First California Financial Group, Inc.
Form 10-K
March 18, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

Form 10-K

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

For the fiscal year ended December 31, 2012

OR

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

For the transition period from __________________ to __________________

Commission file number 000-52498

FIRST CALIFORNIA FINANCIAL GROUP, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	38-3737811 (I.R.S. Employer Identification Number)
3027 Townsgate Road, Suite 300 Westlake Village, California (Address of Principal Executive Offices)	91361 (Zip Code)

Registrant's telephone number, including area code: (805) 322-9655

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $0.01 par value	The Nasdaq Global Market

Securities registered pursuant to Section 12(g) of the Exchange Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

o Yes þ No

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

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. þ Yes o No

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

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

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

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

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

Aggregate market value of common stock held by non-affiliates as of June 30, 2012: $156,414,846

As of March 13, 2013, there were 29,244,912 shares of Common Stock, $0.01 par value, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

INDEX

Part I

Item 1. Business	1
Item 1A. Risk Factors	18
Item 1B. Unresolved Staff Comments	27
Item 2. Properties	27
Item 3. Legal Proceedings	29
Item 4. Mine Safety Disclosures	29

Part II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	30
Item 6. Selected Financial Data	31
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations	33
Item 7A. Quantitative and Qualitative Disclosures About Market Risk	65
Item 8. Financial Statements and Supplementary Data	68
Item 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure	118
Item 9A. Controls and Procedures	118
Item 9B. Other Information	118

Part III

Item 10. Directors, Executive Officers and Corporate Governance	119
Item 11. Executive Compensation	119
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	119
Item 13. Certain Relationships and Related Transactions, and Director Independence	119

	Item 14. Principal Accountant Fees and Services	119
Part IV		
	Item 15. Exhibits and Financial Statement Schedules	119
Signatures		126
Certifications		

PART I

Item 1. Business

Our Business

As used herein, the term "First California Financial Group," "First California," "FCAL," "the Company," "our," "us," "we" or expression includes First California Financial Group, Inc. and First California Bank unless the context indicates otherwise.

Business of First California Financial Group

First California is a bank holding company registered under the Bank Holding Company Act of 1956, as amended, or the BHCA. First California's primary function is to coordinate the general policies and activities of its bank subsidiary, First California Bank, or the Bank, as well as to consider from time to time other legally available investment opportunities. SC Financial is an inactive subsidiary of First California.

First California incorporated under the laws of the State of Delaware on June 7, 2006. The Company formed as a wholly-owned subsidiary of National Mercantile Bancorp, a California corporation, or National Mercantile, for the purposes of facilitating the mergers of National Mercantile and FCB Bancorp, a California corporation, or FCB. On March 12, 2007, National Mercantile merged with and into First California. Immediately thereafter, the parties completed the previously announced merger of FCB with and into First California. As a result of such mergers, the separate corporate existence of National Mercantile and FCB ceased, and First California succeeded, and assumed all the rights and obligations of, National Mercantile, whose principal assets were the capital stock of two bank subsidiaries, Mercantile National Bank, or Mercantile, and South Bay Bank, N.A., or South Bay, and the rights and obligations of FCB, whose principal assets was the capital stock of First California Bank. On June 18, 2007, First California integrated its bank subsidiaries into First California Bank. All references to the Bank on or before June 18, 2007 refer to the Bank, Mercantile and South Bay.

Business of First California Bank

The Bank is a full-service commercial bank headquartered in Westlake Village, California. The Bank is chartered under the laws of the State of California and is subject to supervision by the California Department of Financial Institutions, or the DFI, and the Federal Deposit Insurance Corporation, or the FDIC. The FDIC insures its deposits up to the maximum legal limit.

On November 5, 2010, the Bank assumed certain liabilities and acquired certain assets and substantially all of the operations of Western Commercial Bank, or WCB, located in Woodland Hills, California, from the FDIC. The Bank acquired, received and recognized certain assets with an estimated fair value of approximately $109 million, including $55 million of loans, $32 million of cash, $16.7 million of a FDIC shared-loss asset, $2 million of securities and $3 million of other assets. Liabilities with an estimated fair value of approximately $107 million were also assumed and recognized, including $105 million of deposits and $2 million of other liabilities. The Bank recorded a pre-tax bargain purchase gain of $2.3 million in connection with this transaction. The transaction increased the number of the Bank's full-service branch locations to 18 and the Bank fully integrated the former WCB branch into its full-service branch network prior to December 31, 2010.

On February 18, 2011, the Bank assumed certain liabilities and acquired certain assets and substantially all of the operations of San Luis Trust Bank, or SLTB, located in San Luis Obispo, California, from the FDIC. The Bank

acquired, received and recognized certain assets with an estimated fair value of approximately $367 million, including $139 million of loans, $99 million of cash and federal funds sold, $70 million of a FDIC shared-loss asset, $41 million of securities, $13 million of foreclosed property and $5 million of other assets. Liabilities with an estimated fair value of approximately $346 million were also assumed and recognized, including $266 million of deposits, $62 million of Federal Home Loan Bank advances, $15 million in a deferred tax liability, $2.6 million of a FDIC shared-loss liability and $0.4 million of other liabilities. The Bank recorded a pre-tax bargain purchase gain of $36.5 million in connection with this transaction. This transaction increased the number of the Bank's full-service branch locations to 19 and the Bank fully integrated the former SLTB branch into its full-service branch network in June 2011.

On April 8, 2011, the Bank completed the acquisition of the Electronic Banking Solutions division of Palm Desert National Bank. The transaction included the division's customer base, core deposits, and employees. The Electronic Payment Services Division, or the EPS division, its new name under the Bank, has issued prepaid cards and sponsored merchant acquiring services for all national and regional networks, including Visa, MasterCard, and Discover throughout all 50 states and U.S. territories. The Bank acquired cash of $85.4 million, recognized intangible assets of $6.0 million, assumed $91 million of deposits and recognized a pre-tax bargain purchase gain of $0.5 million in connection with this transaction.

On February 13, 2013, the Board of Directors of the Company and the Board of Directors of the Bank committed to a plan to wind down the EPS division. The Company previously announced on November 6, 2012 that the Company and PacWest Bancorp, or PacWest, entered into an Agreement and Plan of Merger, or the Merger Agreement, pursuant to which the Company would merge with and into PacWest, with PacWest as the surviving corporation, which we refer to as the PacWest Merger. As previously disclosed in the amended Registration Statement on Form S-4 of PacWest, PacWest concluded that the EPS division was not suited to PacWest's commercial banking business model and PacWest would proceed to exit the EPS division upon completion of the PacWest Merger. As part of the wind down of the EPS division, the Bank will terminate its membership in card processing networks and will no longer issue payment cards. The Bank intends to maintain sufficient operations and staffing within the EPS division to conduct the wind down in an orderly manner. The Company has targeted December 31, 2013 for substantial completion of its wind down of the EPS division. In connection with the wind down of the EPS division, the Company currently estimates that it will incur total costs of approximately $2.4 million, of which (i) approximately $633,000 relates to retention costs, (ii) approximately $453,000 relates to severance and employee termination benefits, (iii) approximately $522,000 relates to contract termination costs, and (iv) approximately $780,000 relates to other associated costs. In connection with the Company's plan to discontinue the EPS division, the Company evaluated various intangible assets related to the EPS division and determined on February 13, 2013 that an impairment charge of $4.8 million will be recognized for the year ended December 31, 2012. The Company estimates approximately $1.7 million of the total costs will result in future cash expenditures.

The Bank's business strategy has been to attract individuals, professionals, and small- to mid-sized business borrowers in our primary service areas by offering a variety of loan products and a full range of banking services coupled with highly personalized service. The Bank's operations are primarily located within the areas commonly known as the "101 corridor" stretching from the City of Ventura to Calabasas, California, the Moorpark-Simi Valley corridor, the western San Fernando Valley, the Tri-Cities area of Glendale-Burbank-Pasadena, the South Bay, the Inland Empire, north San Diego County, Century City and other parts of Los Angeles, Orange, San Luis Obispo and Ventura Counties in Southern California. Our lending products include revolving lines of credit, term loans, commercial real estate loans, construction loans and consumer and home equity loans, which often contain terms and conditions tailored to meet the specific demands of the market niche in which the borrower operates. Additionally, the Bank provides a wide array of deposit products serving the comprehensive banking needs of businesses and consumers in Los Angeles, Orange, Ventura, San Diego, Riverside, San Bernardino and San Luis Obispo counties through traditional business and consumer banking, construction finance, SBA lending, entertainment finance and commercial real estate lending via 15 full-service branch locations.

Business loans, represented by commercial mortgage loans, commercial loans and construction loans, comprise the largest portion of the Bank's loan portfolio. Commercial real estate loans rely upon the cash flow originating from the underlying real property. Commercial real estate is a cyclical industry that is affected not only by general economic conditions but also by local supply and demand. Commercial loans rely upon the cash flow originating from the underlying business activity of the enterprise. The manufacture, distribution or sale of goods or sale of services are not only affected by general economic conditions but also by the ability of the enterprise's management to adjust to local supply and demand conditions, maintain good labor, vendor and customer relationships, as well as market and sell their goods or services for a profit. Construction loans provide developers or owners with funds to build or improve properties that will ultimately be sold or leased. Construction loans are generally considered to involve a higher degree of risk than other loan categories because they rely upon the developer's or owner's ability to complete the project within specified cost and time limits.

Consumer loans, a smaller component of the Bank's loan portfolio, are represented by home mortgages and home equity loans and lines of credit that are secured by first or second trust deeds on a borrower's real estate property, typically their principal residence. These loans are dependent on a person's ability to regularly pay the principal and interest due on the loan and, secondarily, on the value of real estate property that serves as collateral for the loan.

The Bank's business strategy also stresses the importance of customer deposit relationships to support its lending activities. Checking deposits, savings deposits and certificates of deposit represent a significant low-cost and stable source of funds. Business customers are offered cash management products, including on-line banking and remote deposit capture, to meet their specific banking needs.

The Bank's goal is to offer its customers a consistently high level of individualized personal service. Accordingly, in order to meet the changing needs of our customers, the Bank is constantly evaluating a variety of options to broaden the services and products it provides. The Bank's strategy in attaining its goals has been to implement and maintain risk management and controls to achieve a safe and sound business policy, employing an aggressive marketing plan which emphasizes relationship banking and the "personal touch," offering competitive products and managing growth. The Bank provides convenience through 15 banking offices with ATM access, 24 hour telephone access to account information, on-line banking, courier service and remote deposit capture. The diversity of our delivery systems enables customers to choose the method of banking that is most convenient for them. The Bank trains its staff to recognize each customer, greet them, and be able to address them by name so that they feel as if they have a "private banker."

Proposed Merger with PacWest

On November 6, 2012, First California entered into the Merger Agreement with PacWest. Under the terms of the Merger Agreement the Company will be merged with and into PacWest, with PacWest as the surviving corporation, which we refer to as the PacWest Merger. The Merger Agreement also provides that, simultaneously with the PacWest Merger, the Bank will merge with and into Pacific Western Bank, a wholly owned subsidiary of PacWest, with Pacific Western Bank continuing as the surviving bank.

Pursuant to the Merger Agreement, in the PacWest Merger, each outstanding share of common stock of the Company, other than shares held by the Company as treasury stock or by PacWest, will be cancelled and converted into the right to receive a fractional share of PacWest common stock equal to the quotient (which we refer to as the Exchange Ratio) obtained by dividing $8.00 by the volume weighted average closing price of PacWest common stock for a specified period, or the Average PacWest Common Stock Price. However, if the Average PacWest Common Stock Price is greater than or equal to $27.00, then the Exchange Ratio will be 0.2963, and if the Average PacWest Common Stock Price is less than or equal to $20.00, then the Exchange Ratio will be 0.4000.

Immediately prior to the effective time of the PacWest Merger, each option to purchase First California common stock will become fully vested and be cancelled in exchange for the right to receive a cash payment calculated based on the Exchange Ratio, and each share of First California restricted stock will vest and will be converted into the right to receive a number of shares of PacWest common stock equal to the Exchange Ratio.

First California and PacWest have each made customary representations and warranties in the Merger Agreement and agreed to customary covenants, including covenants regarding the operation of the business of First California and its subsidiaries prior to the closing and covenants prohibiting First California from soliciting, providing information or entering into discussions concerning proposals relating to alternative business combination transactions, except in limited circumstances relating to unsolicited proposals that constitute, or are reasonably capable of becoming, a superior proposal.

Consummation of the PacWest Merger is subject to customary closing conditions, including approval of First California's stockholders and PacWest's stockholders. The Merger Agreement may be terminated under certain circumstances, including by either party if the PacWest Merger has not occurred by August 6, 2013, if an order is entered prohibiting or making illegal the transaction and the order has become final and non-appealable, if the stockholders of First California or PacWest fail to approve the transaction, or upon a material uncured breach by the other party that would cause the closing conditions not to be satisfied.

The Merger Agreement provides certain termination rights for both First California and PacWest and further provides that upon termination of the Merger Agreement under certain circumstances, PacWest will be obligated to pay First California a termination fee of $5,000,000 and under certain circumstances, First California will be obligated to pay PacWest a termination fee of $10,000,000.

Upon consummation of the PacWest Merger, the Board of Directors of PacWest will consist of the directors serving on the Board of Directors of PacWest prior to the effective time of the PacWest Merger plus two independent directors designated by the Board of Directors of First California and approved by the Compensation, Nominating and Governance Committee of PacWest.

Additional Information About the Proposed Merger and Where to Find It

This report on Form 10-K does not constitute an offer to sell or the solicitation of an offer to buy any securities or a solicitation of any vote or approval. In connection with the proposed transaction, PacWest filed with the SEC a Registration Statement on Form S-4 that includes a joint proxy statement of the Company and PacWest, and that also

constitutes a prospectus of PacWest. The Company and PacWest also plan to file other documents with the SEC with respect to the proposed transaction. INVESTORS ARE URGED TO READ THE JOINT PROXY STATEMENT/PROSPECTUS (INCLUDING ALL AMENDMENTS AND SUPPLEMENTS THERETO) AND OTHER RELEVANT DOCUMENTS FILED WITH THE SEC IF AND WHEN THEY BECOME AVAILABLE BECAUSE THEY CONTAIN IMPORTANT INFORMATION ABOUT THE PROPOSED TRANSACTION.

Investors may obtain free copies of the registration statement, the joint proxy statement/prospectus and other relevant documents filed by the Company and PacWest with the SEC (if and when they become available) through the website maintained by the SEC at www.sec.gov. Copies of the documents filed by the Company with the SEC are available free of charge on the Company's website at www.fcalgroup.com, and copies of the documents filed by PacWest with the SEC are also available free of charge on PacWest's website at www.pacwestbancorp.com.

