 from $3.4 million for the same period in 2011, due to additional compensation expense related to the hiring of new officers, production personnel and support staff needed to execute the Company s growth strategy.

The valuation allowance for other real estate owned decreased $407 thousand to $14 thousand for the three months ended March 31, 2012 compared to $421 thousand for the same period in the prior year. The decline was due to the sale of OREO properties during the three months ended March 31 2012 with large valuation allowances established in prior periods.

Total professional fees increased $208 thousand, or 62.1% to $543 thousand for the three months ended March 31, 2012 from $335 thousand for the same period in 2011, due to increased consulting and legal fees primarily related to strategic planning activities.

Gain/losses on the sale of other real estate owned increased $1.1 million due to a gain of $316 thousand for the three months ended March 31, 2012 compared to a loss of $768 thousand for the same period of the prior year. During the first quarter of 2012, the Company disposed of $6.2 million in OREO at a net gain of $316 thousand, while charging off additional valuation allowances totaling $771 million on new or existing OREO. As of March 31, 2012, the Company s OREO balances totaled $12.8 million (1.2% of total assets), compared to $14.7 million (1.5% of total assets) as of December 31, 2011.

Occupancy and equipment expenses increased $335 thousand, or 50.3% to $999 thousand for the three months ended March 31, 2012 from $664 thousand in the same period in 2011 primarily due to increased building and equipment maintenance, primarily related to the newly acquired branch locations during the period.

Income Tax Expense. An income tax expense of $93 thousand was recorded for the three months ended March 31, 2012 compared to income tax expense of $413 thousand for the three months ended March 31, 2011. The effective tax rate for the three month period ending March 31, 2012 of 19.8% was in accordance with the guidelines of ASC 740 and compares to an effective tax rate for the three months ended March 31, 2011 of 37.3%. The Company s effective tax rate decreased due to the lower a level of taxable income and an increased level of nontaxable income as a percentage of income before income taxes.

Liquidity and Commitments

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

The Bank s liquidity, represented by cash and cash equivalents and securities available for sale, is a product of its operating, investing, and financing activities. The Bank s primary sources of funds are deposits, payments and maturities of outstanding loans and investment securities; and other short-term investments and funds provided from operations. While scheduled payments from the amortization of loans and mortgage-backed securities and maturing securities and short-term investments are relatively predictable sources of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions, and competition. In addition, the Bank invests excess funds in short-term interest-earning assets, which provide liquidity to meet lending requirements. The Bank also generates cash through borrowings. The Bank utilizes Federal Home Loan Bank advances to leverage its capital base, to provide funds for its lending activities, as a source of liquidity, and to enhance its interest rate risk management. The Bank also has the ability to obtain brokered certificates of deposit, however, historically the Bank has not issued significant amounts.

Liquidity management is both a daily and long-term function of business management. Any excess liquidity would be invested in federal funds or authorized investments such as mortgage-backed or U.S. Agency securities. On a longer-term basis, the Bank maintains a strategy of investing in various lending products. The Bank uses its sources of funds primarily to meet its ongoing commitments, to pay maturing certificates of deposit and savings withdrawals, to fund loan commitments, and to maintain its portfolio of mortgage-backed securities and investment securities. At March 31, 2012, there were $4.6 million of approved loan origination commitments. At the same date, unused lines of credit were $43.9 million and outstanding letters of credit totaled $20 thousand. Certificates of deposit scheduled to mature in one year at March 31, 2012, totaled $324.8 million. Based on the competitive rates offered and on historical experience, management believes that a significant portion of maturing deposits will remain with the Bank, although no assurance can be given in this regard. In addition, the Bank had the ability at March 31, 2012 to borrow an additional $113.7 million from the FHLB and $122.8 million from the Federal Reserve Bank to meet commitments and for liquidity purposes. The Bank has FHLB advances of $10.0 million maturing within the next 12 months. The Bank intends to replace these advances with new borrowings from the FHLB, Federal Reserve Bank or deposits, as and to the extent needed and depending on market conditions.

Capital

Consistent with its goals to operate a sound and profitable financial organization, Pacific Trust Bank actively seeks to maintain a well capitalized institution in accordance with regulatory standards. The Bank s total equity was $129.6 million at March 31, 2012, or 12.1% of the Bank s total assets on that date. As of March 31, 2012, Pacific Trust Bank exceeded all capital requirements of the OCC. Pacific Trust Bank s regulatory capital ratios at March 31, 2012 were as follows: core capital 11.81%; Tier I risk-based capital, 15.85%; and total risk-based capital 17.10%. The regulatory capital requirements to be considered well capitalized are 5.0%, 6.0% and 10.0%, respectively.

43

Table of Contents

The following table sets forth the Bank s capital components (dollars in thousands):

	Actual		Minimum Capital Requirements		Minimum Required to Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
March 31, 2012						
Total capital (to risk-weighted assets)	$ 135,546	17.09%	$ 63,461	8.00%	$ 79,326	10.00%
Tier 1 capital (to risk-weighted assets)	125,636	15.84	31,714	4.00	47,596	6.00
Tier 1 (core) capital (to adjusted tangible assets)	125,636	11.81	42,553	4.00	53,191	5.00
December 31, 2011						
Total capital (to risk-weighted assets)	$ 137,913	18.56%	$ 59,447	8.00%	$ 74,309	10.00%
Tier 1 capital (to risk-weighted assets)	128,847	17.34	29,724	4.00	44,585	6.00
Tier 1 (core) capital (to adjusted tangible assets)	128,847	13.08	39,409	4.00	49,261	5.00

Impact of Inflation

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

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

The principal effect of inflation, as distinct from levels of interest rates, on earnings is in the area of noninterest expense. Such expense items as employee compensation, employee benefits, and occupancy and equipment costs may be subject to increases as a result of inflation. An additional effect of inflation is the possible increase in the dollar value of the collateral securing loans that the Company has made. The Company is unable to determine the extent, if any, to which properties securing our loans have appreciated in dollar value due to inflation.

ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

As part of our attempt to manage our exposure to changes in interest rates and comply with applicable regulations, we monitor our interest rate risk. In monitoring interest rate risk we continually analyze and manage assets and liabilities based on their payment streams and interest rates, the timing of their maturities, and their sensitivity to actual or potential changes in market interest rates.

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

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

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

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

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

The following tables present the projected change in the Bank s net portfolio value at December 31, 2011 (the latest date for which information is available), that would occur upon an immediate change in interest rates based on Office of Thrift Supervision assumptions, but without giving effect to any steps that management might take to counteract that change. The net portfolio value analysis was unable to produce results for the minus 200 basis point scenario.

Interest Rate Sensitivity of Net Portfolio Value (NPV)

	Net Portfolio Value			NPV as a % of PV of Assets	
Change in Rates	**$ Amount**	**$ Change**	**% Change**	**NPV Ratio**	**Change**
+ 300 bp	$ 135,580	$ (19,823)	(13)%	13.78%	(157)bp
+ 200 bp	143,538	(11,864)	(8)%	14.43%	(92)bp
+ 100 bp	148,932	(6,471)	(4)%	14.84%	50bp
0 bp	155,403			15.34%	
- 100 bp	158,563	3,160	2%	15.59%	25bp

45

The Bank does not maintain any securities for trading purposes. The Bank does not currently engage in trading activities or use derivative instruments in a material amount to control interest rate risk. In addition, interest rate risk is the most significant market risk affecting the Bank. Other types of market risk, such as foreign currency exchange risk and commodity price risk, do not arise in the normal course of the Bank s business activities and operations.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures: An evaluation of the Company s disclosure controls and procedures (as defined in Section 13(a)-15(e) of the Securities Exchange Act of 1934 (the Act)) as of March 31, 2012 was carried out under the supervision and with the participation of the Company s Chief Executive Officer, Chief Financial Officer and other members of the Company s senior management. The Company s Chief Executive Officer and Chief Financial Officer concluded that, as of March 31, 2012, the Company s disclosure controls and procedures were effective in ensuring that the information required to be disclosed by the Company in the reports it files or submits under the Act is (i) accumulated and communicated to the Company s management (including the Chief Executive Officer and Chief Financial Officer) to allow timely decisions regarding required disclosure, and (ii) recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms.

There were no changes in the Company s internal control over financial reporting (as defined in Rule 13(a)-15(f) under the Act) that occurred during the quarter ended March 31, 2012 that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

The Company does not expect that its disclosure controls and procedures and internal control over financial reporting will prevent all errors and fraud. A control procedure, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control procedure are met. Because of the inherent limitations in all control procedures, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any control procedure also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control procedure, misstatements due to error or fraud may occur and not be detected.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None

ITEM 1A. RISK FACTORS

Set forth below is a complete update and restatement of the risk factors that appeared in our Annual Report on Form 10-K for the year ended December 31, 2011. These risk factors will be further updated in our Quarterly Reports on Form 10-Q for the quarterly periods ending June 30, 2012 and September 30, 2012 for any material changes to the information set forth below.

Risks Relating to Our Business and Operating Environment

Our business strategy includes significant growth plans, and our financial condition and results of operations could be negatively affected if we fail to grow or fail to manage our growth effectively.

We intend to pursue an organic and acquisition growth strategy for our business. We regularly evaluate potential acquisitions and expansion opportunities. If appropriate opportunities present themselves, we expect to engage in selected acquisitions of financial institutions, branch acquisitions and other business growth initiatives or undertakings. There can be no assurance that we will successfully identify appropriate opportunities, that we will be able to negotiate or finance such activities or that such activities, if undertaken, will be successful.

There are risks associated with our growth strategy. To the extent that we grow through acquisitions, we cannot ensure that we will be able to adequately or profitably manage this growth. Acquiring other banks, branches or other assets, as well as other expansion activities, involves various risks including the risks of incorrectly assessing the credit quality of acquired assets, encountering greater than expected costs of integrating acquired banks or branches into the Bank, the risk of loss of customers and/or employees of the acquired institution or branch, executing cost savings measures, not achieving revenue enhancements and otherwise not realizing the transaction s anticipated benefits. Our ability to address these matters successfully cannot be assured. In addition, our strategic efforts may divert resources or management s attention from ongoing business operations, may require investment in integration and in development and enhancement of additional operational and reporting processes and controls and may subject us to additional regulatory scrutiny.

Our growth initiatives may also require us to recruit experienced personnel to assist in such initiatives. Accordingly, the failure to identify and retain such personnel would place significant limitations on our ability to successfully execute our growth strategy. In addition, to the extent we expand our lending beyond our current market areas, we could incur additional risks related to those new market areas. We may not be able to expand our market presence in our existing market areas or successfully enter new markets.

If we do not successfully execute our acquisition growth plan, it could adversely affect our business, financial condition, results of operations, reputation and growth prospects. In addition, if we were to conclude that the value of an acquired business had decreased and that the related goodwill had been impaired, that conclusion would result in an impairment of goodwill charge to us, which would adversely affect our results of operations. While we believe we will have the executive management resources and internal systems in place to successfully manage our future growth, there can be no assurance growth opportunities will be available or that we will successfully manage our growth.

We may fail to realize all of the anticipated benefits of our pending acquisition of Gateway Bancorp.

On June 3, 2011, we entered into a definitive agreement to acquire all of the outstanding stock of Gateway Bancorp, the holding company for Gateway Business Bank. The closing of the transaction is subject to the satisfaction of certain conditions, including the receipt of all necessary or advisable regulatory approvals. No assurance can be given as to when or whether these approvals will be received. The success of our pending acquisition of Gateway Bancorp will depend on, among other things, our ability to realize anticipated cost savings and to combine the businesses of the Bank and Gateway Business Bank in a manner that does not materially disrupt the existing customer relationships of either institution or result in decreased revenues from our respective customers. If we are not able to successfully achieve these objectives, the anticipated benefits of the acquisition may not be realized fully or at all or may take longer to realize than expected.

The Bank and Gateway Bancorp have operated and, until the completion of the merger of the two institutions, will continue to operate, independently. It is possible that the integration process could result in the loss of key employees, the disruption of each institution s ongoing businesses or inconsistencies in standards, controls, procedures and policies that adversely affect our ability to maintain relationships with customers, depositors and employees or to achieve the anticipated benefits of the acquisition. Integration efforts between the two institutions will also divert management attention and resources. These integration matters could have an adverse effect on the combined institution following completion of the acquisition.

One of the anticipated benefits of the Gateway Bancorp acquisition is the diversification of our revenue stream through non-interest income realized from the mortgage banking operations of Mission Hills Mortgage Bankers, a division of Gateway Business Bank. Most of the revenues generated by Mission Hills come from gains on the sale of single-family mortgage loans pursuant to programs currently offered by Fannie Mae, Freddie Mac and investors other than government sponsored enterprises on a servicing-released basis. These entities account for a substantial portion of the secondary market in residential mortgage loans. Any future changes in these programs, reduction in number of entities to sell to, eligibility to participate in such programs, the criteria for loans to be accepted or laws that significantly affect the activity of such entities could, in turn, materially reduce the revenues generated by Mission Hills. Further, in a rising or higher interest rate environment, originations of mortgage loans may decrease, resulting in fewer loans that are available to be sold to investors. This would result in a decrease in mortgage banking revenues and a corresponding decrease in our non-interest income following the Gateway Bancorp acquisition. Our post-acquisition results of operations also will be affected by the amount of non-interest expense associated with mortgage banking activities, such as salaries and employee benefits, occupancy, equipment and data processing expense and other operating costs. During periods of reduced loan demand, our results of operations may be adversely affected to the extent that we are unable to reduce expenses commensurate with the decline in loan originations.

We may fail to realize all of the anticipated benefits of our pending acquisition of Beach Business Bank.

On August 30, 2011, we entered into a merger agreement to acquire Beach Business Bank. The closing of the transaction is subject to the satisfaction of certain conditions, including the receipt of all necessary or advisable regulatory approvals. No assurance can be given as to when or whether these approvals will be received. The success of our pending acquisition of Beach Business Bank will depend on, among other things, our ability to realize anticipated cost savings and to combine the businesses of the Bank and Beach Business Bank in a manner that does not materially disrupt the existing customer relationships of either institution or result in decreased revenues from our respective customers. If we are not able to successfully achieve these objectives, the anticipated benefits of the acquisition may not be realized fully or at all or may take longer to realize than expected.

The Bank and Beach Business Bank have operated and, until the completion of the merger of the two institutions, will continue to operate, independently. It is possible that the integration process could result in the loss of key employees, the disruption of each institution s ongoing businesses or inconsistencies in standards, controls, procedures and policies that adversely affect our ability to maintain relationships with customers, depositors and employees or to achieve the anticipated benefits of the acquisition. Integration efforts between the two institutions will also divert management attention and resources. These integration matters could have an adverse effect on the combined institution following completion of the acquisition.

Our financial condition and results of operations are dependent on the economy, particularly in the Bank s market area. The current economic conditions in the market areas we serve may continue to impact our earnings adversely and could increase the credit risk of our loan portfolio.

Our primary market area is concentrated in the greater San Diego market area. Adverse economic conditions in that market area can reduce our rate of growth, affect our customers ability to repay loans and adversely impact our financial condition and earnings. General economic conditions, including inflation, unemployment and money supply fluctuations, also may affect our profitability adversely. Weak economic conditions and ongoing strains in the financial and housing markets have resulted in higher levels of loan delinquencies, problem assets and foreclosures and a decline in the values of the collateral securing our loans.

A further deterioration in economic conditions in the market areas we serve could result in the following consequences, any of which could have a material adverse effect on our business, financial condition and results of operations:

- demand for our products and services may decline;
- loan delinquencies, problem assets and foreclosures may increase;
- collateral for our loans may further decline in value; and

the amount of our low-cost or non-interest-bearing deposits may decrease.

We cannot accurately predict the effect of the weakness in the national economy on our future operating results or the market price of our voting common stock or our 7.50% Senior Notes Due April 15, 2020 (senior notes).