The Company, PacWest and their respective directors and executive officers may be deemed to be participants in the solicitation of proxies from the Company's and PacWest's stockholders in respect of the proposed transaction. Information regarding the Company's directors and executive officers can be found in the Company's definitive proxy statement filed with the SEC on April 4, 2012. Information regarding PacWest's directors and executive officers can be found in PacWest's definitive proxy statement filed with the SEC on April 6, 2012. Additional information regarding the interests of such potential participants is included in the joint proxy statement/prospectus and other relevant documents filed with the SEC in connection with the proposed transaction if and when they become available. These documents are available free of charge on the SEC's website and from the Company or PacWest, as applicable, using the sources indicated above.

Financial and Statistical Disclosure

Certain of our financial and statistical information is presented within "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations." This information should be read in conjunction with the consolidated financial statements contained in "Item 8. Financial Statements and Supplementary Data."

Competition

The banking business in California, generally, and in the Bank's service areas, specifically, is highly competitive with respect to both loans and deposits and is dominated by a number of major banks that have many offices operating over wide geographic areas. The Bank competes for deposits and loans principally with these major banks and other financial institutions located in our market areas. Among the advantages that the major banks have over the Bank are their ability to finance extensive advertising campaigns and to allocate their investment assets to regions of highest yield and demand. Many of the major commercial banks operating in the Bank's service areas offer certain services (such as trust and international banking services) that are not offered directly by the Bank and, by virtue of their greater total capitalization, such banks have substantially higher lending limits. Moreover, all banks face increasing competition for loans and deposits from non-bank financial intermediaries such as mortgage companies, insurance companies, credit unions and securities firms.

In November 1999, the Gramm-Leach-Bliley Act, or the GLBA, was signed into law. The GLBA significantly changed the regulatory structure and oversight of the financial services industry. The GLBA revised the BHCA and repealed the affiliation prohibitions of the Glass-Steagall Act of 1933. Consequently, a qualifying holding company, called a financial holding company, can engage in a full range of financial activities, including banking, insurance, and securities activities, as well as merchant banking and additional activities that are "financial in nature" or "incidental" to those financial activities. Expanded financial affiliation opportunities for existing bank holding companies are now permitted. Moreover, various non-bank financial services providers can acquire banks while also offering services like securities underwriting and underwriting and brokering insurance products. The GLBA also expanded passive investment activities by financial holding companies, permitting investments in any type of company, financial or non-financial, through acquisitions of merchant banking firms and insurance companies.

Given that the traditional distinctions between banks and other providers of financial services have been effectively eliminated, the Bank has faced and will continue to face additional competition from thrift institutions, credit unions, insurance companies and securities firms. Additionally, the Bank's ability to cross-market banking products to existing customers or the customers of affiliated companies may make it more difficult to compete.

In order to compete, the Bank uses to the fullest extent possible the familiarity of its directors and officers with the market area and its residents and businesses and the flexibility that the Bank's independent status will permit. This includes an emphasis on specialized services, local promotional activity, and personal contacts by directors, officers and other employees. The Bank uses advertising, including newspaper ads and direct mail pieces, to inform the community of the services it offers. The Bank also utilizes emerging marketing techniques, such as the Internet, to

reach target markets. The Bank also has an active calling program where officers, including commissioned business development officers, contact targeted prospects to solicit both deposit and loan business.

The Bank has developed programs that specifically address the needs of consumers, professionals and small-to medium-sized businesses. In the event there are customers whose loan demands exceed the Bank’s lending limits, it arranges for such loans on a participation basis with other financial institutions and intermediaries. The Bank also assists those customers requiring other services not offered by the Bank to obtain those services from correspondent banks. In addition, the Bank offers ATM services, a night depository, remote deposit capture, courier services, bank-by-mail services, merchant windows, lockbox and direct deposit services.

The Bank’s management believes that the Bank’s reputation in the communities served and personal service philosophy enhance the ability to compete favorably in attracting and retaining individual, professional and business clients. The Bank also believes that it has an advantage over the larger national and “super regional” institutions because it is managed by locally-known, well-respected and experienced bankers. Moreover, our larger competitors may not offer adequate personalized banking services, since their emphasis is on large volume and standardized retail products.

The Bank also faces growing competition from other community banks. These institutions have similar marketing strategies, have also been successful and offer strong evidence regarding the potential success of the community banking sector.

No assurance can be given that ongoing efforts to compete will continue to be successful.

Dependence on One or a Few Major Customers; Business Concentrations

No individual or single group of related accounts is considered material in relation to our total assets or to the assets or deposits of the Bank, or in relation to our overall business. However, approximately 85% of our loan portfolio at December 31, 2012 consisted of real estate-secured loans, including commercial real estate loans, construction loans, home mortgage loans, home equity loans and lines of credit. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations — Financial Position — December 31, 2012 compared with December 31, 2011" in Part II of this Annual Report on Form 10-K. Moreover, our business activities are currently focused primarily in Southern California, with the majority of our business concentrated in Ventura, Orange and Los Angeles Counties. Consequently, our results of operations and financial condition are dependent upon the general trends in the Southern California economies and, in particular, the residential and commercial real estate markets. In addition, the concentration of our operations in Southern California exposes us to greater risk than other banking companies with a wider geographic base in the event of catastrophes, such as earthquakes, fires and floods in this region.

Internet Banking Services

The Bank maintains an internet website, which serves as an additional means of providing customer access to a variety of banking services, including 24/7 online banking. The Bank's website address is www.fcbank.com. No information contained on the website is incorporated herein by reference.

Employees

At December 31, 2012, the Bank had 281 full-time equivalent employees. The Bank's employees are not represented by any union or other collective bargaining agreement and the Bank considers its relations with employees to be excellent.

Supervision and Regulation

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act, or Dodd-Frank, was signed into law. Dodd-Frank will have a broad impact on the financial services industry and will impose significant new regulatory and compliance requirements, including the designation of certain financial companies as systemically significant, the imposition of increased capital, leverage and liquidity requirements, and numerous other provisions designed to improve supervision and oversight of, and strengthen safety and soundness within, the financial services sector. Additionally, Dodd-Frank establishes a new framework of authority to conduct systemic risk oversight within the financial system to be distributed among new and existing regulatory agencies, including the Financial Stability Oversight Council, or Council, the Board of Governors of the Federal Reserve System, or FRB, the Office of the Comptroller of the Currency, or OCC, and the FDIC. The rules and regulations promulgated under Dodd-Frank are likely to impact our operations and cost. Dodd-Frank includes, among other things, the following:

(i) the creation of the Council to identify emerging systemic risks and improve interagency cooperation;

(ii) requirement by statute that bank holding companies serve as a source of financial strength for their depository institution subsidiaries;

(iii) the elimination and phase-out of trust preferred securities from Tier 1 capital with certain exceptions;

(iv) the elimination of remaining barriers to de novo interstate branching by banks;

(v) expanded FDIC resolution authority to conduct the orderly liquidation of certain systemically significant non-bank financial companies in addition to depository institutions;

(vi) enhanced regulation of financial markets, including the derivative and securitizations markets, and the elimination of certain proprietary trading activities by banks;

(vii) the establishment of strengthened capital and liquidity requirements for banks and bank holding companies, including minimum leverage and risk-based capital requirements no less than the strictest requirements in effect for depository institutions as of the date of enactment;

(viii) a permanent increase of the previously implemented temporary increase of FDIC deposit insurance to $250,000 and an extension of federal deposit coverage until January 1, 2013 for the full net amount held by depositors in non-interest bearing transaction accounts;

(ix) authorization for financial institutions to pay interest on business checking accounts;

(x) changes in the calculation of FDIC deposit insurance assessments, such that the assessment base will no longer be the institution's deposit base, but instead, will be its average consolidated total assets less its average tangible equity and increase the minimum reserve ratio for the Deposit Insurance Fund, or DIF, from 1.15 percent to 1.35 percent;

(xi) the transfer of oversight of savings and loan holding companies to the FRB, federally chartered thrift institutions to the OCC and state-chartered savings banks to the FDIC, and the elimination of the Office of Thrift Supervision;

(xii) the creation of a Consumer Financial Protection Bureau, or CFPB, which is authorized to promulgate and enforce consumer protection regulations relating to bank and non-bank financial products and examine and enforce these regulations on banks with more than $10 billion in assets;

(xiii) expanded restrictions on transactions with affiliates and insiders under Sections 23A and 23B of the Federal Reserve Act and lending limits for derivative transactions, repurchase agreements and securities lending and borrowing transactions; and

(xiv) provisions that affect corporate governance and executive compensation at most United States publicly traded companies, including (1) stockholder advisory votes on executive compensation, (2) executive compensation "claw-back" requirements for companies listed on national securities exchanges in the event of materially inaccurate statements of earnings, revenues, gains or other criteria similar to the requirements of the American Recovery and Reinvestment Act of 2009 for the Troubled Assets Relief Program Capital Purchase Program for the SEC recipients, (3) enhances independence requirements for compensation committee members, and (4) authority for the SEC to adopt proxy access rules which would permit stockholders of publicly traded companies to nominate candidates for election as a director and have those nominees included in a company's proxy statement.

We cannot predict the extent to which the interpretations and implementation of this wide-ranging federal legislation may affect us. Many of the requirements of Dodd-Frank will be implemented over time and most will be subject to regulations implemented over the course of several years. There can be no assurance that these or future reforms (such as possible new standards for commercial real estate lending or new stress testing guidance for all banks) arising out of studies and reports required by Dodd-Frank will not significantly increase our compliance or other operating costs and earnings or otherwise have a significant impact on our business, financial condition and results of operations. Dodd-Frank is likely to impose upon us more stringent capital, liquidity and leverage requirements or otherwise adversely affect our business. As a result of the changes required by Dodd-Frank, the profitability of our business activities may be impacted and we may be required to make changes to certain of our business practices. These changes may also require us to invest significant management attention and resources to evaluate and make any changes necessary to comply with new statutory and regulatory requirements.

In response to the financial crisis affecting the banking system and financial markets and going concern threats to investment banks and other financial institutions, on October 3, 2008, the Emergency Economic Stabilization Act of 2008, or the EESA, became law. Through its authority under the EESA, the United States Department of the Treasury, or the Treasury, announced in October 2008 the Troubled Asset Relief Program—Capital Purchase Program, or the CPP, a program designed to bolster healthy institutions, like First California, by making $250 billion of capital available to

U.S. financial institutions in the form of preferred stock.

We participated in the CPP in December 2008 so that we could continue to lend and support our current and prospective clients, especially during this unstable economic environment. Under the terms of our participation, we received $25 million in exchange for the issuance of preferred stock and a warrant to purchase common stock, and became subject to various requirements, including certain restrictions on paying dividends on our common stock and repurchasing our equity securities, unless the Treasury has consented. The common stock warrant entitled the Treasury to purchase 599,042 shares of our common stock at an exercise price of $6.26 for a term of ten years. On July 14, 2011, we redeemed all 25,000 preferred stock series B shares and exited the CPP program. On August 24, 2011, we purchased the 10-year warrant from the Treasury for $599,042. In connection with the redemption of the preferred stock series B shares, the Company accelerated the amortization of the remaining difference between the par amount and the initially recorded fair value of the preferred stock series B shares. This $1.1 million deemed dividend reduced the amount of net income available to common shareholders in 2011.

We redeemed the $25 million of preferred stock series B shares with the $25 million of proceeds received in exchange for issuing 25,000 preferred stock series C shares to the Treasury as a participant in the Small Business Lending Fund program, or the SBLF. The preferred stock series C shares will receive non-cumulative quarterly dividends and the initial dividend rate was 5 percent. The dividend rate can fluctuate between 1 percent and 5 percent during the next eight quarters and is a function of the growth in qualified small business loans each quarter. The dividend rate for each of the quarters since entering the SBLF program was 5 percent. On February 27, 2013, First California notified the Treasury that, subject to receipt of requisite regulatory approvals, First California intends to redeem all of its outstanding shares of Series C preferred stock simultaneously with the consummation of First California's pending merger with PacWest.

The EESA also temporarily increased FDIC deposit insurance on most accounts from $100,000 to $250,000. Dodd-Frank made the $250,000 deposit insurance limit permanent. In addition, the FDIC has implemented two temporary programs under the Temporary Liquidity Guaranty Program, or the TLGP, to provide deposit insurance for the full amount of most non-interest bearing transaction accounts through June 30, 2010 (for depository institutions that did not opt out prior to November 2, 2009) and to guarantee certain unsecured debt of financial institutions and their holding companies through June 2012. The Bank did not participate in these TLGP programs. Dodd-Frank extended until January 1, 2013 deposit insurance for the full net amount of non-interest bearing transaction accounts. The FDIC charges "systemic risk special assessments" to depository institutions that participate in the TLGP. The FDIC has recently proposed that Congress give the FDIC expanded authority to charge fees to the holding companies which benefit directly and indirectly from the FDIC guarantees. See "FDIC Deposit Insurance" below.

Dodd-Frank adopts the so-called "Volcker Rule" which, subject to a transition period and certain exceptions, became effective on July 21, 2012 and prohibits a banking entity from engaging in "proprietary trading," which is defined as engaging as principal for the "trading account" of the banking entity in securities or other instruments, as determined by federal regulators. After the conclusion of the conformance period (including any extensions) that began on July 21, 2012, the Volcker Rule prohibitions and restrictions will apply to banking entities, including the Company, the Bank and their affiliates, unless an exception applies. Certain forms of proprietary trading may qualify as "permitted activities," and thus not be subject to the ban on proprietary trading, such as "market-making-related activities", "risk-mitigating hedging activities", and trading in U.S. government or agency obligations, certain other U.S., state or municipal obligations, and the obligations of Fannie Mae, Freddie Mac or Ginnie Mae. Additionally, subject to a transition period and certain exceptions, the rule restricts a banking entity from sponsoring or investing in certain private funds. A banking entity that sponsors or invests in certain private funds is also restricted from providing credit or other support to the fund or permitting the fund to use the name of the bank. In October 2011, the OCC, FRB, FDIC, and SEC, in consultation with the Commodity Futures Trading Commission, jointly released a notice of proposed rulemaking implementing the Volcker Rule limitations of Dodd-Frank. To date, no final rule has been issued. In light of the complexity of the proposed regulation and the fact that a substantial number of substantive comments were submitted in response to the new rule, the Company cannot fully assess the impact of the Volcker Rule on its business until final rules and regulations are adopted.