The national economy in general and the financial services sector in particular are currently facing challenges of a scope unprecedented in recent history. We cannot accurately predict the severity or duration of the current economic downturn, which has adversely impacted the markets we serve. Any further deterioration in national or local economic conditions would have an adverse effect, which could be material, on our business, financial condition, results of operations and prospects, and could also cause the market price of our voting common stock or senior notes to decline. While it is impossible to predict how long these conditions may exist, the current economic downturn could present substantial risks for some time for the banking industry and for us.

Table of Contents

Our allowance for loan losses may prove to be insufficient to absorb probable incurred losses in our loan portfolio.

Lending money is a substantial part of our business. Every loan carries a certain risk that it will not be repaid in accordance with its terms or that any underlying collateral will not be sufficient to assure repayment. This risk is affected by, among other things:

- cash flow of the borrower and/or the project being financed;
- in the case of a collateralized loan, the changes and uncertainties as to the future value of the collateral;
- the credit history of a particular borrower;
- changes in economic and industry conditions; and
- the duration of the loan.

We maintain an allowance for loan losses which we believe is appropriate to provide for probable incurred losses in our loan portfolio. The amount of this allowance is determined by our management through a periodic review and consideration of several factors, including, but not limited to:

- an ongoing review of the quality, size and diversity of the loan portfolio;
- evaluation of non-performing loans;
- historical default and loss experience;
- historical recovery experience;
- existing economic conditions;
- risk characteristics of the various classifications of loans; and
- the amount and quality of collateral, including guarantees, securing the loans.

If our loan losses exceed our allowance for probable incurred loan losses, our business, financial condition and profitability may suffer.

The determination of the appropriate level of the allowance for loan losses inherently involves a high degree of subjectivity and requires us to make various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of our loans. In determining the amount of the allowance for loan losses, we review our loans and the loss and delinquency experience, and evaluate economic conditions and make significant estimates of current credit risks and future trends, all of which may undergo material changes. If our estimates are incorrect, the allowance for loan losses

may not be sufficient to cover losses inherent in our loan portfolio, resulting in the need for additions to our allowance through an increase in the provision for loan losses. Continuing deterioration in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of our control, may require an increase in the allowance for loan losses. Our allowance for loan losses was 1.3% of gross loans held for investment and 60.9% of nonperforming loans at March 31, 2012. In addition, bank regulatory agencies periodically review our allowance for loan losses and may require an increase in the provision for loan losses or the recognition of further loan charge-offs, based on judgments different than that of management. If charge-offs in future periods exceed the allowance for loan losses, we will need additional provisions to increase the allowance for loan losses. Any increases in the provision for loan losses will result in a decrease in net income and may have a material adverse effect on our financial condition and results of operations.

Our business may be adversely affected by credit risk associated with residential property and declining property values.

At March 31, 2012, $582.7 million, or 69.5% of our total gross loan portfolio, was secured by single-family mortgage loans and home equity lines of credit. This type of lending is generally sensitive to regional and local economic conditions that significantly impact the ability of borrowers to meet their loan payment obligations, making loss levels difficult to predict. The decline in residential real estate values as a result of the downturn in the California housing markets has reduced the value of the real estate collateral securing these types of loans and increased the risk that we would incur losses if borrowers default on their loans. Residential loans with high combined loan-to-value ratios generally will be more sensitive to declining property values than those with lower combined loan-to-value ratios and therefore may experience a higher incidence of default and severity of losses. In addition, if the borrowers sell their homes, the borrowers may be unable to repay their loans in full from the sale proceeds. As a result, these loans may experience higher rates of delinquencies, defaults and losses, which will in turn adversely affect our financial condition and results of operations.

Our loan portfolio possesses increased risk due to our level of adjustable rate loans.

A substantial majority of our real estate secured loans held are adjustable-rate loans. Any rise in prevailing market interest rates may result in increased payments for borrowers who have adjustable rate mortgage loans, increasing the possibility of defaults that may adversely affect our profitability.

Our non-traditional, interest-only single-family residential loans expose us to increased lending risk.

Many of the residential mortgage loans we have originated for investment consisted of non-traditional single family loans that do not conform to Fannie Mae or Freddie Mac underwriting guidelines as a result of characteristics of the borrower or property, the loan terms, loan size or exceptions from agency underwriting guidelines, including our Green Account loans. The Green Account is a first mortgage line of credit with an associated clearing account that allows all types of deposits and withdrawals to be performed, including direct deposit, check, debit card, ATM, ACH debits and credits, and internet banking and bill payment transactions. At March 31, 2012, we had $217.9 million of Green Account loans, which represented 26.0% of our gross loan portfolio as of that date. Green Account home equity loans generally have a fifteen year draw period with interest-only payment requirements, a balloon payment requirement at the end of the draw period and a maximum 80% loan to value ratio. In addition to the Green Account loans, we had other interest-only single family residential mortgage loans totaling $136.7 million at March 31, 2012, representing 16.3% of our gross loan portfolio as of that date, and single family residential negative amortization loans (a loan in which accrued interest exceeding the required monthly loan payment may be added to loan principal) totaling $19.9 million, representing 2.37% of our gross loan portfolio as of March 31, 2012. We ceased originating negative amortization loans in 2006.

In the case of interest-only loans, a borrower s monthly payment is subject to change when the loan converts to fully-amortizing status. Since the borrower s monthly payment may increase by a substantial amount even without an increase in prevailing market interest rates, the borrower might not be able to afford the increased monthly payment. In addition, interest-only loans have a large, balloon payment at the end of the loan term, which the borrower may be unable to pay. Negative amortization involves a greater risk to us because credit risk exposure increases when the loan incurs negative amortization and the value of the home serving as collateral for the loan does not increase proportionally. Negative amortization is only permitted up to 110% of the original loan to value ratio during the first five years the loan is outstanding, with payments adjusting periodically as provided in the loan documents, potentially resulting in higher payments by the borrower. The adjustment of these loans to higher payment requirements can be a substantial factor in higher loan delinquency levels because the borrowers may not be able to make the higher payments. Also, real estate values may decline, and credit standards may tighten in concert with the higher payment requirement, making it difficult for borrowers to sell their homes or refinance their loans to pay off their mortgage obligations. For these reasons, interest-only loans and negative amortization loans are considered to have an increased risk of delinquency, default and foreclosure than conforming loans and may result in higher levels of realized losses. Furthermore, these loans are not as readily saleable as loans that conform to agency guidelines and often can be sold only after discounting the amortized value of the loan. As of March 31, 2012, 2.8% of our interest-only loans, totaling $10.7 million, were in non-performing status.

Our income property loans, consisting of commercial and multi-family real estate loans, involve higher principal amounts than other loans and repayment of these loans may be dependent on factors outside our control or the control of our borrowers.

We originate commercial and multi-family real estate loans for individuals and businesses for various purposes, which are secured by commercial properties. These loans typically involve higher principal amounts than other types of loans, and repayment is dependent upon income generated, or expected to be generated, by the property securing the loan in amounts sufficient to cover operating expenses and debt service, which may be adversely affected by changes in the economy or local market conditions. For example, if the cash flow from the borrower s project is reduced as a result of leases not being obtained or renewed, the borrower s ability to repay the loan may be impaired. Commercial and multifamily real estate loans also expose us to greater credit risk than loans secured by residential real estate because the collateral securing these loans typically cannot be sold as easily as residential real estate. In addition, many of our commercial and multifamily real estate loans are not fully amortizing and contain large balloon payments upon maturity. Such balloon payments may require the borrower to either sell or refinance the underlying property in order to make the payment, which may increase the risk of default or non-payment.

If we foreclose on a commercial and multi-family real estate loan, our holding period for the collateral typically is longer than for residential mortgage loans because there are fewer potential purchasers of the collateral. Additionally, commercial and multi-family real estate loans generally have relatively large balances to single borrowers or related groups of borrowers. Accordingly, if we make any errors in judgment in the collectability of our commercial and multi-family real estate loans, any resulting charge-offs may be larger on a per loan basis than those incurred with our residential or consumer loan portfolios. As of March 31, 2012, our commercial and multi-family real estate loans totaled $244.2 million, or 29.1% of our total gross loan portfolio.