General

Banking is a complex, highly regulated industry. The primary goals of the regulatory scheme are to maintain a safe and sound banking system, protect depositors and the DIF, and facilitate the conduct of sound monetary policy. This regulatory scheme is not designed for the benefit of stockholders of the Company or its successors. In furtherance of these goals, Congress and the states have created several largely autonomous regulatory agencies and enacted numerous laws that govern banks, bank holding companies and the financial services industry. Consequently, the growth and earnings performance of the Company or its successors and the Bank can be affected not only by management decisions and general economic conditions, but also by the requirements of applicable state and federal statues, regulations and the policies of various governmental regulatory authorities, including the FRB, the FDIC, the DFI, and the United States Department of the Treasury, or the Treasury.

The commercial banking business is also influenced by the monetary and fiscal policies of the federal government and the policies of the FRB. The FRB implements national monetary policies (with objectives such as curbing inflation and combating recession) by its open-market operations in United States Government securities, by adjusting the required level of reserves for financial intermediaries subject to its reserve requirements and by varying the discount rates applicable to borrowings by depository institutions. The actions of the FRB in these areas influence the growth of bank loans, investments and deposits and also affect interest rates charged on loans and paid on deposits. Indirectly, such actions may also impact the ability of non-bank financial institutions to compete with the Bank. The nature and impact of any future changes in monetary policies cannot be predicted.

The system of supervision and regulation applicable to financial services businesses governs most aspects of the business of the Company and the Bank, including: (i) the scope of permissible business; (ii) investments; (iii) reserves that must be maintained against deposits; (iv) capital levels that must be maintained; (v) the nature and amount of collateral that may be taken to secure loans; (vi) the establishment of new branches; (vii) mergers and consolidations with other financial institutions; and (viii) the payment of dividends.

From time to time laws or regulations are enacted which have the effect of increasing the cost of doing business, limiting or expanding the scope of permissible activities, or changing the competitive balance between banks and other financial and non-financial institutions. Proposals to change the laws and regulations governing the operations of banks and bank holding companies are frequently made in Congress, in the California legislature and by various bank and other regulatory agencies. For example, as noted above, Dodd-Frank, among other things, creates the CFPB which has broad powers to regulate consumer financial services and products, creates the Council with regulatory authority over certain financial companies and activities, and would give shareholders a “say on pay” regarding executive compensation. The FRB has also issued guidance and a proposed rule on incentive compensation to ensure that banking organizations’ incentive compensation policies do not undermine the safety and soundness of their organizations. Future changes in the laws, regulations or polices that impact the Company or its successors and the Bank cannot necessarily be predicted, but they may have a material effect on the business and earnings of the Company and the Bank.

Set forth below is a summary description of certain of the material laws and regulations that relate to our operations and those of the Bank. The description does not purport to be a complete description of these laws and regulations and is qualified in its entirety by reference to the applicable laws and regulations.

Regulation of First California

As a registered bank holding company, First California and its subsidiaries are subject to the FRB’s supervision, regulation and examination under the BHCA. Under the BHCA, we are subject to periodic examination by the FRB. We are also required to file with the FRB periodic reports of our operations and such additional information regarding the Company and its subsidiaries as the FRB may require.

Under FRB regulations, a bank holding company is required to serve as a source of financial and managerial strength to its subsidiary banks and may not conduct its operations in an unsafe or unsound manner. In addition, it is the FRB’s policy that in serving as a source of strength to its subsidiary banks, a bank holding company should stand ready to use available resources to provide adequate capital funds to its subsidiary banks during periods of financial stress or adversity and should maintain the financial flexibility and capital-raising capacity to obtain additional resources for assisting its subsidiary banks. A bank holding company’s failure to meet its obligations to serve as a source of strength to its subsidiary banks will generally be considered by the FRB to be an unsafe and unsound banking practice or a violation of the FRB’s regulations or both.

Dodd-Frank amends the Federal Deposit Insurance Act, or FDIA, to obligate the FRB to require bank holding companies to serve as a source of financial strength for any subsidiary depository institution. The appropriate federal banking agency for such a depository institution may require reports from companies that own the insured depository institution to assess their ability to serve as a source of strength and to enforce compliance with the source-of-strength requirements. The term “source of financial strength” is defined as the ability of a company to provide financial assistance to its insured depository institution subsidiaries in the event of financial distress at such subsidiaries. Under this requirement, First California in the future could be required to provide financial assistance to the Bank should it experience financial distress.

First California is required to obtain the FRB’s prior approval before acquiring ownership or control of more than 5% of the outstanding shares of any class of voting securities, or substantially all the assets, of any company, including a bank or bank holding company. Further, we are allowed to engage, directly or indirectly, only in banking and other activities that the FRB deems to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. Pursuant to the GLBA, in order to elect and retain financial holding company status, a bank holding company and all depository institution subsidiaries must be well capitalized, well managed, and, except in limited circumstances, be in satisfactory compliance with the Community Reinvestment Act, or the CRA.

First California's securities are registered with the Securities and Exchange Commission, or the SEC, under the Securities Exchange Act of 1934, as amended, or the Exchange Act, and listed on the NASDAQ Global Market. As such, First California is subject to the information, proxy solicitation, insider trading, corporate governance, and other requirements and restrictions of the Exchange Act, as well as the Marketplace Rules and other requirements promulgated by the NASDAQ Stock Market, Inc.

First California is subject to the accounting oversight and corporate governance requirements of the Sarbanes-Oxley Act of 2002, including, among other things, required executive certification of financial reports, increased requirements for board audit committees and their members, and enhanced disclosure of controls and procedures and internal controls over financial reporting.

First California's earnings and activities are affected by legislation, by regulations and by local legislative and administrative bodies and decisions of courts in the jurisdictions in which First California and the Bank conduct business. For example, these include limitations on the ability of the Bank to pay dividends to us and our ability to pay dividends to our stockholders. It is the policy of the FRB that bank holding companies should pay cash dividends on common stock only out of income available over the past year and only if prospective earnings retention is consistent with the organization's expected future needs and financial condition. The policy provides that bank holding companies should not maintain a level of cash dividends that undermines the bank holding company's ability to serve as a source of strength to its banking subsidiaries. Various federal and state statutory provisions limit the amount of dividends that subsidiary banks can pay to their holding companies without regulatory approval. In addition to these explicit limitations, the federal regulatory agencies have general authority to prohibit a banking subsidiary or bank holding company from engaging in an unsafe or unsound banking practice. Depending upon the circumstances, the agencies could take the position that paying a dividend would constitute an unsafe or unsound banking practice. In addition, as discussed below under "Regulation of the Bank", a bank holding company such as the Company is required to maintain minimum ratios of Tier 1 capital and total capital to total risk-weighted assets, as well as a minimum ratio of Tier 1 capital to total adjusted quarterly average assets as defined in such regulations.

Under the terms of the SBLF, for so long as any preferred stock issued under the SBLF remains outstanding, First California is permitted to make dividend payments to, or effectuate share repurchases from, other shareholders, provided that after the payment or repurchase, the institution's Tier 1 capital would be at least 90 percent of the amount existing at the time immediately after the SBLF closing date, excluding any subsequent net charge-offs and partial repayments of the SBLF funding.

Regulation of the Bank

The Bank is extensively regulated under both federal and state law. The Bank, as a California state chartered bank which is not a member of the Federal Reserve System, is subject to regulation, supervision, and regular examination by the DFI and the FDIC. The Bank's deposits are insured by the FDIC up to the maximum extent provided by law. The regulations of these agencies govern most aspects of the Bank's business. California law exempts all banks from usury limitations on interest rates. Various consumer laws and regulations also affect the Bank's operations, such as the CRA, the Equal Credit Opportunity Act, the Truth in Lending Act, the Fair Housing Act, the Home Mortgage Disclosure Act, and the Real Estate Settlement Procedures Act. These laws primarily protect depositors and other customers of the Bank, rather than First California or its stockholders. The creation of the CFPB by Dodd-Frank is also likely to lead to enhanced and strengthened enforcement of consumer financial protection laws. On July 21, 2011, the CFPB assumed its authority to supervise and enforce existing consumer financial protection rules. On January 4, 2012, President Obama named Richard Cordray as the Director of the CFPB via recess appointment. On January 24, 2013, President Obama renominated Richard Cordray as the Director of the CFPB. The validity of Cordray's recess appointment may still be subject to challenge, creating uncertainty because the full authority to approve new consumer financial protection rules is vested in the director of the CFPB. Additionally, Dodd-Frank does not allow the CFPB to promulgate regulations until it has a director that has been confirmed by the Senate. At this time it is still unclear as to whether the recess appointment is sufficient to meet this statutory requirement. Accordingly, at this time the Company cannot fully assess the impact of the CFPB on its business.

Various requirements and restrictions under the laws of the State of California and the United States affect the operations of the Bank. State and federal statutes and regulations relate to many aspects of the Bank's operations, including standards for safety and soundness, reserves against deposits, interest rates payable on deposits and loans, investments, mergers and acquisitions, borrowings, dividends, locations of branch offices, fair lending requirements, CRA activities and loans to affiliates. Further, the Bank is required to maintain certain levels of capital.

Dividends and Capital Distributions

Dividends and capital distributions from the Bank constitute the principal source of cash to First California. As a result, First California's ability to pay dividends on its capital stock will depend primarily on the ability of the Bank to pay dividends to First California in amounts sufficient to service its obligations. The Bank is subject to various federal or state statutory and regulatory limitations on its ability to pay dividends and capital distributions to its shareholder, generally based on capital levels and current or retained earnings. The ability of the Bank to pay dividends is also subject to regulatory restrictions if paying dividends would impair its profitability, financial condition or other cash flow requirements.

The FRB has issued a policy statement with regard to the payment of cash dividends by bank holding companies. The policy statement provides that, as a matter of prudent banking, a bank holding company should not maintain a rate of cash dividends unless its net income available to common stockholders has been sufficient to fully fund the dividends, and the prospective rate of earnings retention appears to be consistent with the holding company's capital needs, asset quality and overall financial condition. Accordingly, a bank holding company should not pay cash dividends that exceed its net income or can only be funded in ways that weaken the bank holding company's financial health, such as by borrowing.

Under California law, banks may declare a cash dividend out of their net profits up to the lesser of retained earnings or the net income for the last three fiscal years (less any distributions made to shareholders during such period), or with the prior written approval of the DFI, in an amount not exceeding the greatest of (i) the retained earnings of the Bank, (ii) the net income of the Bank for its last fiscal year or (iii) the net income of the Bank for its current fiscal year. In addition, under federal law, banks are prohibited from paying any dividends if after making such payment they would fail to meet any of the minimum regulatory capital requirements. The federal regulators also have the authority to prohibit state banks from engaging in any business practices which are considered to be unsafe or unsound, and in some circumstances the regulators might prohibit the payment of dividends on that basis even though such payments would otherwise be permissible.

The Bank may from time to time be permitted to make additional capital distributions to its shareholder with the consent of the DFI. It is not anticipated that such consent could be obtained unless the distributing bank were to remain “well-capitalized” following such distribution.

Regulatory Capital Guidelines. Both the Company and the Bank are required to maintain certain levels of capital. The FRB and the FDIC have substantially similar risk-based capital ratio and leverage ratio guidelines for banking organizations. The current risk-based capital guidelines that apply to First California and the Bank, commonly referred to as Basel I, are based upon the 1988 capital accord of the International Basel Committee on Banking Supervision, or the Basel Committee, a committee of central banks and bank supervisors. The guidelines are intended to ensure that banking organizations have adequate capital given the risk levels of assets and off-balance sheet financial instruments.

Under the existing Basel I-based guidelines, the minimum ratio of total capital to risk-weighted assets (which are primarily the credit risk equivalents of balance sheet assets and certain off-balance sheet items such as standby letters of credit, but also include a nominal market risk equivalent balance related to foreign exchange and debt/equity trading activities) is eight percent, of which at least four percent must be composed of tier 1 capital. The FRB also has adopted a minimum leverage ratio for most bank holding companies, requiring tier 1 capital of at least four percent of average quarterly total consolidated assets, net of loan loss reserve, goodwill and certain other intangible assets. The federal banking regulators have also established risk-based and leverage capital guidelines that insured banks are required to meet. These regulations are generally similar to those established by the FRB for bank holding companies.

For purposes of calculating the ratios, a banking organization’s assets and some of its specified off-balance sheet commitments and obligations are assigned to various risk categories. A depository institution’s or holding company’s capital, in turn, is classified in one of three tiers, depending on type:

- Core Capital (Tier 1): Tier 1 capital includes common equity, retained earnings, qualifying non-cumulative perpetual preferred stock, a limited amount of qualifying cumulative perpetual stock at the holding company level, minority interests in equity accounts of consolidated subsidiaries, and qualifying trust preferred securities less goodwill, most intangible assets and certain other assets.

- Supplementary Capital (Tier 2): Tier 2 capital includes, among other things, perpetual preferred stock and trust preferred securities not meeting the Tier 1 definition, qualifying mandatory convertible debt securities, qualifying subordinated debt, and allowances for possible loan and lease losses, subject to limitations.

- Market Risk Capital (Tier 3): Tier 3 capital includes qualifying unsecured subordinated debt.

The following table sets forth the regulatory capital guidelines and the actual capitalization levels for the Bank and the Company as of December 31, 2012 and 2011:

	Actual		For Capital Adequacy Purposes		To be Well-Capitalized Under Prompt Corrective Action Provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(in thousands)			
December 31, 2012						
Total capital (to risk weighted assets)						
First California Financial Group, Inc.	$ 209,164	18.19%	$ 91,971	> 8.00%		
First California Bank	$ 208,901	18.16%	$ 92,025	> 8.00%	$ 115,031	> 10.00%

Tier I capital (to risk weighted assets)							
First California Financial Group, Inc.	$	194,746	16.94%	$	45,986	> 4.00%			
First California Bank	$	194,474	16.91%	$	46,013	> 4.00%	$	69,019	> 6.00%
Tier I capital (to average assets)									
First California Financial Group, Inc.	$	194,746	10.20%	$	76,396	> 4.00%			
First California Bank	$	194,474	10.18%	$	76,409	> 4.00%	$	95,512	> 5.00%

	Actual		For Capital Adequacy Purposes		To be Well-Capitalized Under Prompt Corrective Action Provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(in thousands)			
December 31, 2011						
Total capital (to risk weighted assets)						
First California Financial Group, Inc.	$ 194,694	17.32%	$ 89,924	> 8.00%		
First California Bank	$ 192,227	17.10%	$ 89,944	> 8.00%	$ 112,430	> 10.00%
Tier I capital (to risk weighted assets)						
First California Financial Group, Inc.	$ 180,597	16.07%	$ 44,962	> 4.00%		
First California Bank	$ 178,126	15.84%	$ 44,972	> 4.00%	$ 67,458	> 6.00%
Tier I capital (to average assets)						
First California Financial Group, Inc.	$ 180,597	10.33%	$ 69,906	> 4.00%		
First California Bank	$ 178,126	10.18%	$ 69,968	> 4.00%	$ 87,460	> 5.00%

We recognize that a strong capital position is vital to growth, continued profitability, and depositor and investor confidence. Our policy is to maintain sufficient capital at not less than the well-capitalized thresholds established by banking regulators.