If our investments in real estate are not properly valued or sufficiently reserved to cover actual losses, or if we are required to increase our valuation reserves, our earnings could be reduced.

We obtain updated valuations in the form of appraisals and broker price opinions when a loan has been foreclosed upon and the property is taken in as other real estate owned (OREO), and at certain other times during the asset s holding period. Our net book value (NBV) in the loan at the time of foreclosure and thereafter is compared to the updated market value (fair value) of the foreclosed property less estimated selling costs. A charge-off is recorded for any excess in the asset s NBV over its fair value. If our valuation process is incorrect, the fair value of our investments in real estate may not be sufficient to recover our NBV in such assets,

resulting in the need for additional charge-offs. Additional material charge-offs to our investments in real estate could have a material adverse effect on our financial condition and results of operations. Our bank regulator periodically reviews our REO and may require us to recognize further charge-offs. Any increase in our charge-offs, as required by such regulator, may have a material adverse effect on our financial condition and results of operations.

Other-than-temporary impairment charges in our investment securities portfolio could result in losses and adversely affect our continuing operations.

As of March 31, 2012, the Company s investment securities portfolio consisted of sixty-one securities, thirty-two of which were in an unrealized loss position. The majority of unrealized losses are related to the Company s private label residential mortgage-backed securities, as discussed below.

The Company s private label residential mortgage-backed securities that are in a loss position had a fair value of $62.2 million with unrealized losses of approximately $1.1 million at March 31, 2012. These non-agency private label residential mortgage-backed securities were rated AA or above at purchase and are not within the scope of ASC 325. The Company monitors to ensure it has adequate credit support and as of March 31, 2012, the Company believes there is no other than temporary impairment (OTTI) and did not have the intent to sell these securities and it is likely that it will not be required to sell the securities before their anticipated recovery.

We closely monitor our investment securities for changes in credit risk. The valuation of our investment securities also is influenced by external market and other factors, including implementation of Securities and Exchange Commission and Financial Accounting Standards Board guidance on fair value accounting. Accordingly, if market conditions deteriorate further and we determine our holdings of other investment securities are OTTI, our future earnings, shareholders equity, regulatory capital and continuing operations could be materially adversely affected.

Rising interest rates may hurt our profits.

To be profitable, we have to earn more money in interest that we receive on loans and investments than we pay to our depositors and lenders in interest. If interest rates rise, our net interest income and the value of our assets could be reduced if interest paid on interest-bearing liabilities, such as deposits and borrowings, increases more quickly than interest received on interest-earning assets, such as loans, other mortgage-related investments and investment securities. This is most likely to occur if short-term interest rates increase at a faster rate than long-term interest rates, which would cause net income to go down. In addition, rising interest rates may hurt our income, because they may reduce the demand for loans and the value of our securities. In a rapidly changing interest rate environment, we may not be able to manage our interest rate risk effectively, which would adversely impact our financial condition and results of operations.

We face significant operational risks.

We operate many different financial service functions and rely on the ability of our employees, third-party vendors and systems to process a significant number of transactions. Operational risk is the risk of loss from operations, including fraud by employees or outside persons, employees execution of incorrect or unauthorized transactions, data processing and technology errors or hacking and breaches of internal control systems.

Liquidity risk could impair our ability to fund operations and jeopardize our financial condition.

Liquidity is essential to our business. An inability to raise funds through deposits, borrowings, the sale of loans and other sources could have a substantial negative effect on our liquidity. Our access to funding sources in amounts adequate to finance our activities or on terms that are acceptable to us could be impaired by factors that affect us specifically or the financial services industry or economy in general. Factors that could detrimentally impact our access to liquidity sources include a decrease in the level of our business activity as a result of a downturn in the markets in which our loans are concentrated or adverse regulatory action against us. Our ability to borrow could also be impaired by factors that are not specific to us, such as a disruption in the financial markets or negative views and expectations about the prospects for the financial services industry in light of the recent turmoil faced by banking organizations and the continued deterioration in credit markets.

We may elect or be compelled to seek additional capital in the future, but that capital may not be available when it is needed.

We are required by federal regulatory authorities to maintain adequate levels of capital to support our operations. At some point, we may need to raise additional capital to support continued growth, both organically and through acquisitions. If we raise additional capital, we may seek to do so through the issuance of, among other things, our common stock or preferred stock. The issuance of additional shares of common stock or

convertible securities to new stockholders would be dilutive to our current stockholders.

Our ability to raise additional capital, if needed, will depend on conditions in the capital markets, economic conditions and a number of other factors, many of which are outside our control, and on our financial performance. Accordingly, we cannot assure you

of our ability to raise additional capital if needed or on terms acceptable to us. If we cannot raise additional capital when needed, our ability to further expand our operations through organic growth and acquisitions could be materially impaired and our financial condition and liquidity could be materially and adversely affected.

We depend on our key employees.

Our future prospects are and will remain highly dependent on our directors and executive officers. Our success will, to some extent, depend on the continued service of our directors and continued employment of the executive officers. The unexpected loss of the services of any of these individuals could have a detrimental effect on our business. Although we have entered into employment agreements with members of our senior management team, no assurance can be given that these individuals will continue to be employed by us. The loss of any of these individuals could negatively affect our ability to achieve our growth strategy and could have a material adverse affect on our results of operations and financial condition.

We currently hold a significant amount of bank-owned life insurance.

At March 31, 2012, we held $18.5 million of bank-owned life insurance or BOLI on certain key and former employees and executives, with a cash surrender value of $18.5 million. The eventual repayment of the cash surrender value is subject to the ability of the various insurance companies to pay death benefits or to return the cash surrender value to us if needed for liquidity purposes. We continually monitor the financial strength of the various companies with whom we carry these policies. However, any one of these companies could experience a decline in financial strength, which could impair its ability to pay benefits or return our cash surrender value. If we need to liquidate these policies for liquidity purposes, we would be subject to taxation on the increase in cash surrender value and penalties for early termination, both of which would adversely impact earnings.

If our investment in the Federal Home Loan Bank of San Francisco becomes impaired, our earnings and shareholders equity could decrease.

At March 31, 2012, we owned $6.6 million in FHLB stock. We are required to own this stock to be a member of and to obtain advances from our FHLB. This stock is not marketable and can only be redeemed by our FHLB, which currently is not redeeming any excess member stock. Our FHLB s financial condition is linked, in part, to the eleven other members of the FHLB System and to accounting rules and asset quality risks that could materially lower their capital, which would cause our FHLB stock to be deemed impaired, resulting in a decrease in our earnings and assets.

Our information systems may experience an interruption or breach in security; we may have fewer resources than many of our competitors to continue to invest in technological improvements.

We rely heavily on communications and information systems to conduct our business. Any failure, interruption or breach in security of these systems could result in failures or disruptions in our customer relationship management, general ledger, deposit, loan and other systems. While we have policies and procedures designed to prevent or limit the effect of the failure, interruption or security breach of our information systems, there can be no assurance that any such failures, interruptions or security breaches will not occur or, if they do occur, that they will be adequately addressed. The occurrence of any failures, interruptions or security breaches of our information systems could damage our reputation, result in a loss of customer business, subject us to additional regulatory scrutiny, or expose us to civil litigation and possible financial liability, any of which could have a material adverse effect on our financial condition and results of operations. In addition, our future success will depend, in part, upon our ability to address the needs of our clients by using technology to provide products and services that will satisfy client demands for convenience, as well as to create additional efficiencies in our operations. Many of our competitors have substantially greater resources to invest in technological improvements. We may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our clients.

We operate in a highly regulated environment and our operations and income may be affected adversely by changes in laws and regulations governing our operations.