The Basel Accords. The current risk-based capital guidelines which apply to First California and the Bank are based upon the 1988 capital accord of the Basel Committee. A new international accord, referred to as Basel II, became mandatory for large, internationally active banking organizations, known as “core” banking organizations, in 2008 (total assets of $250 billion or more or consolidated foreign exposures of $10 billion or more). Basel II emphasizes internal assessment of credit, market and operational risk, as well as supervisory assessment and market discipline in determining minimum capital requirements. It is optional for other banks, and if adopted, must first be complied with in a “parallel run” for two years along with the existing Basel I standards. In January 2009, the Basel Committee proposed to reconsider regulatory-capital standards, supervisory and risk-management requirements and additional disclosures to further strengthen the Basel II framework in response to recent worldwide developments. First California is not required to comply with Basel II and elected not to apply the Basel II requirements when they became effective.

On September 12, 2010, the Group of Governors and Heads of Supervision, the oversight body of the Basel Committee, announced agreement on the calibration and phase-in arrangements for a strengthened set of capital requirements, known as Basel III. Under these standards, when fully phased-in on January 1, 2019, banking institutions will be required to satisfy three risk-based capital ratios:

- A tier 1 common equity ratio of at least 7.0%, inclusive of 4.5% minimum tier 1 common equity ratio, net of regulatory deductions, and the new 2.5% “capital conservation buffer” of common equity to risk-weighted assets;

- A tier 1 capital ratio of at least 8.5%, inclusive of the 2.5% capital conservation buffer; and

- A total capital ratio of at least 10.5%, inclusive of the 2.5% capital conservation buffer.

The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a tier 1 common equity ratio above the minimum but below the conservation buffer may face constraints on dividends, equity repurchases and compensation based on the amount of such shortfall. The Basel Committee also announced a "countercyclical buffer" of 0% to 2.5% of common equity or other loss-absorbing capital "will be implemented according to national circumstances" as an "extension" of the conservation buffer during periods of excess credit growth.

Basel III introduces a non-risk adjusted tier 1 leverage ratio of 3%, based on a measure of total exposure rather than total assets and new liquidity standards.

The Basel Committee had initially planned for member nations to begin implementing the Basel III requirements by January 1, 2013, with full implementation by January 1, 2019. On November 9, 2012, U.S. regulators announced that implementation of Basel III's first requirements would be delayed until an undetermined future date. The regulators made no indication that any other future regulatory phase-in dates would be delayed.

In November 2010, Basel III was endorsed by the Seoul G20 Leaders Summit and will be subject to individual adoption by member nations, including the United States. On December 16, 2010, the Basel Committee issued text of the Basel III rules, which presents the details of global regulatory standards on bank capital adequacy and liquidity agreed to by the Basel Committee and endorsed by the Seoul G20 Leaders Summit. On June 7, 2012, the FRB, the FDIC, and the OCC published three notices of proposed rulemaking to implement Basel III. The proposed rules include two calculation methods: a standardized approach applicable to all depository institutions, bank holding companies with consolidated assets of $500 million or more, and savings and loan holding companies, and an advanced approach, generally applicable only to the largest, most internationally active banking organizations. If adopted by the federal banking agencies, the proposed rule could lead to significantly higher capital requirements and more restrictive leverage and liquidity ratios. As the proposed rule is not yet finalized, significant questions remain as to how the capital and liquidity mandates of Dodd-Frank will be integrated with the requirements of Basel III. First California cannot determine the ultimate effect the final rule or any additional potential legislation, if enacted, would have upon First California's or the Bank's earnings or financial position.

We note that Dodd-Frank also requires the establishment of more stringent prudential standards by requiring the federal banking agencies to adopt capital and liquidity requirements which address the risks that the activities of an institution pose to the institution and the public and private stakeholders, including risks arising from certain enumerated activities. In particular, Dodd-Frank excludes trust preferred securities issued on or after May 19, 2010 from Tier 1 capital. For depository institution holding companies with total consolidated assets of more than $15 billion at December 31, 2009, trust preferred securities issued before May 19, 2010 will be phased-out of Tier 1 capital over a three-year period.

Prompt Corrective Action and Other General Enforcement Authority. The Federal Deposit Insurance Corporation Improvement Act, or FDICIA, requires each federal banking agency to take prompt corrective action to resolve the problems of insured depository institutions, including undercapitalization. Each federal banking agency has issued regulations defining five capital categories: “well- capitalized,” “adequately capitalized,” “undercapitalized,” “significantly undercapitalized,” and “critically undercapitalized.” Under the regulations, a bank is deemed to be:

- “well-capitalized” if it has a total risk-based capital ratio of 10.0% or more, has a Tier 1 risk-based capital ratio of 6.0% or more, has a leverage capital ratio of 5.0% or more, and is not subject to specified requirements to meet and maintain a specific capital level for any capital measure;

- “adequately capitalized” if it has a total risk-based capital ratio of 8.0% or more, a Tier 1 risk-based capital ratio of 4.0% or more, and a leverage capital ratio of 4.0% or more (3.0% under certain circumstances) and does not meet the definition of “well capitalized”;

- “undercapitalized” if it has a total risk-based capital ratio that is less than 8.0%, a Tier 1 risk-based capital ratio that is less than 4.0%, or a leverage capital ratio that is less than 4.0% (3.0% under certain circumstances);

- “significantly undercapitalized” if it has a total risk-based capital ratio that is less than 6.0%, a Tier 1 risk-based capital ratio that is less than 3.0% or a leverage capital ratio that is less than 3.0%; and

- “critically undercapitalized” if it has a ratio of tangible equity to total assets that is equal to or less than 2.0%.

Banks are prohibited from paying dividends or management fees to controlling persons or entities if, after making the payment, the bank would be “undercapitalized,” that is, the bank fails to meet the required minimum level for any relevant capital measure. Asset growth and branching restrictions apply to “undercapitalized” banks. Banks classified as “undercapitalized” are required to submit acceptable capital plans guaranteed by their holding companies, if any. Broad regulatory authority was granted with respect to “significantly undercapitalized” banks, including forced mergers, growth restrictions, ordering new elections for directors, forcing divestiture by its holding company, if any, requiring management changes, and prohibiting the payment of bonuses to senior management. Even more severe restrictions are applicable to “critically undercapitalized” banks, those with capital at or less than 2%. Restrictions for these banks include the appointment of a receiver or conservator. All of the federal banking agencies have promulgated substantially similar regulations to implement this system of prompt corrective action.

A bank, based upon its capital levels, that is classified as “well capitalized,” “adequately capitalized” or “undercapitalized” may be treated as though it were in the next lower capital category if the appropriate federal banking agency, after notice and opportunity for a hearing, determines that an unsafe or unsound condition, or an unsafe or unsound practice, warrants such treatment. At each successive lower capital category, an insured bank is subject to more restrictions. The federal banking agencies, however, may not treat an institution as “critically undercapitalized” unless its capital ratios actually warrant such treatment.

In addition to measures taken under the prompt corrective action provisions, insured banks and bank holding companies may be subject to potential enforcement actions by the federal banking agencies for unsafe or unsound

practices in conducting their businesses or for violations of any law, rule, regulation or any condition imposed in writing by the agency or any written agreement with the agency. Enforcement actions may include the imposition of a conservator or receiver, the issuance of a cease-and-desist order that can be judicially enforced, the termination of insurance of deposits (in the case of a depository institution), the imposition of civil money penalties, the issuance of directives to increase capital, the issuance of formal and informal agreements, the issuance of removal and prohibition orders against institution-affiliated parties. The enforcement of such actions through injunctions or restraining orders may be based upon a judicial determination that the agency would be harmed if such equitable relief was not granted.

The DFI, as the primary regulator for California state-chartered banks, also has a broad range of enforcement measures, from cease and desist powers and the imposition of monetary penalties to the ability to take possession of a bank, including causing its liquidation.

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

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

Transactions with Affiliates. Under Sections 23A and 23B of the Federal Reserve Act and the FRB's Regulation W, loans by the Bank to affiliates, investments by them in affiliates' stock, and taking affiliates' stock as collateral for loans to any borrower is limited to 10% of the Bank's capital, in the case of any one affiliate, and is limited to 20% of the Bank's capital, in the case of all affiliates. The Bank's holding company and any subsidiaries it may purchase or organize are generally deemed to be affiliates of the Bank within the meaning of Section 23A and 23B and Regulation W. In addition, transactions between the Bank and other affiliates must be on terms and conditions that are consistent with safe and sound banking practices; in particular, a bank and its subsidiaries generally may not purchase from an affiliate a low-quality asset, as defined in the Federal Reserve Act. These restrictions also prevent a bank holding company and its other affiliates from borrowing from a banking subsidiary of the bank holding company unless the loans are secured by marketable collateral of designated amounts. The Company or its successors and the Bank are also subject to certain restrictions with respect to engaging in the underwriting, public sale and distribution of securities.

Dodd-Frank generally enhances the restrictions on transactions with affiliates under Section 23A and 23B, including an expansion of the definition of "covered transactions" to include credit exposures related to derivatives, repurchase agreements and securities lending arrangements, and an increase in the amount of time for which collateral requirements regarding covered credit transactions must be satisfied. The definition of "affiliate" was expanded to include any investment fund to which First California or an affiliate serves as an investment adviser. The ability of the FRB to grant exemptions from these restrictions was also narrowed, including by requiring coordination with other bank regulators.

Loans to Insiders. Extensions of credit by the Bank to insiders of both the Bank and First California are subject to prohibitions and other restrictions imposed by federal regulations. For purposes of these limits, "insiders" include directors, executive officers and principal shareholders of the Bank or First California and their related interests. The term "related interest" means a company controlled by a director, executive officer or principal shareholder of the Bank or First California. The Bank may not extend credit to an insider of the Bank or First California unless the loan is made on substantially the same terms as, and subject to credit underwriting procedures that are no less stringent than, those prevailing at the time for comparable transactions with non-insiders. Under federal banking regulations, the Bank may not extend a loan to insiders in an amount greater than $500,000 without prior board approval (with any interested person abstaining from participating directly or indirectly in the voting). The federal regulations place

additional restrictions on loans to executive officers, and generally prohibit loans to executive officers other than for certain specified purposes. The Bank is required to maintain records regarding insiders and extensions of credit to them.

Dodd-Frank generally enhances the restrictions on extensions of credit to insiders, including an expansion of the definition of extension of credit to include credit exposures related to derivatives, repurchase agreements and securities lending arrangements, as well as new limitations on the purchase of assets from insiders.

Federal Deposit Insurance. The FDIC insures our customer deposits through the Deposit Insurance Fund, or the DIF, up to prescribed limits for each depositor. Pursuant to the EESA, the basic limit on federal deposit insurance coverage was temporarily raised from $100,000 to $250,000 per depositor. Dodd-Frank made the $250,000 deposit insurance limit permanent. The federal banking agencies also issued final rules implementing the Dodd-Frank repeal of the prohibition on paying interest on demand deposits. Further, as required under Section 343 of Dodd-Frank, the FDIC has adopted a final rule that provides temporary unlimited deposit insurance coverage for non-interest-bearing transaction accounts. As mandated by Dodd-Frank, the FDIC will fully insure the amounts in non-interest-bearing transaction accounts without limits from December 31, 2010 through December 31, 2012. The unlimited coverage would be separate from, and in addition to, the coverage provided to depositors with other accounts held at an institution. Beginning January 1, 2013, the unlimited coverage ceased and these accounts are now insured under the FDIC's general deposit insurance coverage rules.

Dodd-Frank changes the deposit insurance assessment framework, primarily by basing assessments on an institution's total assets less tangible equity (subject to risk-based adjustments that would further reduce the assessment base for custodial banks) rather than domestic deposits, which is expected to shift a greater portion of the aggregate assessments to large banks. Dodd-Frank also increases the minimum designated reserve ratio of the DIF from 1.15% to 1.35% of the estimated amount of total insured deposits by September 30, 2020, eliminates the upper limit for the reserve ratio designated by the FDIC each year, and eliminates the requirement that the FDIC pay dividends to depository institutions when the reserve ratio exceeds certain thresholds.

On December 14, 2010, the FDIC raised the minimum designated reserve ratio of the DIF to 2%. The ratio is higher than the minimum reserve ratio of 1.35% as set by Dodd-Frank.

On February 7, 2011, the FDIC approved a final rule on Assessments, Dividends, Assessment Base and Large Bank Pricing. The final rule, mandated by Dodd-Frank, changes the deposit insurance assessment system from one that is based on domestic deposits to one that is based on average consolidated total assets minus average tangible equity. Because the new assessment base under Dodd-Frank is larger than the current assessment base, the final rule's assessment rates are lower than the current rates, which achieves the FDIC's goal of not significantly altering the total amount of revenue collected from the industry. In addition, the final rule adopts a "scorecard" assessment scheme for larger banks and suspends dividend payments if the DIF reserve ratio exceeds 1.5 % but provides for decreasing assessment rates when the DIF reserve ratio reaches certain thresholds. The final rule further reduces the assessment base for custodial banks by the daily or weekly average of a certain amount of low-risk assets (i.e., assets with a Basel risk weighting of 0%, regardless of maturity, plus 50% of assets with a Basel risk weighting of 20%, again regardless of maturity) subject to the limitation that the daily or weekly average value of these assets cannot exceed the daily or weekly average value of those deposits classified as transaction accounts and identified by the institution as being directly linked to a fiduciary or custodial and safekeeping account. The final rule identifies custodial banks as insured depository institutions with previous calendar year-end trust assets (i.e., fiduciary and custody and safekeeping assets) of at least $50 billion or those insured depository institutions that derived more than 50% of their revenue (interest income plus non-interest income) from trust activity over the previous calendar year. The final rule took effect for the quarter beginning April 1, 2011, and was reflected in the invoices for assessments due September 30, 2011.

Continued action by the FDIC to replenish the DIF, as well as the changes in Dodd-Frank, are likely to result in higher assessment rates, which would reduce the profitability of the Bank.