We are subject to extensive regulation and supervision by the Federal Reserve Board, the OCC and the FDIC. Such regulators govern the activities in which we may engage, primarily for the protection of depositors and the deposit insurance fund. These regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities, including the ability to impose restrictions on a bank s operations, reclassify assets, determine the adequacy of a bank s allowance for loan losses and determine the level of deposit insurance premiums assessed. Any change in such regulation and oversight, whether in the form of regulatory policy, new regulations or legislation or additional deposit insurance premiums could have a material adverse impact on our operations. Because our business is highly regulated, the laws and

applicable regulations are subject to frequent change. Any new laws, rules and regulations could make compliance more difficult or expensive or otherwise adversely affect our business, financial condition or growth prospects. Such changes could subject us to additional costs, limit the types of financial services and products we may offer and/or increase the ability of non-banks to offer competing financial services and products, among other things. The recently enacted regulatory reform legislation described below will, among other things, change our primary regulator, create a new consumer finance protection agency and impose capital requirements on us at the holding company level. These changes could adversely impact our operations and net income.

The Dodd-Frank Act could have a material adverse effect on us.

The Dodd-Frank Act, which was enacted into law on July 21, 2010, provides for, among other things, new restrictions and an expanded framework of regulatory oversight for financial institutions and their holding companies. Under the Dodd-Frank Act, effective July 21, 2011, the Bank s primary regulator, the OTS, was eliminated and existing federal thrifts, including the Bank, became subject to regulation and supervision by the OCC, which also supervises and regulates all national banks. In addition, on July 21, 2011, all savings and loan holding companies, including the Company, became subject to regulation and supervision by the Federal Reserve Board, which also supervises and regulates all bank holding companies. This change in regulation of savings and loan holding companies may result in the imposition of holding company capital requirements and additional restrictions on investments and other holding company activities. The Dodd-Frank Act also creates a new consumer financial protection bureau that will have the authority to promulgate rules intended to protect consumers in the financial products and services market. The creation of this independent bureau is likely to result in new regulatory requirements and raise the cost of regulatory compliance. In addition, new regulations mandated by the Dodd-Frank Act could require changes in regulatory capital requirements, loan loss provisioning practices and compensation practices. Effective July 21, 2011, financial institutions may pay interest on demand deposits, which could increase our interest expense. At this time, we cannot determine the full impact of the Dodd-Frank Act on our business and operations.

Increases in deposit insurance premiums and special FDIC assessments will negatively impact our earnings.

During 2009, our FDIC insurance premiums increased significantly and we may pay higher FDIC premiums in the future. The Dodd-Frank Act increased the minimum reserve ratio from 1.15% to 1.35%. The FDIC has adopted a plan under which it will meet this ratio by the statutory deadline of September 30, 2020. The Dodd-Frank Act requires the FDIC to offset the effect of the increase in the minimum reserve ratio on institutions with assets less than $10.0 billion. The FDIC has not announced how it will implement this offset. In addition to the minimum reserve ratio, the FDIC must set a designated reserve ratio. The FDIC has set a designated reserve ratio of 2.0, which exceeds the minimum reserve ratio.

As required by the Dodd-Frank Act, the FDIC has adopted final regulations under which insurance premiums are based on an institution s total assets minus its tangible equity instead of its deposits. While our FDIC insurance premiums initially will be reduced by these regulations, it is possible that our future insurance premiums will increase under the final regulations.

We rely on dividends from the Bank for substantially all of the Company s revenue.

The Company s primary source of revenue is earnings of available cash and securities and dividends from the Bank. The OCC regulates and must approve the amount of Bank dividends to the Company. If the Bank is unable to pay dividends, the Company may not be able to service its debt, pay its other obligations or pay dividends on the Company s preferred and common stock which could have a material adverse impact on our financial condition or the value of your investment in our common stock.

The Company has a significant deferred tax asset and may or may not be fully realized.

The Company has a significant deferred tax asset (sometimes referred to below as a DTA) and cannot assure that it will be fully realized. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between the carrying amounts and the tax basis of assets and liabilities computed using enacted tax rates. If we determine that we will not achieve sufficient future taxable income to realize our net deferred tax asset, we are required under generally accepted accounting principles to establish a full or partial valuation allowance. If we determine that a valuation allowance is necessary, we are required to incur a charge to operations. We regularly assess available positive and negative evidence to determine whether it is more likely than not that our net deferred tax asset will be realized. Realization of a deferred tax asset requires us to apply significant judgment and is inherently speculative because it requires estimates that cannot be made with certainty. At March 31, 2012, the Company had a net deferred tax asset of $7.3 million, net of a deferred tax asset valuation allowance of $1.3 million. Although realization is not assured, the Company believes that the realization of the recognized net deferred tax asset at March 31, 2012 is more likely than not based upon available tax planning strategies and expectations as to future taxable income.

Our ability to utilize its DTAs to offset future taxable income may be significantly limited if the Company experiences an ownership change under the Internal Revenue Code.

As of March 31, 2012, the Company had recognized net DTAs of approximately $7.3 million, which are included in its tangible common equity. The Company s ability to utilize its DTAs to offset future taxable income may be significantly limited if the Company experiences an ownership change as defined in Section 382 of the Internal Revenue Code of 1986, as amended (the Code). In general, an ownership change will occur if there is a cumulative change in the Company s ownership by 5-percent or more shareholders (as defined in the Code) that exceeds 50 percentage points over a rolling three-year period. If this were to occur, the Company would be subject to an annual limitation on its pre-ownership change

DTAs equal to the value of the corporation immediately before the ownership change, provided that the annual limitation would be increased each year to the extent that there is an unused limitation in a prior year.

Table of Contents

Changes in accounting standards may affect our performance.

Our accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. From time to time there are changes in the financial accounting and reporting standards that govern the preparation of our financial statements. These changes can be difficult to predict and can materially impact how we report and record our financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retroactively, resulting in a retrospective adjustment to prior financial statements.

Strong competition within our market area may limit our growth and profitability.

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

Risks Relating to Our Common Stock

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

We cannot predict how our common stock will trade in the future. The market value of our common stock will likely continue to fluctuate in response to a number of factors including the following, most of which are beyond our control, as well as the other factors described in this Risk Factors section:

- actual or anticipated quarterly fluctuations in our operating and financial results;
- developments related to investigations, proceedings or litigation that involve us;
- changes in financial estimates and recommendations by financial analysts;
- dispositions, acquisitions and financings;
- actions of our current stockholders, including sales of common stock by existing stockholders and our directors and executive officers;
- fluctuations in the stock price and operating results of our competitors;
- regulatory developments; and
- developments related to the financial services industry.

The market value of our common stock may also be affected by conditions affecting the financial markets in general, including price and trading fluctuations. These conditions may result in (i) volatility in the level of, and fluctuations in, the market prices of stocks generally and, in turn, our common stock and (ii) sales of substantial amounts of our common stock in the market, in each case that could be unrelated or disproportionate to changes in our operating performance. These broad market fluctuations may adversely affect the market value of our

common stock.

There may be future sales of additional common stock or other dilution of our shareholders equity, which may adversely affect the market price of our common stock.

We are not restricted from issuing additional common stock, including any securities that are convertible into or exchangeable for, or that represent the right to receive, common stock or any substantially similar securities. The market value of our common stock could decline as a result of sales by us of a large number of shares of common stock or similar securities in the market or the perception that such sales could occur.

Our SBLF Preferred Stock impacts net income available to our common shareholders and earnings per common share.

The dividends declared on the preferred stock we issued to the U.S. Treasury pursuant to the Small Business Lending Fund (SBLF) program (the SBLF Preferred Stock) reduce the net income available to common shareholders and our earnings per common share. The SBLF Preferred Stock will also receive preferential treatment in the event of liquidation, dissolution or winding up of First PacTrust Bancorp.

The dividend rate on the SBLF Preferred Stock will fluctuate initially from 1% to 5% based on our level of Qualified Small Business Lending, or QSBL, as compared to our baseline level. The cost of the capital we received from the SBLF Preferred Stock will increase significantly if the level of our QSBL as of September 30, 2013 does not represent an increase from our baseline level. This cost also will increase significantly if we have not redeemed the SBLF Preferred Stock before the fourth anniversary of the SBLF transaction.