In addition to its insurance assessment, each insured bank was subject in 2012 to quarterly debt service assessments in connection with bonds issued by a government corporation that financed the federal savings and loan bailout. The debt service assessment rate for each quarter in 2012 was .00660%.

Money Laundering, Currency Controls and Economic Sanctions. Various federal statutory and regulatory provisions are designed to enhance record-keeping and reporting of currency and foreign transactions. Pursuant to the Bank Secrecy Act, financial institutions must report high levels of currency transactions or face the imposition of civil monetary penalties for reporting violations. The Money Laundering Control Act imposes sanctions, including revocation of federal deposit insurance, for institutions convicted of money laundering.

On October 26, 2001, the President signed into law comprehensive anti-terrorism legislation, the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, known as the Patriot Act. The Patriot Act was designed to deny terrorists and others the ability to obtain access to the United States financial system, and has significant implications for depository institutions and other businesses involved in the transfer of money. The International Money Laundering Abatement and Financial Anti-Terrorism Act of 2001, or the IMLAFATA, a part of the USA Patriot Act, authorizes the Secretary of the Treasury, in consultation with the heads of other government agencies, to adopt special measures applicable to banks and other financial institutions to enhance record-keeping and reporting requirements for certain financial transactions that are of primary

money laundering concern. Among its other provisions, IMLAFATA requires each financial institution to: (i) establish an anti-money laundering program, which includes a customer identification program designed to verify the identity of persons opening new accounts; (ii) establish due diligence policies, procedures and controls with respect to its private banking accounts and correspondent banking accounts involving individuals and certain foreign banks; and (iii) avoid establishing, maintaining, administering, or managing correspondent accounts in the United States for, or on behalf of, a foreign bank that does not have a physical presence in any country. The Patriot Act and its underlying regulations also permit information sharing for counter-terrorist purposes between federal law enforcement agencies and financial institutions, as well as among financial institutions, subject to certain conditions.

Bank regulators routinely examine institutions for compliance with these obligations and have imposed "cease and desist" orders and civil money penalties against institutions found to be violating these obligations. Additionally, the FRB and other federal banking agencies consider an institution's compliance in connection with applications filed under Section 3 of the BHCA or the Bank Merger Act. The Bank has adopted comprehensive policies and procedures to address the requirements of the Patriot Act. The Bank believes that the ongoing cost of compliance with the Patriot Act is not likely to be material to the Bank.

The U.S. Department of the Treasury's Office of Foreign Assets Control, or OFAC, is responsible for requiring that U.S. entities do not engage in transactions with certain prohibited parties, as defined by various Executive Orders and Acts of Congress. OFAC publishes lists of persons, organizations and countries suspected of aiding, harboring or engaging in terrorist acts, known as Specially Designated Nationals and Blocked Persons. If First California and the Bank finds a name on any transaction, account or wire transfer that is on an OFAC list, First California or the Bank must freeze or block such account or transaction, file a report of blocked or rejected transaction and notify OFAC.

Community Reinvestment Act. The Bank is subject to the CRA. The CRA is intended to encourage insured depository institutions, while operating safely and soundly, to help meet the credit needs of their communities. The CRA specifically directs the federal bank regulatory agencies, in examining insured depository institutions, to assess their record of helping to meet the credit needs of their entire community, including low-and moderate-income neighborhoods, consistent with safe and sound banking practices. The CRA further requires the agencies to take a financial institution's record of meeting its community credit needs into account when evaluating applications for, among other things, domestic branches, consummating mergers or acquisitions, or holding company formations. The Bank's compliance with the CRA is reviewed and evaluated by the FDIC, which assigns the Bank a publicly available CRA rating at the conclusion of the examination.

The federal banking agencies have adopted regulations which measure a bank's compliance with its CRA obligations on a performance-based evaluation system. This system bases CRA ratings on an institution's actual lending service and investment performance rather than the extent to which the institution conducts needs assessments, documents community outreach or complies with other procedural requirements. In connection with its assessment of CRA performance, the FDIC assigns a rating of "outstanding", "satisfactory", "needs to improve" or "substantial noncompliance" Failure of an institution to receive at least a "Satisfactory" rating could inhibit such institution or its holding company from undertaking certain activities, including acquisitions.

The Bank had a CRA rating of "Satisfactory" as of its most recent regulatory examination.

Interstate Banking and Branching. National banks and state banks with different home states are permitted to merge across state lines, with the approval of the appropriate federal banking agency, unless the home state of a participating banking institution passed legislation prior to June 1, 1997 that expressly prohibits interstate mergers. Following certain amendments from Dodd-Frank that took effect in 2012, federal law permits such interstate bank merger transactions where each bank is adequately capitalized as of the date of the application, provided that the resulting bank will be well capitalized and well managed upon consummation of the transaction. Federal law previously permitted such mergers provided that the resulting bank continues to be adequately capitalized and adequately managed. Further, under federal law a well-capitalized and well managed bank holding company may, with FRB approval, acquire banking institutions located in states other than the bank holding company's home state without regard to whether the transaction is prohibited under state law. Dodd-Frank permits a national bank or a state bank, with the approval of its regulator, to open a branch in any state if the law of the state in which the branch is to be located would permit the establishment of the branch if the bank were a bank chartered in that state.

Sarbanes-Oxley Act. On July 30, 2002, the President signed into law the Sarbanes-Oxley Act of 2002. The Sarbanes-Oxley Act aims to restore the credibility lost as a result of high profile corporate scandals by addressing, among other issues, corporate governance, auditing and accounting, executive compensation and enhanced and timely

disclosure of corporate information. The NASDAQ Stock Market has adopted corporate governance rules intended to allow shareholders to more easily and effectively monitor the performance of companies and directors. The principal provisions of the Sarbanes-Oxley Act, many of which have been interpreted through regulations released in 2003, provide for and include, among other things: (i) the creation of the Public Company Accounting Oversight Board; (ii) auditor independence provisions that restrict non-audit services that accountants may provide to their audit clients; (iii) additional corporate governance and responsibility measures, including the requirement that the chief executive officer and chief financial officer of a public company certify financial statements; (iv) the forfeiture of bonuses or other incentive-based compensation and profits from the sale of an issuer's securities by directors and senior officers in the twelve month period following initial publication of any financial statements that later require restatement; (v) an increase in the oversight of, and enhancement of certain requirements relating to, audit committees of public companies and how they interact with that company's independent auditors; (vi) requirements that audit committee members must be independent and are barred from accepting consulting, advisory or other compensatory fees from the issuer; (vii) requirements that companies disclose whether at least one member of the audit committee is a "financial expert" as such term is defined by the SEC, and if not disclosed, why the audit committee does not have a financial expert; (viii) expanded disclosure requirements for corporate insiders, including accelerated reporting of stock transactions by insiders and a prohibition on insider trading during pension blackout periods; (ix) a prohibition on personal loans to directors and officers, except certain loans made by insured financial institutions on non-preferential terms and in compliance with other bank regulatory requirements; (x) disclosure of a code of ethics and filing a Form 8-K for a change or waiver of such code; (xi) a range of enhanced penalties for fraud and other violations; and (xii) expanded disclosure and certification relating to an issuer's disclosure controls and procedures and internal controls over financial reporting.

As a result of the Sarbanes-Oxley Act, and its implementing regulations, we have incurred substantial costs to interpret and ensure compliance with the law and its regulations. Future changes in the laws, regulation, or policies that impact us cannot necessarily be predicted and may have a material effect on our business and earnings.

Environmental Regulation. Federal, state and local laws and regulations regarding the discharge of harmful materials into the environment may have an impact on the Bank. Since the Bank is not involved in any business that manufactures, uses or transports chemicals, waste, pollutants or toxins that might have a material adverse effect on the environment, the Bank's primary exposure to environmental laws is through its lending activities and through properties or businesses the Bank may own, lease or acquire. Based on a general survey of the Bank's loan portfolio, conversations with local appraisers and the type of lending currently and historically done by the Bank, management is not aware of any potential liability for hazardous waste contamination that would be reasonably likely to have a material adverse effect on the Company or its successors as of the date of this report.

Safeguarding of Customer Information and Privacy. In 1970, the Federal Fair Credit Reporting Act, or the FCRA, was enacted to insure the confidentiality, accuracy, relevancy and proper utilization of consumer credit report information. The FCRA affirmatively preempts state law in a number of areas, including the ability of entities affiliated by common ownership to share and exchange information freely, and the requirements on credit bureaus to reinvestigate the contents of reports in response to consumer complaints, among others.

The Fair and Accurate Credit Transaction Act, or the FACT Act, became law in 2003, effectively extending and amending provisions of the FCRA. The FACT Act created many new responsibilities for consumer reporting agencies and users of consumer reports. It contains many new consumer disclosure requirements as well as provisions to address identity theft.

The FRB and other bank regulatory agencies have adopted guidelines for safeguarding confidential, personal customer information. These guidelines require financial institutions to create, implement and maintain a comprehensive written information security program designed to ensure the security and confidentiality of customer information, protect against any anticipated threats or hazard to the security or integrity of such information and protect against unauthorized access to or use of such information that could result in substantial harm or inconvenience to any customer. The Bank has adopted a customer information security program to comply with such requirements.

Federal banking rules also limit the ability of banks and other financial institutions to disclose non-public information about consumers. Pursuant to these rules, financial institutions must provide: (i) initial notices to customers about their privacy policies, describing the conditions under which they may disclose nonpublic personal information to nonaffiliated third parties and affiliates; (ii) annual notices of their privacy policies to current customers; and (iii) a reasonable method for customers to "opt out" of disclosures to nonaffiliated third parties. These privacy provisions affect how consumer information is transmitted through diversified financial companies and conveyed to outside vendors. We have implemented our privacy policies in accordance with the law.

In recent years, a number of states have implemented their own versions of privacy laws. For example, in 2003, California adopted standards that are more restrictive than federal law, allowing bank customers the opportunity to bar financial companies from sharing information with their affiliates. More specifically, the California Financial Information Privacy Act requires a financial institution to provide specific information to a consumer related to the sharing of that consumer's nonpublic personal information. The Act allows a consumer to direct the financial institution not to share his or her nonpublic personal information with affiliated or nonaffiliated companies with which a financial institution has contracted to provide financial products and services, and requires that permission from each such consumer be acquired by a financial institution prior to sharing such information.

Other Aspects of Banking Law. The Bank is also subject to federal statutory and regulatory provisions covering, among other things, security procedures, insider and affiliated party transactions, management interlocks, electronic

funds transfers, funds availability, and truth-in-savings. There are also a variety of federal statutes which regulate acquisitions of control and the formation of bank holding companies.

Impact of Monetary Policies

Banking is a business that depends on rate differentials. In general, the difference between the interest rate paid by a bank on its deposits and its other borrowings and the interest rate earned on its loans, securities and other interest-earning assets comprises the major source of a Bank's earnings. These rates are highly sensitive to many factors which are beyond the Bank's control and, accordingly, the earnings and growth of the Bank are subject to the influence of economic conditions generally, both domestic and foreign, including inflation, recession, and unemployment; and also to the influence of monetary and fiscal policies of the United States and its agencies, particularly the FRB. The FRB implements national monetary policy, such as seeking to curb inflation and combat recession, by:

- Open-market dealings in United States government securities;
- Adjusting the required level of reserves for financial institutions subject to reserve requirements; and
- Adjusting the discount rate applicable to borrowings by banks which are members of the Federal Reserve System.

The actions of the FRB in these areas influence the growth of bank loans, investments, and deposits and also affect interest rates. The nature and timing of any future changes in the FRB's policies and their impact on the Company and its successors and the Bank cannot be predicted; however, depending on the degree to which our interest-earning assets and interest-bearing liabilities are rate sensitive, increases in rates would have a temporary effect of increasing our net interest margin, while decreases in interest rates would have the opposite effect. In addition, adverse economic conditions could make a higher provision for loan losses a prudent course and could cause higher loan charge-offs, thus adversely affecting our net income or other operating costs.

Available Information

We maintain an Internet website at www.fcalgroup.com, and a website for First California Bank at www.fcbank.com. At www.fcalgroup.com and via the "Investor Relations" link at the Bank's website, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to such reports filed or furnished pursuant to Section 13 or 15(d) of the Exchange Act are available, free of charge, as soon as reasonably practicable after such forms are electronically filed with, or furnished to, the SEC. The public may read and copy any materials we file with the SEC at the SEC's Public Reference Room, located at 100 F Street, NE, Washington, D.C. 20549 on official business days during the hours of 10:00 a.m. to 3:00 p.m. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet site at www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. You may obtain copies of the Company's filings on the SEC site. These documents may also be obtained in print upon request by our shareholders to our Investor Relations Department.

You may contact our Investor Relations Department at First California Financial Group, Inc., 3027 Townsgate Road, Suite 300, Westlake Village, California 91361, telephone number (805) 322-9655.

(All website addresses given in this document are for information only and are not intended to be an active link or to incorporate any website information into this document.)

We have adopted a written code of ethics that applies to all directors, officers and employees of the Company, including our principal executive officer and senior financial officers, in accordance with Section 406 of the Sarbanes-Oxley Act of 2002 and the rules of the SEC promulgated thereunder. The code of ethics is available on our website at www.fcalgroup.com and also upon request, at no charge. Requests for copies should be directed to: Investor Relations Department, 3027 Townsgate Road, Suite 300, Westlake Village, California 91361, telephone

number (805) 322-9655. In the Corporate Governance section of our corporate website we have also posted the charters for our Audit Committee, Compensation Committee and Governance and Nominating Committee.

Item 1A. Risk Factors

Ownership of our common stock involves risks. You should carefully consider the risks described below in addition to the other information set forth herein. Events or circumstances arising from one or more of these risks could adversely affect our business, financial condition, operating results, cash flows and prospects, and the value and market price of our securities could decline. The risks identified below are not intended to be a comprehensive list of all risks we face and additional risks that we may currently view as not material may also impair our business operations and results. Unless otherwise specified, references to "we," "our" and "us" in this subsection mean First California and its subsidiaries.

Risks Related to Our Pending Merger with PacWest

Because the market price of PacWest common stock will fluctuate, the value of the merger consideration to be received by First California stockholders in the PacWest Merger may change.