The per annum dividend rate on the SBLF Preferred Stock can fluctuate between 1% and 5% on a quarterly basis during the first ten quarters during which the SBLF Preferred Stock is outstanding, based upon changes in the amount of QSBL by the Bank from a baseline level (the average of the Bank s quarter-end QSBL for the four quarters ended June 30, 2010, which was $36.1 million). For the eleventh dividend period to the fourth anniversary of the SBLF transaction, the dividend rate will be fixed at between 1% and 5%, based upon the percentage increase in QSBL from the baseline level to the level as of the end of the ninth dividend period (i.e., as of September 30, 2013); however, if there is no increase in QSBL from the baseline level to the level as of the end of the ninth dividend period (or if QSBL has decreased during that time period), the dividend rate will be fixed at 7.0%. From and after the fourth anniversary of the SBLF transaction, the dividend rate will be fixed at 9.0%, regardless of the level of QSBL. Depending on our financial condition at the time, any such increases in the dividend rate could have a material negative effect on our liquidity.

Regulatory and contractual restrictions may limit or prevent us from paying dividends on and repurchasing our common stock.

The Company is an entity separate and distinct from its principal subsidiary, the Bank, and derives substantially all of its revenue in the form of dividends from that subsidiary. Accordingly, the Company is and will be dependent upon dividends from the Bank to pay the principal of and interest on its indebtedness, to satisfy its other cash needs and to pay dividends on its common and preferred stock. The Bank s ability to pay dividends is subject to its ability to earn net income and to meet certain regulatory requirements. In the event the Bank is unable to pay dividends to the Company, the Company may not be able to pay dividends on its common or preferred stock. Also, the Company s right to participate in a distribution of assets upon a subsidiary s liquidation or reorganization is subject to the prior claims of the subsidiary s creditors. This includes claims under the liquidation account maintained for the benefit of certain eligible deposit account holders of the Bank established in connection with the Bank s conversion from the mutual to the stock form of ownership.

Under the terms of the SBLF Preferred Stock and the securities purchase agreement between us and the U.S. Treasury in connection with the SBLF transaction our ability to pay dividends on or repurchase our common stock is subject to a limit requiring us generally not to reduce our Tier 1 capital from the level on the SBLF closing date by more than 10%. In addition, if we fail to pay an SBLF dividend, there are further restrictions on our ability to pay dividends on or repurchase our common stock. Moreover, holders of our common stock are entitled to receive dividends only when, as and if declared by our board of directors. Although we have historically paid cash dividends on our common stock, we are not required to do so and our board of directors could reduce, suspend or eliminate our common stock cash dividend in the future.

Holders of the SBLF Preferred Stock have limited voting rights.

Until and unless we fail to pay full dividends on the SBLF Preferred Stock for six or more dividend periods, whether or not consecutive, and the aggregate liquidation preference amount of the then-outstanding shares of SBLF Preferred Stock is at least $25.0 million, the holders of the SBLF Preferred Stock will have no voting rights except with respect to certain fundamental changes in the terms of the SBLF Preferred Stock and except as may be required by law. If, however, dividends on the SBLF Preferred Stock are not paid in full for six dividend periods, whether or not consecutive, and if the aggregate liquidation preference amount of the then-outstanding shares of SBLF Preferred Stock is at least $25.0 million, then the total number of positions on the Company s Board of Directors will automatically increase by two and the holders of the SBLF Preferred Stock, acting as a single class, will have the right, but not the obligation, to elect two individuals to serve in the new director positions. This right and the terms of such directors will end when we have paid full dividends for at least four consecutive dividend periods.

The voting limitation provision in our charter could limit your voting rights as a holder of our common stock.

Our charter provides that any person or group who acquires beneficial ownership of our common stock in excess of 10% of the outstanding shares may not vote the excess shares. Accordingly, if you acquire beneficial ownership of more than 10% of the outstanding shares of our common stock, your voting rights with respect to the common stock will not be commensurate with your economic interest in our company.

Anti-takeover provisions could negatively impact our shareholders.

Provisions in our charter and bylaws, the corporate law of the State of Maryland and federal regulations could delay, defer or prevent a third party from acquiring us, despite the possible benefit to our shareholders, or otherwise adversely affect the market price of any class of our equity securities, including our common stock. These provisions include: a prohibition on voting shares of common stock beneficially owned in excess of 10% of total shares outstanding, supermajority voting requirements for certain business

combinations with any person who beneficially owns more than 10% of our outstanding common stock; the election of directors to staggered terms of three years; advance notice requirements for nominations for election to our Board of Directors and for proposing matters that stockholders may act on at stockholder meetings, a requirement that only directors may fill a vacancy in our Board of Directors, supermajority voting requirements to remove any of our directors and the other provisions of our charter. Our charter also authorizes our Board of Directors to issue preferred stock, and preferred stock could be issued as a defensive measure in response to a takeover proposal. In addition, pursuant to federal banking regulations, as a general matter, no person or company, acting individually or in concert with others, may acquire more than 10% of our common stock without prior approval from the our federal banking regulator.

These provisions may discourage potential takeover attempts, discourage bids for our common stock at a premium over market price or adversely affect the market price of, and the voting and other rights of the holders of, our common stock. These provisions could also discourage proxy contests and make it more difficult for holders of our common stock to elect directors other than the candidates nominated by our Board of Directors.

Our executive officers and directors and the directors of the Bank could have the ability to influence shareholder actions in a manner that may be adverse to your personal investment objectives.

As of March 31, 2012, our executive officers and directors and the directors of the Bank as a group beneficially owned 583,751 shares of our voting common stock, representing approximately 4.96% of the total shares of voting common stock outstanding as of that date. Due to their collective ownership interest, these individuals may be able to exercise influence over the management and business affairs of our company and the Bank. For example, using their collective voting power, these individuals may be able to influence the outcome of director elections or block significant transactions, such as a merger or acquisition, or any other matter that might otherwise be favored by other shareholders.

Risks Relating to Our Senior Notes

The senior notes are unsecured obligations of First PacTrust Bancorp and not obligations of our subsidiaries and are effectively subordinated to any future secured obligations of First PacTrust Bancorp and to all of the obligations of First PacTrust Bancorp s subsidiaries. Structural subordination increases the risk that we will be unable to meet our obligations on the senior notes when they mature.

The senior notes are unsecured unsubordinated obligations of First PacTrust Bancorp and rank equally in right of payment with all of our other unsecured indebtedness and senior in right of payment to any of our existing or future obligations that are by their terms expressly subordinated or junior in right of payment to the senior notes. The senior notes will be effectively subordinated to any of our future secured indebtedness to the extent of the value of the assets securing that indebtedness. First PacTrust Bancorp has no other secured debt outstanding as of the date of this report. However, the indenture governing the senior notes does not limit the incurrence of additional indebtedness by First PacTrust Bancorp, including indebtedness senior to the senior notes, or by its subsidiaries.

The senior notes are obligations of First PacTrust Bancorp only, are not obligations of or deposits in the Bank or its other subsidiaries, and are not insured by any government or private agency. Because First PacTrust Bancorp is a holding company, its rights and the rights of its creditors, including the holders of the senior notes, to participate in any distribution of the assets of the Bank or First PacTrust Bancorp s other subsidiaries, upon a liquidation, reorganization, or insolvency of the Bank or First PacTrust Bancorp s other subsidiaries (and the consequent right of the holders of the senior notes to participate in those assets) will be subject to the claims of the creditors of the Bank or First PacTrust Bancorp s other subsidiaries (including depositors in its subsidiaries). If First PacTrust Bancorp is a creditor of the Bank or its other subsidiaries, the claims of First PacTrust Bancorp would be subject to any prior security interest in the assets of the Bank or First PacTrust Bancorp s other subsidiaries and any indebtedness of its subsidiaries senior to that of First PacTrust Bancorp.

The senior notes are also effectively subordinated to all of the liabilities of the Bank or First PacTrust Bancorp s other subsidiaries, to the extent of their assets, since they are separate and distinct legal entities with no obligation to pay any amounts due under First PacTrust Bancorp s indebtedness, including the senior notes, or to make any funds available to make payments on the senior notes, whether by paying dividends or otherwise.