Upon completion of the PacWest Merger, each share of First California common stock will be converted into merger consideration consisting of a fraction of a share of PacWest common stock. Pursuant to the terms of the Merger Agreement, the Exchange Ratio will adjust based on changes in the price of shares of PacWest common stock when the Average PacWest Common Stock Price is between $20.00 and $27.00. In such case, the Exchange Ratio will be calculated by dividing $8.00 by the Average PacWest Common Stock Price. In the event that the Average PacWest Common Stock Price is greater than or equal to $27.00, the Exchange Ratio will be 0.2963. In the event that the Average PacWest Common Stock Price is less than or equal to $20.00, the Exchange Ratio will be 0.4000. The Exchange Ratio will not be adjusted for changes in the market price of First California common stock prior to the closing of the PacWest Merger. Accordingly, any change in the market price of PacWest common stock prior to completion of the PacWest Merger may affect the value of the merger consideration that First California stockholders receive upon completion of the PacWest Merger. Stock price changes may result from a variety of factors, including general market and economic conditions, changes in the respective businesses, operations and prospects of First California and PacWest, and regulatory considerations, among other things. Many of these factors are beyond the control of PacWest and First California.

First California stockholders will have a reduced ownership and voting interest after the PacWest Merger and will exercise less influence over management.

First California stockholders currently have the right to vote in the election of the board of directors of First California and on other matters affecting First California. Upon the completion of the PacWest Merger, each First California stockholder who receives shares of PacWest common stock will become a stockholder of PacWest with a percentage ownership of PacWest that is smaller than such stockholder's percentage ownership of First California. It is currently expected that the former stockholders of First California as a group will receive shares in the PacWest Merger constituting between approximately 19 percent and 21 percent of the outstanding shares of PacWest common stock immediately after the PacWest Merger. Because of this, First California stockholders may have less influence on the management and policies of PacWest than they now have on the management and policies of First California.

Regulatory approvals may not be received, may take longer than expected or may impose conditions that are not presently anticipated or cannot be met.

Before the transactions contemplated in the Merger Agreement, including the PacWest Merger and the merger of the Bank with and into Pacific Western Bank, may be completed, various approvals must be obtained from the bank regulatory and other governmental authorities. These governmental entities may impose conditions on the granting of such approvals. Such conditions or changes and the process of obtaining regulatory approvals could have the effect of

delaying completion of the PacWest Merger or of imposing additional costs or limitations on PacWest following the PacWest Merger. The regulatory approvals may not be received at any time, may not be received in a timely fashion, and may contain conditions on the completion of the PacWest Merger that are not anticipated or cannot be met.

Termination of the Merger Agreement could negatively impact us.

Our business may have been adversely impacted by the failure to pursue other beneficial opportunities due to the focus of management on the PacWest Merger, without realizing any of the anticipated benefits of completing the PacWest Merger, and the market price of our common stock might decline to the extent that the current market price reflects a market assumption that the PacWest Merger will be completed. If the Merger Agreement is terminated and our board of directors seeks another merger or business combination, First California stockholders cannot be certain that First California will be able to find a party willing to offer equivalent or more attractive consideration than the consideration PacWest has agreed to provide in the PacWest Merger. If the Merger Agreement is terminated under certain circumstances, we may be required to pay a termination fee of $10 million to PacWest.

We will be subject to business uncertainties and contractual restrictions while the PacWest Merger is pending.

Uncertainty about the effect of the PacWest Merger on employees and customers may have an adverse effect on us. These uncertainties may impair our ability to attract, retain and motivate key personnel until the PacWest Merger is completed, and could cause customers and others that deal with First California to seek to change existing business relationships with us. Retention of certain employees may be challenging during the pendency of the PacWest Merger, as certain employees may experience uncertainty about their future roles. In addition, the Merger Agreement restricts us from taking certain specified actions until the PacWest Merger occurs without the consent of PacWest. These restrictions may prevent us from pursuing attractive business opportunities that may arise prior to the completion of the PacWest Merger.

Our directors and officers may have interests in the PacWest Merger different from the interests of other First California stockholders.

The interests of some of our directors and executive officers may be different from those of other First California stockholders, and our directors and officers may be participants in arrangements that are different from, or are in addition to, those of other First California stockholders. First California's executive officers will be eligible, upon a qualifying termination of employment, to: receive severance payments under their respective change in control agreements (or, in the case of Mr. Kum, under his employment agreement); for Messrs. Kum and Santarosa, receive payments over a period of years (17 years for Mr. Kum and 15 years for Mr. Santarosa) under each such individual's salary continuation agreement; and, for Messrs. Kum and Santarosa, designate a beneficiary under the executive’s split dollar life insurance agreement prior to having achieved a retirement age. In addition, each of First California's executive officers and directors hold equity awards, the treatment of which is described above under “Business – Proposed Merger with PacWest.” Upon completion of the PacWest Merger, two individuals designated by the board of directors of First California will join the board of directors of PacWest. The designated individuals must be approved by the Compensation, Nominating and Governance Committee of the board of directors of PacWest. All of the First California directors who meet the independence requirements under NASDAQ rules are eligible to be designated to join the PacWest board of directors.

The Merger Agreement contains provisions that may discourage other companies from trying to acquire us for greater merger consideration.

The Merger Agreement contains provisions that may discourage a third party from submitting a business combination proposal to us that might result in greater value to our stockholders than the PacWest Merger. These provisions include a general prohibition on First California from soliciting, or, subject to certain exceptions, entering into discussions with any third party regarding any acquisition proposal or offers for competing transactions. The members of our board of directors and the holders of our Series A Preferred Stock have entered into voting and support agreements and have agreed to vote their shares of our common stock in favor of the adoption of the Merger Agreement, and against any alternative transaction. We also have an unqualified obligation to submit the adoption of the Merger Agreement to a vote by our stockholders, even if we receive a proposal that our board of directors believes is superior to the PacWest Merger. The stockholders that are party to the voting and support agreements described in this paragraph beneficially own in the aggregate approximately 22 percent of the outstanding shares of our common stock (including shares of our common stock issuable upon conversion of our Series A Preferred Stock). In addition, we may be required to pay PacWest a termination fee of $10 million in certain circumstances involving acquisition proposals for competing transactions.

In connection with the announcement of the Merger Agreement, one lawsuit has been filed and is pending, seeking, among other things, to enjoin the PacWest Merger, and an adverse judgment in this lawsuit may prevent the PacWest

Merger from becoming effective within the expected timeframe (if at all).

On November 20, 2012, a purported stockholder of First California filed a lawsuit in connection with the PacWest Merger. Captioned Paul Githens v. C.G. Kum, et al., Case No. BC496018, the suit was filed in the Superior Court of the State of California, Los Angeles County, against First California, its directors, and PacWest. It is brought as a putative class action and alleges that our directors breached certain alleged fiduciary duties to our stockholders by approving the Merger Agreement pursuant to an allegedly unfair process and at an allegedly unfair price. It alleges that PacWest aided and abetted those breaches. The suit seeks, among other things, to enjoin consummation of the PacWest Merger. On January 24, 2013, the plaintiff filed an amended complaint, adding claims that the defendants failed to disclose material information in connection with the PacWest Merger. On March 4, 2013, the court sustained the defendants' demurrers to the plaintiff's complaint with leave to amend. A hearing on the plaintiff's motion for a preliminary injunction is currently scheduled for March 19, 2013. At this stage, it is not possible to predict the outcome of the proceedings and their impact on First California or PacWest. If the plaintiff is successful in enjoining the consummation of the PacWest Merger, the lawsuit may prevent the PacWest Merger from becoming effective within the expected timeframe (if it is completed at all).

Risks Related to Our Business

Our business has been and may continue to be adversely affected by current conditions in the financial markets and economic conditions generally.

The global, U.S. and California economies are experiencing significantly reduced business activity and consumer spending as a result of, among other factors, high levels of unemployment and foreclosures. A continued weakness or weakening in business and economic conditions generally or specifically in the principal markets in which we do business could have one or more of the following adverse effects on our business:

- a decrease in the demand for loans or other products and services offered by us;
- a decrease in the value of our loans or other assets secured by consumer or commercial real estate;
- a decrease to deposit balances due to overall reductions in the accounts of customers;
- an impairment of certain intangible assets or investment securities;
- a decreased ability to raise additional capital on terms acceptable to us or at all; or
- an increase in the number of borrowers who become delinquent, file for protection under bankruptcy laws or default on their loans or other obligations to us. An increase in the number of delinquencies, bankruptcies or defaults could result in a higher level of nonperforming assets, net charge-offs and provision for credit losses, which would reduce our earnings

Until conditions improve, we expect our business, financial condition and results of operations may be adversely affected by these factors.

Recent and future legislation and regulatory initiatives to address current market and economic conditions may not achieve their intended objectives, including stabilizing the U.S. banking system or reviving the overall economy.

Recent and future legislative and regulatory initiatives to address current market and economic conditions, such as Dodd-Frank, EESA or the ARRA, may not achieve their intended objectives, including stabilizing the U.S. banking system or reviving the overall economy. Treasury and banking regulators have implemented, and likely will continue to implement, various other programs to address capital and liquidity issues in the banking system. There can be no assurance as to the actual impact that any of the recent, or future, legislative and regulatory initiatives will have on the financial markets and the overall economy. Any failure of these initiatives to help stabilize or improve the financial markets and the economy, and a continuation or worsening of current financial market and economic conditions could materially and adversely affect our business, financial condition, results of operations, access to credit or the trading price of our common stock. In addition, many aspects of Dodd-Frank are subject to rulemaking and will take effect over several years, making it difficult to anticipate the overall financial impact on us and the financial services industry more generally.

Current levels of market volatility are unprecedented.

The capital and credit markets have been experiencing volatility and disruption for several years. In some cases, the markets have produced downward pressure on stock prices and credit availability for certain issuers without regard to those issuers' underlying financial strength. If current levels of market disruption and volatility continue or worsen, there can be no assurance that we will not experience an adverse effect, which may be material, on our ability to

access capital and on our business, financial condition and results of operations.

Additional requirements under our regulatory framework, especially those imposed under Dodd-Frank, ARRA, EESA or other legislation intended to strengthen the U.S. financial system, could adversely affect us.

Recent government efforts to strengthen the U.S. financial system, including the implementation of Dodd-Frank, ARRA, EESA, the TLGP and special assessments imposed by the FDIC, subject participants to additional regulatory fees and requirements, including heightened compliance requirements, corporate governance requirements, executive compensation restrictions, restrictions on declaring or paying dividends, restrictions on share repurchases, limits on executive compensation tax deductions and prohibitions against golden parachute payments. These requirements, and any other requirements that may be subsequently imposed, may have a material and adverse effect on our business, financial condition, and results of operations.

Our growth presents certain risks, including a possible decline in credit quality or capital adequacy.

While we believe we have maintained good credit quality notwithstanding our growth, rapid growth is frequently associated with a decline in credit quality. Accordingly, continued asset growth could lead to a decline in credit quality in the future. In addition, continued asset growth could cause a decline in capital adequacy for regulatory purposes, which could in turn cause us to have to raise additional capital in the future to maintain or regain “well-capitalized” status as defined under applicable banking regulations.

We may be subject to more stringent capital requirements.

Dodd-Frank requires federal banking agencies to establish minimum leverage and risk-based capital requirements that will apply to both insured banks and their holding companies. The federal banking agencies are in the process of developing regulations to implement these requirements, as well as the Basel III requirements. Implementation of these standards, or any other new regulations, including Basel III, may adversely affect our ability to pay dividends, or require us to reduce business levels or raise capital, including in ways that may adversely affect our results of operations of financial condition.

Our performance and growth are dependent on maintaining a high quality of service for our customers, and will be impaired by a decline in our quality of service.

Our growth will be dependent on maintaining a high quality of service for our customers which may become increasingly difficult to maintain if we were to grow rapidly. This could cause a decline in our performance and growth with respect to net income, deposits, assets and other benchmarks.

The fair value of our investment securities can fluctuate due to market conditions out of our control.

Our investment securities portfolio is comprised mainly of U.S. treasury notes/bills, U.S. government agency notes, U.S. government agency mortgage-backed securities and U.S. government agency collateralized mortgage obligations. At December 31, 2012, gross unrealized losses on our investment portfolio were $0.6 million. We own one pooled trust preferred security, rated triple-A at purchase, with an amortized cost basis of $4.4 million and an unrealized loss of $1.6 million at December 31, 2012. This unrealized loss is primarily caused by a severe disruption in the market for these securities.

Factors beyond our control can significantly influence the fair value of securities in our portfolio and can cause potential adverse changes to the fair value of these securities. These factors include but are not limited to rating agency downgrades of the securities, defaults by the issuer or with respect to the underlying securities, changes in market interest rates and continued instability in the credit markets. Any of these mentioned factors could cause an other-than-temporary impairment in future periods and result in a realized loss.

If borrowers and guarantors fail to perform as required by the terms of their loans, we will sustain losses.

A significant source of risk arises from the possibility that losses will be sustained if our borrowers and guarantors fail to perform in accordance with the terms of their loans and guaranties. This risk increases when the economy is weak. We have adopted underwriting and credit monitoring procedures and credit policies, including the establishment and review of the allowance for loan losses, which we believe are appropriate to minimize this risk by assessing the likelihood of nonperformance, tracking loan performance and diversifying our credit portfolio. These policies and procedures, however, may not prevent unexpected losses that could materially adversely affect our results of operations.

Our allowance for loan losses may not be adequate to cover actual losses.

In accordance with accounting principles generally accepted in the United States, we maintain an allowance for loan losses to provide for probable loan and lease losses. Our allowance for loan losses may not be adequate to cover actual loan and lease losses, and future provisions for credit losses could materially and adversely affect our operating results. Our allowance for loan losses is based on prior experience, as well as an evaluation of the risks in the current portfolio. The amount of future losses is susceptible to changes in economic, operating and other conditions, including changes in interest rates that may be beyond our control, and these losses may exceed current estimates. Federal and state regulatory agencies, as an integral part of their examination process, review our loans and allowance for loan

losses. While we believe that our allowance for loan losses is adequate to cover probable losses, it is possible that we will further increase the allowance for loan losses or that regulators will require increases. Either of these occurrences could materially and negatively affect our earnings.

The banking business is subject to interest rate risk and variations in interest rates may negatively affect our financial performance.

Changes in the interest rate environment may reduce our profits. It is expected that we will continue to realize income from the differential between the interest earned on loans, securities and other interest-earning assets, and interest paid on deposits, borrowings and other interest-bearing liabilities. Net interest margin is affected by the difference between the maturities and repricing characteristics of interest-earning assets and interest-bearing liabilities. In addition, loan volume and yields are affected by market interest rates on loans, and rising interest rates generally are associated with a lower volume of loan originations. We may not be able to minimize our interest rate risk. In addition, while an increase in the general level of interest rates may increase our net interest margin and loan yield, it may adversely affect the ability of certain borrowers with variable rate loans to pay the interest on and principal of their obligations. Accordingly, changes in levels of market interest rates could materially and adversely affect our net interest margin, asset quality, loan origination volume and overall profitability.