We depend primarily on cash dividends from our subsidiaries to meet our cash obligations. Failure of our subsidiaries to pay sufficient cash dividends would prevent us from paying interest on the senior notes or the principal of the senior notes at maturity.

First PacTrust Bancorp is a holding company and reports financial information on a consolidated basis with its subsidiaries. Substantially all of the assets held by the consolidated companies are held by First PacTrust Bancorp s subsidiaries, in particular, the

Table of Contents

Bank. As a holding company, dividends from the Bank provide a substantial portion of First PacTrust Bancorp s cash flow, which will be used to pay interest on the senior notes. Various regulatory provisions limit the amount of dividends the Bank can pay to First PacTrust Bancorp without regulatory approval. In certain cases, regulatory authorities may even prohibit the Bank from paying dividends to First PacTrust Bancorp. The Bank did not pay dividends to First PacTrust Bancorp in 2011 or the first quarter of 2012.

We may not be able to generate sufficient cash to service our debt obligations, including our obligations under the senior notes.

Our ability to make payments on and to refinance our indebtedness, including the senior notes, will depend on our financial and operating performance, which is subject to prevailing economic and competitive conditions and to certain financial, business and other factors beyond our control. We may be unable to maintain a level of cash flows from operating activities sufficient to permit us to pay the principal, premium, if any, and interest on our indebtedness, including the senior notes.

If our cash flows and capital resources are insufficient to fund our debt service obligations, we may be unable to provide new loans, other products or to fund our obligations to existing customers and otherwise implement our business plans, or to sell assets, seek additional capital or restructure or refinance our indebtedness, including the senior notes. As a result, we may be unable to meet our scheduled debt service obligations. In the absence of sufficient operating results and resources, we could face substantial liquidity problems and might be required to dispose of material assets or operations to meet our debt service and other obligations. We may not be able to consummate those dispositions of assets or to obtain the proceeds that we could realize from them and these proceeds may not be adequate to meet any debt service obligations then due.

There is no established trading market for the senior notes which could make it more difficult for you to sell your senior notes and could adversely affect their price.

The senior notes constitute a new issue of securities for which no established trading market exists. Consequently, it may be more difficult for you to sell your senior notes. If the senior notes are traded after their initial issuance, they may trade at a discount, depending upon:

- our financial condition;
- prevailing interest rates;
- the time remaining on the maturity of the senior notes;
- their subordination to our existing and future liabilities;
- the outstanding principal amount of the senior notes;
- the market for similar securities; and
- other factors beyond our control, including general economic conditions.

We intend to apply for a listing of the senior notes on the NASDAQ Global Market; however, we cannot assure you of the development or liquidity of any trading market for the senior notes following their initial issuance.

General market conditions and unpredictable factors could adversely affect market prices for the senior notes.

There can be no assurance about the market prices for the senior notes. Several factors, many of which are beyond our control, will influence the market value of the senior notes. Factors that might influence the market value of the senior notes include, but are not limited to:

- our creditworthiness, financial condition, performance and prospects;
- the market for similar securities; and
- economic, financial, geopolitical, regulatory or judicial events that affect us or the financial markets generally (including the occurrence of market disruption events).

If you purchase senior notes, whether in connection with their initial issuance or in the secondary market, the senior notes may subsequently trade at a discount to the price that you paid for them.

There are limited covenants in the indenture.

The indenture governing the senior notes does not:

- require us to maintain any financial ratios or specific levels of net worth, revenues, income, cash flow or liquidity and, accordingly, does not protect holders of the senior notes in the event that we experience material adverse changes in our financial condition or results of operations;

Table of Contents

- limit the ability of First PacTrust Bancorp and its subsidiaries to incur indebtedness;
- prevent First PacTrust Bancorp or any of its subsidiaries from becoming subject to liens, except to the extent provided in the indenture;
- restrict our ability to pay dividends, prepay indebtedness ranking junior to the senior notes or make investments; or
- restrict our ability to engage in any acquisition or other transaction, other than our ability to merge or consolidate with, or sell all or substantially all of our assets to, another person without the surviving person or transferee (if other than First PacTrust Bancorp) assuming the obligations under the senior notes.

For these reasons, you should not consider the covenants in the indenture as a significant factor in evaluating whether to invest in the senior notes.

An increase in the level of our outstanding indebtedness, or other events, could have an adverse impact on our business, properties, capital structure, financial condition, results of operations or prospects, which could adversely impact the trading prices for, or the liquidity of, the senior notes. Any such event could also adversely affect our cost of borrowing, limit our access to the capital markets or result in more restrictive covenants in future debt agreements.

Increased leverage as a result of the issuance of the senior notes may harm our financial condition and results of operations.

As of March 31, 2012, we had $25.0 million of long-term FHLB advances. As of March 31, 2012, we had 32,000 shares of SBLF Preferred Stock, with a liquidation preference of $1,000 per share, issued and outstanding.

Our level of indebtedness could have important consequences to you, because:

- it could affect our ability to satisfy our financial obligations, including those relating to the senior notes;
- a portion of our cash flows from operations will have to be dedicated to interest and principal payments and may not be available for operations, working capital, capital expenditures, expansion, acquisitions or general corporate or other purposes;
- it may impair our ability to obtain additional financing in the future;
- it may limit our flexibility in planning for, or reacting to, changes in our business and industry; and
- it may make us more vulnerable to downturns in our business, our industry or the economy in general.

We may redeem the senior notes before maturity, and you may be unable to reinvest the proceeds at the same or a higher rate of return.

At our option, we may redeem the senior notes on April 15, 2015 or on any scheduled quarterly interest payment date thereafter. If we redeem the senior notes prior to maturity, you may be unable to reinvest the money you receive in the redemption at a rate that is equal to or higher than the rate of return on the senior notes.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(c) The following table sets forth information for the three months ended March 31, 2012 with respect to the repurchase of outstanding common stock.

ISSUER PURCHASES OF EQUITY SECURITIES

Period	**Total # of shares Purchased**	**Average price paid per share**	**Total # of shares purchased as part of a publicly announced program**	**Maximum # of shares that may yet be purchased**
01/1/12-01/31/12				0
02/1/12-02/29/12	6,864	10.60		0
03/1/11-03/31/11				1,000,000

The Company currently has a stock buyback plan, however, purchases made by the Company during the quarter were tax liability sales related to employee stock benefit plans and are consistent with past practices.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None

Table of Contents

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable

ITEM 5. OTHER INFORMATION.