We face strong competition from financial services companies and other companies that offer banking services which could negatively affect our business.

We conduct our banking operations in Los Angeles, Orange, Riverside, San Bernardino, San Diego, San Luis Obispo and Ventura counties, California. Increased competition in these markets may result in reduced loans and deposits. Ultimately, we may not be able to compete successfully against current and future competitors. Many competitors offer the same banking services that we offer in our service areas. These competitors include national banks, regional banks and other community banks. We also face competition from many other types of financial institutions, including without limitation, savings and loan institutions, finance companies, brokerage firms, insurance companies, credit unions, mortgage banks and other financial intermediaries. In particular, competitors include several major financial companies whose greater resources may afford them a marketplace advantage by enabling them to maintain numerous banking locations and ATMs and conduct extensive promotional and advertising campaigns.

Additionally, banks and other financial institutions with larger capitalizations and financial intermediaries not subject to bank regulatory restrictions have larger lending limits than we have and are thereby able to serve the credit needs of larger customers. Areas of competition include interest rates for loans and deposits, efforts to obtain deposits, and range and quality of products and services provided, including new technology-driven products and services. Technological innovation continues to contribute to greater competition in domestic and international financial services markets as technological advances enable more companies to provide financial services. We also face competition from out-of-state financial intermediaries that have opened low-end production offices or that solicit deposits in our market areas. If we are unable to attract and retain banking customers, we may be unable to continue to grow our loan and deposit portfolios and our results of operations and financial condition may otherwise be adversely affected.

Changes in economic conditions, in particular an economic slowdown in Southern California, could materially and negatively affect our business.

Our business is directly impacted by factors such as economic, political and market conditions, broad trends in industry and finance, legislative and regulatory changes, changes in government monetary and fiscal policies and inflation, all of which are beyond our control. Any further deterioration in economic conditions, whether caused by national or local concerns, in particular any further economic slowdown in Southern California, could result in the following consequences, any of which could hurt our business materially: loan delinquencies may increase; problem assets and foreclosures may increase; demand for our products and services may decrease; low cost or noninterest bearing deposits may decrease; and collateral for loans made by us, especially real estate, may decline in value, in turn reducing customers' borrowing power, and reducing the value of assets and collateral associated with our existing loans. The State of California and certain local governments in our market area continue to face fiscal challenges upon which the long-term impact on the State's or the local economy cannot be predicted.

A portion of our loan portfolio consists of construction and land development loans in Southern California, which have greater risks than loans secured by completed real properties.

At December 31, 2012, we had outstanding construction and land development loans in Southern California in the amount of $56.5 million, representing 5% of our loan portfolio. These types of loans generally have greater risks than loans on completed homes, multifamily properties and commercial properties. A construction loan generally does not cover the full amount of the construction costs, so the borrower must have adequate funds to pay for the balance of the project. Price increases, delays and unanticipated difficulties can materially increase these costs. Further, even if completed, there is no assurance that the borrower will be able to sell the project on a timely or profitable basis, as these are closely related to real estate market conditions, which can fluctuate substantially between the start and completion of the project. If the borrower defaults prior to completion of the project, the value of the project will likely be less than the outstanding loan, and we could be required to complete construction with our own funds to

minimize losses on the project.

Further disruptions in the real estate market could materially and negatively affect our business.

There has been a slow-down in the real estate market due to negative economic trends and credit market disruption, the impacts of which are not yet completely known or quantified. At December 31, 2012, approximately 85% of our loans are secured by real estate. Any further downturn in the real estate market could materially and adversely affect our business because a significant portion of our loans is secured by real estate. Our ability to recover on defaulted loans by selling the real estate collateral would then be diminished and we would be more likely to suffer losses on defaulted loans. An increase in losses on defaulted loans may have a material impact on our financial condition and results of operations, by reducing income, increasing expenses, and leaving less cash available for lending and other activities.

Substantially all of our real property loan collateral is located in Southern California. Real estate values have declined recently, particularly in California. If real estate sales and appreciation continue to weaken, especially in Southern California, the collateral for our loans would provide less security. Real estate values have been and could be affected by, among other things, an economic recession or slowdown, an increase in interest rates, earthquakes, brush fires, flooding and other natural disasters particular to California.

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

Our operations are subject to extensive regulation by federal, state and local governmental authorities and are subject to various laws and judicial and administrative decisions imposing requirements and restrictions on part or all of our operations. Because our business is highly regulated, the laws, rules and regulations applicable to us are subject to regular modification and change. There are currently proposed laws, rules and regulations that, if adopted, would impact our operations. For example, Dodd-Frank will have a broad impact on the financial services industry, including imposing significant regulatory and compliance changes, such as: (1) enhanced resolution authority of troubled and failing banks and their holding companies; (2) enhanced lending limits strengthening the existing limits on a depository institution's credit exposure to one borrower; (3) increased capital and liquidity requirements; (4) increased regulatory examination fees; (5) changes to assessments to be paid to the FDIC for federal deposit insurance; (6) prohibiting bank holding companies, such as us, from including in regulatory Tier 1 capital future issuances of trust preferred securities or other hybrid debt and equity securities; and (7) numerous other provisions designed to improve supervision and oversight of, and strengthen safety and soundness for, the financial services sector. Additionally, Dodd-Frank establishes a new framework for systemic risk oversight within the financial system to be distributed among new and existing federal regulatory agencies, including the Council, the FRB, the OCC and the FDIC. Further, Dodd-Frank addresses many corporate governance and executive compensation matters that will affect most U.S. publicly traded companies, including us. Many of the requirements called for in Dodd-Frank will be implemented over time and most will be subject to implementing regulations over the course of several years. Given the uncertainty associated with the manner in which the provisions of Dodd-Frank will be implemented by the various regulatory agencies and through regulations, the full extent of the impact such requirements will have on our operations is unclear. The changes resulting from Dodd-Frank may impact the profitability of our business activities, require changes to certain of our business practices, impose upon us more stringent capital, liquidity and leverage ratio requirements or otherwise adversely affect our business. In particular, the potential impact of Dodd-Frank on our operations and activities, both currently and prospectively, include, among others:

- a reduction in our ability to generate or originate revenue-producing assets as a result of compliance with heightened capital standards;

- increased cost of operations due to greater regulatory oversight, supervision and examination of banks and bank holding companies, and higher deposit insurance premiums;

- the limitation on our ability to raise capital through the use of trust preferred securities as these securities will no longer be included in Tier 1 capital going forward; and

- the limitation on our ability to expand consumer product and service offerings due to anticipated stricter consumer protection laws and regulations

Further, we may be required to invest significant management attention and resources to evaluate and make necessary changes in order to comply with new statutory and regulatory requirements. Failure to comply with the new requirements may negatively impact our results of operations and financial condition. While we cannot predict what effect any presently contemplated or future changes in the laws or regulations or their interpretations would have on us, these changes could be materially adverse to our investors.

In addition, there are other currently proposed laws, rules and regulations that, if adopted, would impact our operations. For example, federal bank regulators have enacted regulations that would (1) require banking organizations to report the structures of all incentive-based compensation arrangements and (2) prohibit incentive-based payment arrangements that encourage inappropriate risks by providing employees, directors, or principal shareholders with excessive compensation or that could lead to material financial loss to the organization.

Additionally, in order to conduct certain activities and transactions, including acquisitions, we are required to obtain regulatory approval. There can be no assurance that any required approvals can be obtained, or obtained without conditions or on a timeframe acceptable to us. For more information, please see the section entitled "Item 1. Business-Supervision and Regulation" above.

We are exposed to risk of environmental liabilities with respect to properties to which we take title.

In the course of our business, we may own or foreclose and take title to real estate, and could be subject to environmental liabilities with respect to these properties. We may be held liable to a governmental entity or to third parties for property damage, personal injury, investigation and clean-up costs incurred by these parties in connection with environmental contamination, or may be required to investigate or clean up hazardous or toxic substances, or chemical releases at a property. The costs associated with investigation or remediation activities could be substantial. In addition, as the owner or former owner of a contaminated site, we may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from the property. If we ever become subject to significant environmental liabilities, our business, financial condition, liquidity and results of operations could be materially and adversely affected.

Our internal operations are subject to a number of risks.

We are subject to certain operational risks, including, but not limited to, data processing system failures and errors, customer or employee fraud, security breaches of our computer systems and catastrophic failures resulting from terrorist acts or natural disasters. We maintain a system of internal controls to mitigate against such occurrences and maintain insurance coverage for such risks that are insurable, but should such an event occur that is not prevented or detected by our internal controls and uninsured or in excess of applicable insurance limits, it could have a significant adverse impact on our business, financial condition or results of operations.

We face reputation and business risks due to our interactions with business partners, service providers and other third parties.

We rely on third parties in a variety of ways, including to provide key components of our business infrastructure or to further our business objectives. These third parties may provide services to us and our clients or serve as partners in business activities. We rely on these third parties to fulfill their obligations to us, to accurately inform us of relevant information and to conduct their activities professionally and in a manner that reflects positively on us. Any failure of our business partners, service providers or other third parties to meet their commitments to us or to perform in accordance with our expectations could harm our business and operations, financial performance, strategic growth or reputation.

We face risks in connection with our strategic undertakings.

If appropriate opportunities present themselves, we may engage in strategic activities, which may include acquisitions, investments, asset purchases or 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.

In order to finance future strategic undertakings, we might obtain additional equity or debt financing. Such financing might not be available on terms favorable to us, or at all. If obtained, equity financing could be dilutive and the incurrence of debt and contingent liabilities could have a material adverse effect on our business, results of operations and financial condition.

Our ability to execute strategic activities successfully will depend on a variety of factors. These factors likely will vary based on the nature of the activity but may include our success in integrating the operations, services, products, personnel and systems of an acquired company into our business, operating effectively with any partner with whom we elect to do business, retaining key employees, achieving anticipated synergies, meeting management’s expectations and otherwise realizing the undertaking’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 and may subject us to additional regulatory scrutiny. If we do not successfully execute a strategic undertaking, 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.

We are dependent on key personnel and the loss of one or more of those key personnel may materially and adversely affect our prospects.

We depend heavily on the services of our President and Chief Executive Officer, C. G. Kum, our Senior Executive Vice President and Chief Operating Officer/Chief Financial Officer, Romolo C. Santarosa and a number of other key management personnel. The loss of any of their services or that of other key personnel could materially and adversely affect our future results of operations and financial condition. Our success also depends in part on our ability to attract and retain additional qualified management personnel. Competition for such personnel is strong in the banking industry and we may not be successful in attracting or retaining the personnel we require.

We may incur impairments to goodwill.

We assess goodwill for impairment on an annual basis or at interim periods if an event occurs or circumstances change which may indicate a change in the implied fair value of the goodwill. Impairment exists when the carrying amount of goodwill exceeds its implied fair value. It is our practice to perform the annual impairment assessment at the end of our fiscal year and to use independent data to assist us in determining the fair value of the Company and in determining appropriate market factors to be used in the fair value calculations. At December 31, 2012 the annual assessment resulted in the conclusion that goodwill was not impaired. A significant decline in our stock price, a significant decline in our expected future cash flows, a significant change in the fair values of our assets and liabilities, a significant adverse change in the business climate or slower growth rates could result in impairment of our goodwill. If we were to conclude that a future write-down of our goodwill is necessary, then we would record the appropriate non-cash charge, which could have an adverse effect on our operating results and financial position.

We are a holding company and depend on our banking subsidiary for dividends, distributions and other payments.

We are a holding company that conducts substantially all our operations through our banking subsidiary, First California Bank. As a result, our ability to make dividend payments on our common and preferred stock and debt service payments depends upon the ability of the Bank to make payments, distributions and loans to us. The ability of the Bank to make payments, distributions and loans to us is limited by, among other things, its earnings, its obligation to maintain sufficient capital, and by applicable regulatory restrictions. For example, if, in the opinion of an applicable regulatory authority, the Bank is engaged in or is about to engage in an unsafe or unsound practice, which could include the payment of dividends under certain circumstances, such authority may take actions requiring that the Bank refrain from the practice. Additionally, under applicable California law, the Bank generally cannot make any distribution (including a cash dividend) to its stockholder, us, in an amount which exceeds the lesser of: (1) the retained earnings of the Bank and (2) the net income of the Bank for its last three fiscal years, less the amount of any distributions made by the Bank to its stockholder during such period. If the Bank is not able to make payments, distributions and loans to us, we may not be unable to pay dividends on our common and preferred stock or make debt service payments.

If we are unable to increase our small business loans within 2 years, the cost of the Series C Preferred Stock will increase to us.

We have notified the Treasury of our intent to redeem the series C preferred stock in connection with the PacWest Merger. However, if we are unable to redeem the series C non-cumulative perpetual preferred stock prior to December 31, 2013, and we have not increased the amount of qualified small business loans above our baseline amount, the cost of this capital to us will increase substantially on that date, from a maximum of 5.0% per annum (approximately $1.25 million annually) to 7.0% per annum (approximately $1.75 million annually). Depending on our financial condition at the time, this increase in the annual dividend rate on the series C non-cumulative perpetual preferred stock could have a material negative effect on our liquidity and our earnings available to common stockholders.

We may experience difficulty in managing the loan portfolios acquired through FDIC-assisted acquisitions, which are within the limits of the shared-loss protection provided by the FDIC.

The Bank entered into shared-loss agreements with the FDIC that covered most of SLTB’s and all of WCB’s loans and foreclosed property. The Bank shares in the losses, beginning with the first dollar of loss incurred, on the loans and foreclosed property covered under the shared-loss agreements, or covered assets. Pursuant to the terms of the shared-loss agreements, the FDIC is obligated to reimburse the Bank 80 percent of eligible losses with respect to the covered assets. The Bank has a corresponding obligation to reimburse the FDIC for 80 percent of eligible recoveries with respect to covered assets.

The shared-loss agreements for commercial and single-family residential loans are in effect for 5 years and 10 years, respectively, from the acquisition date and the loss recovery provisions are in effect for 8 years and 10 years, respectively, from the acquisition date. Ten years after the acquisition date, the Bank is required to pay the FDIC 50 percent of the excess, if any, of specific amounts stated in the original agreements for each respective acquisition. Although we have expertise in asset resolution, we cannot guarantee that we will be able to adequately manage the loan portfolio within the limits of the shared-loss protection provided by the FDIC. Failure to comply with the requirements of the shared-loss agreements could result in loss of indemnification by the FDIC. Additionally, the Bank is subject to audits by the FDIC, through its designated agent, under the terms of the shared-loss agreements. The requirements of the shared-loss agreements are extensive and failure to comply with any of the guidelines could potentially result in a specific asset or group of assets losing shared-loss coverage.