None

Table of Contents

ITEM 6. EXHIBITS
Exhibits

Regulation S-K Exhibit Number	Document	Reference to Prior Filing or Exhibit Number Attached Hereto
2.1	Stock Purchase Agreement, dated as of June 3, 2011, by and among First PacTrust Bancorp, Inc. (sometimes referred to below as the Registrant or the Company), Gateway Bancorp, Inc. (Gateway), each of the stockholders of Gateway and the D & E Tarbell Trust, u/d/t dated February 19, 2002 (in its capacity as the Sellers Representative)	(a)
2.1A	Amendment No. 1, dated as of November 28, 2011, to Stock Purchase Agreement, dated as of June 3, 2011, by and among First PacTrust Bancorp, Inc., Gateway Bancorp, the Sellers named therein and the D & E Tarbell Trust, u/d/t dated February 19, 2002 (in its capacity as the Sellers Representative)	(a)(1)
2.2B	Amendment No. 2, dated as of February 24, 2012, to Stock Purchase Agreement, dated as of June 3, 2011, by and among First PacTrust Bancorp, Inc., Gateway Bancorp, the Sellers named therein and the D & E Tarbell Trust, u/d/t dated February 19, 2002 (in its capacity as the Sellers Representative)	(a)(2)
2.2	Agreement and Plan of Merger, dated as of August 30, 2011, by and between First PacTrust Bancorp, Inc. and Beach Business Bank, as amended by Amendment No. 1 thereto dated as of October 31, 2011	(b)
3.1	Articles of Incorporation of First PacTrust Bancorp, Inc.	(c)
3.2	Articles of Amendment to the Charter of First PacTrust Bancorp, Inc.	(d)
3.3	Articles supplementary to the Charter of First PacTrust Bancorp, Inc. containing the terms of First PacTrust Bancorp, Inc. s Senior Non-Cumulative Perpetual Preferred Stock, Series A	(e)
3.4	Articles supplementary to the Charter of First PacTrust Bancorp, Inc. containing the terms of First PacTrust Bancorp, Inc. s Class B Non-Voting Common Stock	(f)
3.5	Articles of Amendment to Articles Supplementary to the Charter of First PacTrust Bancorp, Inc. containing the terms of First PacTrust Bancorp, Inc. s Class B Non-Voting Common Stock	(g)
3.6	Bylaws of First PacTrust Bancorp, Inc.	(h)
4.1	Warrant to purchase up to 240,000 shares of First PacTrust Bancorp, Inc. common stock originally issued on November 1, 2010	(f)
4.2	Warrant to purchase up to 1,395,000 shares of First PacTrust Bancorp, Inc. common stock originally issued on November 1, 2010	(f)
4.3	Senior Debt Securities Indenture, dated as of April 23, 2012, between the Registrant and U.S. Bank National Association, as Trustee	(o)
4.4	Supplemental Indenture, dated as of April 23, 2012, between the Registrant and U.S. Bank National Association, as Trustee, relating to the Registrant s 7.50% Senior Notes due April 15, 2020 and form of 7.50% Senior Notes due April 15, 2020	(o)
10.1	Severance Agreement with Hans R. Ganz	(c)
10.2	Reserved	
10.3	Severance Agreement with James P. Sheehy	(c)

10.4	Severance Agreement with Regan J. Lauer (substantially identical to form of Severance Agreement with James P. Sheehy)	(c)
10.5	Form of Agreement to Modify Severance Benefits with each of Hans R. Ganz, James P. Sheehy, and Regan Lauer	(i)

Regulation S-K Exhibit Number	Document	Reference to Prior Filing or Exhibit Number Attached Hereto
10.6	Employment Agreement with Gregory A. Mitchell (including as exhibits thereto the forms of agreements for the restricted stock inducement grant and stock option inducement grant made to Mr. Mitchell pursuant to his Employment Agreement)	(f)
10.7	Employment Agreement with Richard Herrin (including as exhibits thereto the forms of agreements for the restricted stock inducement grant and stock option inducement grant made to Mr. Herrin pursuant to his Employment Agreement)	(j)
10.8	Employment Agreement with Matthew Bonaccorso (including as exhibits thereto the forms of agreements for the restricted stock inducement grant and stock option inducement grant made to Mr. Bonaccorso pursuant to his Employment Agreement)	(k)
10.9	Employment Agreement with Gaylin Anderson (including as exhibits thereto the forms of agreements for the restricted stock inducement grant and stock option inducement grant made to Mr. Anderson pursuant to his Employment Agreement)	(k)
10.10	Employment Agreement with Chang Liu (including as exhibits thereto the forms of agreements for the restricted stock inducement grant and stock option inducement grant made to Mr. Liu pursuant to his Employment Agreement)	(k)
10.11	Employment Agreement with Marito Domingo (including as exhibits thereto the forms of agreements for the restricted stock inducement grant and stock option inducement grant made to Mr. Domingo pursuant to his Employment Agreement)	(l)
10.12	Registrant s 2011 Omnibus Incentive Plan	(m)
10.12A	Form of Incentive Stock Option Agreement under 2011 Omnibus Incentive Plan	(p)
10.12B	Form of Non-Qualified Stock Option Agreement under 2011 Omnibus Incentive Plan	(p)
10.12C	Form of Restricted Stock Agreement Under 2011 Omnibus Incentive Plan	(p)
10.13	Registrant s 2003 Stock Option and Incentive Plan	(n)
10.14	Registrant s 2003 Recognition and Retention Plan	(n)
10.15	Small Business Lending Fund-Securities Purchase Agreement, dated August 30, 2011, between First PacTrust Bancorp, Inc. and the Secretary of the United States Treasury	(e)
11.0	Statement regarding computation of per share earnings	None
15.0	Letter re unaudited interim financial information	None
18.0	Letter regarding change in accounting principles	None
19.0	Report furnished to security holders	None
22.0	Published Report regarding matters submitted to vote of security holders	None
24.0	Power of Attorney	None
31.1	Rule 13(a)-14(a) Certification (Chief Executive Officer)	31.1
31.2	Rule 13(a)-14(a) Certification (Chief Financial Officer)	31.2
31.3	Rule 13(a)-14(a) Certification (Principal Accounting Officer)	31.3
32.0	Rule 13(a)-14(b) and 18 U.S.C. 1350 Certification	32.0
101.0	The following financial statements and footnotes from the Registrant s Quarterly Report on Form 10Q for the quarter ended March 31, 2012 formatted in Extensible Business Reporting Language (XBRL): (i) Consolidated Statements of Financial Condition; (ii) Consolidated Statements of Income and Comprehensive Income; (iii) Consolidated Statements of Shareholder s Equity; (iv) Consolidated Statements of Cash Flows; and (v)	101.0

the Notes to Consolidated Financial Statements, tagged as blocks of text.

Table of Contents

*	(a) Filed as an exhibit to the Registrant s Current Report on Form 8-K filed on June 9, 2011 and incorporated herein by reference.
(a)(1)	Filed as an exhibit to the Registrant s Current Report on Form 8-K filed on December 1, 2011 and incorporated herein by reference.
(a)(2)	Filed as an exhibit to the Registrant s Current Report on Form 8-K filed on February 28, 2012 and incorporated herein by reference
(b)	Filed as Appendix A to the proxy statement/prospectus included in the Registrant s Registration Statement on Form S-4 filed on November 1, 2011 and incorporated herein by reference.
(c)	Filed as an exhibit to the Registrant s Registration Statement on Form S-1 filed on March 28, 2002 and incorporated herein by reference.
(d)	Filed as an exhibit to the Registrant s Current Report on Form 8-K filed on March 4, 2011 and incorporated herein by reference.
(e)	Filed as an exhibit to the Registrant s Current Report on Form 8-K filed on August 30, 2011 and incorporated herein by reference.
(f)	Filed as an exhibit to the Registrant s Current Report on Form 8-K/A filed on November 16, 2010 and incorporated herein by reference.
(g)	Filed as an exhibit to the Registrant s Current Report on Form 8-K filed on May 12, 2011 and incorporated herein by reference
(h)	Filed as an exhibit to the Registrant s Current Report on Form 8-K filed on February 28, 2011 and incorporated herein by reference.
(i)	Filed as an exhibit to the Registrant s Current Report on Form 8-K/A filed on December 20, 2010 and incorporated herein by reference.
(j)	Filed as an exhibit to the Registrant s Current Report on Form 8-K filed on November 19, 2010 and incorporated herein by reference.
(k)	Filed as an exhibit to the Company s Annual Report on Form 10-K for the year ended December 31, 2010 and incorporated herein by reference.
(l)	Filed as an exhibit to the Registrant s Current Report on Form 8-K filed on May 10, 2011 and incorporated herein by reference.
(m)	Filed as an appendix to the Registrant s definitive proxy statement filed on April 25, 2011 and incorporated herein by reference
(n)	Filed as an appendix to the Registrant s definitive proxy statement filed on March 21, 2003 and incorporated herein by reference.
(o)	Filed as an exhibit to the Registrant s Current Report on Form 8-K filed on April 23, 2012 and incorporated herein by reference.

(p) Filed as an exhibit to the Registrant s Annual Report on Form 10-K for the year ended December 31, 2011 and incorporated herein by reference.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	FIRST PACTRUST BANCORP, INC.
Date: May 10, 2012	/s/ Gregory A. Mitchell Gregory A. Mitchell President and Chief Executive Officer
Date: May 10, 2012	/s/ Marangal I. Domingo Marangal I. Domingo Executive Vice President/ Chief Financial Officer
Date: May 10, 2012	/s/ Regan J. Lauer Regan J. Lauer Senior Vice President/ Controller