Risks Related to Our Common Stock

Certain preferences and rights of preferred stockholders of First California may negatively affect the rights of holders of First California common stock.

First California's certificate of incorporation authorizes its Board of Directors to issue up to 2,500,000 shares of preferred stock and to determine the rights, preferences, powers and restrictions granted or imposed upon any series of preferred stock without prior stockholder approval. The preferred stock that may be authorized could have preference over holders of First California common stock with respect to dividends and other distributions upon the liquidation or dissolution of First California. If First California's Board of Directors authorizes the issuance of additional series of preferred shares having a voting preference over common stock, such issuances may inhibit or delay the approval of measures supported by holders of common stock that require stockholder approval and consequently may make it difficult and expensive for a third party to pursue a tender offer, change in control or takeover attempt that is opposed by our management and Board of Directors. Accordingly, such issuance could substantially impede the ability of public stockholders to benefit from a change in control or change of our management and Board of Directors and, as a result, may adversely affect the market price of our common stock and the stockholders' ability to realize any potential change of control premium.

Currently, in the event of a voluntary or involuntary liquidation or dissolution, holders of series A convertible perpetual preferred stock of First California are entitled to receive a liquidation preference of $1,000 plus an amount equal to 8.5% per annum of the $1,000, which is deemed to have commenced accrual on December 10, 2001. Also, holders of series C non-cumulative perpetual preferred stock of First California are entitled to receive a liquidation preference of $1,000 plus an accrued amount equal to the per-share amount of any unpaid dividends for the then-current period, if any. These amounts are payable out of the assets of First California before any distribution to holders of common stock. If the number of preferred shares having a similar liquidation preference increases, the chance that holders of common stock may receive a smaller distribution upon liquidation or dissolution may be higher.

Certain regulations and restrictions will affect our ability to declare or pay dividends and repurchase our shares.

As a result of our participation in the SBLF, our ability to declare or pay dividends on any of our common stock has been limited. Specifically, we are not able to repurchase shares or declare dividend payments on our common, junior preferred or pari passu preferred stock if we are in arrears on the dividends on our series C non-cumulative perpetual preferred stock. Furthermore, First California is permitted to make dividend payments to, or effectuate share repurchases from, other shareholders, provided that after the payment or repurchase, the institution's Tier 1 capital would be at least 90 percent of the amount existing at the time immediately after the SBLF closing date, excluding any subsequent net charge-offs and partial repayments of the SBLF funding.

Our ability to pay dividends to holders of our common stock may be restricted by Delaware law and under the terms of indentures governing the trust preferred securities we have issued.

Our ability to pay dividends to our stockholders is restricted in specified circumstances under indentures governing the trust preferred securities we have issued, and we may issue additional securities with similar restrictions in the future. In addition, our ability to pay any dividends to our stockholders is subject to the restrictions set forth under Delaware law. We cannot assure you that we will meet the criteria specified under these agreements or under Delaware law in the future, in which case we may not be able to pay dividends on our common stock even if we were to choose to do so.

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 to 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:

- the trading price of PacWest common stock and factors affecting such trading price;
- 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 our 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.

Only a limited trading market exists for our common stock, which could lead to significant price volatility.

Our common stock was designated for listing on the NASDAQ Global Market in March 2007 under the trading symbol “FCAL” and trading volumes since that time have been modest. The limited trading market for our common stock may cause fluctuations in the market value of our common stock to be exaggerated, leading to price volatility in excess of that which would occur in a more active trading market of our common stock. In addition, even if a more active market in our common stock develops, we cannot assure you that such a market will continue or that stockholders will be able to sell their shares.

A holder with as little as a 5% interest in First California could, under certain circumstances, be subject to regulation as a "Bank Holding Company."

Any entity (including a "group" composed of natural persons) owning 25% or more of the outstanding First California common stock, or 5% or more if such holder otherwise exercises a "controlling influence" over First California, may be subject to regulation as a "bank holding company" in accordance with the BHCA. In addition, (i) any bank holding company or foreign bank with a U.S. presence may be required to obtain the approval of the FRB under the BHCA to acquire or retain 5% or more of the outstanding First California common stock and (ii) any person other than a bank holding company may be required to obtain the approval of the FRB under the Change in Bank Control Act to acquire or retain 10% or more of the outstanding First California common stock. Becoming a bank holding company imposes certain statutory and regulatory restrictions and burdens, and might require the holder to divest all or a portion of the holder's investment in First California. In addition, because a bank holding company is required to provide managerial and financial strength for its bank subsidiary, such a holder may be required to divest investments that may be deemed incompatible with bank holding company status, such as a material investment in a company unrelated to banking.

Concentrated ownership of our common stock creates risks for our stockholders, including a risk of sudden changes in our share price.

As of February 11, 2013, directors, executive officers and other affiliates of First California owned approximately 22% of First California's outstanding common stock (not including vested option shares). As a result, if all of these stockholders were to take a common position, they would be able to significantly affect the election of directors, with respect to which stockholders are authorized to use cumulative voting, as well as the outcome of most corporate actions requiring stockholder approval, such as the approval of the PacWest Merger or other mergers or other business combinations. Such concentration may also have the effect of delaying or preventing a change in control of First California. In some situations, the interests of First California's directors and executive officers may be different from other stockholders.

Investors who purchase our common stock may be subject to certain risks due to the concentrated ownership of our common stock. The sale by any of our large stockholders of a significant portion of that stockholder's holdings could have a material adverse effect on the market price of our common stock. Furthermore, a group of our large stockholders can also demand that we register their shares under certain circumstances. Any such increase in the number of our publicly registered shares may cause the market price of our common stock to decline or fluctuate significantly.

We do not expect to pay dividends on our common stock in the foreseeable future.

We have never paid a cash dividend on our common stock and we do not expect to pay a cash dividend in the foreseeable future. We will periodically review our dividend policy in view of the operating performance of the company, and may declare dividends in the future if such payments are deemed appropriate.

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

We are not restricted from issuing additional common stock or preferred stock, including any securities that are convertible into or exchangeable for, or that represent the right to receive, common stock or preferred stock or any substantially similar securities. On March 3, 2010, a proposal was approved by our stockholders to amend our Amended and Restated Certificate of Incorporation to increase the number of authorized shares of our common stock from 25,000,000 shares to 100,000,000 shares. This increase in the number of our authorized shares of common stock provides us with the flexibility to consider and respond to future business opportunities and needs as they arise, including equity offerings, acquisitions, stock dividends, issuances under stock incentive plans and other corporate

purposes. 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 preferred stock or similar securities in the market or the perception that such sales could occur.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The Bank leases approximately 21,900 square feet of space at Westlake Park Place, 3027 Townsgate Road, Westlake Village, California for its administrative headquarters. The lease term will expire in February 2019.

The Bank also leases approximately 13,900 square feet of space for administrative functions located at 1880 Century Park East, Los Angeles, California. The lease term will expire in May 2014. The Bank has sublet approximately half of this space through March 2014.

The Bank owns its Camarillo Branch Office located at 1150 Paseo Camarillo, Camarillo, California. The building has approximately 9,000 square feet of space.

The Bank leases approximately 4,000 square feet of space for its Westlake Village Branch Office located at 32111 Agoura Road, Westlake Village, California. The lease term will expire in December 2014.

The Bank leases approximately 2,200 square feet of space for its Ventura Branch Office located at 1794 S. Victoria Avenue, Suite B, Ventura, California. The lease term will expire in June 2013.

The Bank leases approximately 1,700 square feet of space for its Oxnard Branch Office located at 300 Esplanade Drive, Suite 102, Oxnard, California. The lease term will expire in January 2016.

The Bank leases approximately 27,000 square feet of land for its Simi Valley Branch Office located at Simi Valley Towne Center, Simi Valley, California. The Bank owns the building which has approximately 5,000 square feet of space. The land lease term commenced in January 2006 and expires after 20 years.

The Bank leases approximately 1,900 square feet of space for its Century City Branch Office located at 1880 Century Park East, Los Angeles, California. The lease term will expire in June 2014.

The Bank leases approximately 1,650 square feet of space for its Encino Branch Office located at 16661 Ventura Boulevard, Encino, California. The lease term will expire in May 2013.

The Bank owns its Torrance Branch Office located at 2200 Sepulveda Blvd., Torrance, California. The building has approximately 15,966 square feet of space.

The Bank owns its Irvine Branch Office located at 19752 MacArthur Blvd., Irvine, California 92612. The building has approximately 21,000 square feet of space. The Bank has leased a portion of this space to a third party through July 2013.

The Bank leases approximately 3,500 square feet of space for its Glendale Branch Office located at 505 North Brand Boulevard, Glendale, California. The lease has an initial term of five years and will expire in November 2013.

The Bank leases approximately 8,500 square feet of space for its Redlands Branch Office located at 218 East State Street, Redlands, California. The lease term will expire in July 2014.

The Bank leases approximately 3,700 square feet of space for its Escondido Office located at 320 West Mission Avenue, Escondido, California. The lease term will expire in February 2021.

The Bank leases approximately 4,500 square feet of space for its Palm Desert Branch Office located at 78-000 Fred Waring Drive, suite 100, Palm Desert, California. The lease term will expire in May 2014.

The Bank leases approximately 4,600 square feet of space for its Irwindale Branch Office located at 15622 Arrow Highway, Irwindale, California. The lease term will expire in May 2014.

The Bank lease approximately 5,120 square feet of space for its San Luis Obispo Office located at 1001 Marsh Street, San Luis Obispo, California. The lease term will expire in August 2016.

The Bank leases approximately 8,800 square feet of space for its Electronic Payment Services Division located at 70115 Highway 111, Rancho Mirage, California. The lease term will expire in December 2018.

The Bank leases approximately 3,850 square feet of space for its former Thousand Oaks Branch Office located at 11 E. Hillcrest Drive, Suite A, Thousand Oaks, California. The lease term will expire in October 2013.

The Bank leases approximately 5,100 square feet of space for its former Brea Branch Office located at 10 Pointe Drive, Suite 130, Brea, California. The lease term will expire in May 2014.

The Bank leases approximately 6,000 square feet of space for its former Woodland Hills Branch Office located at 21550 Oxnard Street, Suite 100, Woodland Hills, California. The lease term will expire in March 2016.

The Bank believes that its premises will be adequate for present and anticipated needs. The Bank also believes that it has adequate insurance to cover its owned and leased premises.

Item 3. Legal Proceedings

The information set forth in "Note 22-Commitments and Contingencies" of the Company's Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K is incorporated herein by reference.

Item 4. Mine Safety Disclosures

Not Applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The common stock of First California began trading on the NASDAQ Global Market under the symbol "FCAL" on March 13, 2007. Prior to that time, the common stock of National Mercantile, First California's predecessor, traded on the NASDAQ Capital Market under the symbol "MBLA". The information in the following table indicates the high and low sales prices for First California's common stock from January 1, 2011 to December 31, 2012, as reported by NASDAQ. Because of the limited market for First California's common stock, these prices may not be indicative of the fair market value of the common stock. The information does not include transactions for which no public records are available. The trading prices in such transactions may be higher or lower than the prices reported below.

	Common Stock	
	High	Low
2011		
First Quarter	$ 4.09	$ 2.80
Second Quarter	4.00	3.40
Third Quarter	3.95	2.77
Fourth Quarter	3.72	2.79
2012		
First Quarter	$ 5.92	$ 3.29
Second Quarter	7.12	5.27
Third Quarter	7.42	6.52
Fourth Quarter	7.96	6.34

At March 8, 2013, First California had 359 stockholders of record for its common stock. The number of beneficial owners for the common stock is higher, as many people hold their shares in "street" name.

Dividends

From its inception and until the completion of the mergers in March 2007, First California was a "business combination shell company," conducting no operations or owning or leasing any real estate or other property. Accordingly, First California did not pay any dividends to its sole stockholder, National Mercantile, prior to such mergers, nor has First California paid any dividends to its common stockholders since the completion of such mergers. Our common stockholders are entitled to receive dividends when and as declared by our Board of Directors, out of funds legally available therefor, subject to the restrictions set forth in the Delaware General Corporation Law, or the DGCL. The DGCL provides that a corporation may declare and pay dividends out of any surplus, and, if it has no surplus, out of any net profits for the fiscal year in which the dividend was declared or for the preceding fiscal year (provided that the payment will not reduce capital to an amount less than the aggregate amount of the capital represented by the issued and outstanding stock of all classes having a preference upon the distribution of assets). In addition, First California may not pay dividends on its capital stock if it is in default or has elected to defer payments of interest under its junior subordinated debentures. The Company cannot declare or pay a dividend on its common stock if we are in arrears on the dividends on our series C non-cumulative perpetual preferred stock.

We do not currently expect to pay a cash dividend to our common stockholders in the foreseeable future. We presently intend to retain earnings and increase capital in furtherance of our overall business objectives. We will periodically

review our dividend policy in view of the operating performance of the company, and may declare dividends in the future if such payments are deemed appropriate.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table sets forth as of December 31, 2012 information regarding outstanding options and the number of shares available for future option grants under all of our equity compensation plans. All equity plans of FCB Bancorp, in addition to those of National Mercantile Bancorp and all outstanding option awards were assumed by First California in connection with the mergers in 2007.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by shareholders (1)	523,876	$ 7.64	1,468,453
Equity compensation plans not approved by shareholders	N/A	N/A	N/A
Total	523,876	$ 7.64	1,468,453

(1) Includes the First California 2007 Omnibus Equity Incentive Plan (as amended May 26, 2011), FCFG FCB 2005 Stock Option Plan, FCFG 2005 NMB Stock Incentive Plan, FCFG Amended 1996 NMB Stock Incentive Plan, FCFG 1994 NMB Stock Option Plan.

Recent Sales of Unregistered Securities

None

Issuer Purchases of Equity Securities

There were no shares repurchased by the Company during the fourth quarter of 2012.

Item 6. Selected Financial Data

The following table sets forth certain of our financial and statistical information for each of the years in the five-year period ended December 31, 2012. This data should be read in conjunction with our audited consolidated financial statements as of December 31, 2012 and 2011, and for each of the years in the three-year period ended December 31, 2012 and related Notes to Consolidated Financial Statements contained in "Item 8. Financial Statements and Supplementary Data."

	At or For the Year Ended December 31,				
	2012	2011	2010	2009	2008
	(In thousands, except per share amounts and percentages)				
Results of Operations (1):					
Interest income	$76,818	$72,598	$59,350	$64,941	$63,235

Interest expense	(9,493)	(13,104)	(14,654)	(19,887)	(22,453)
Net interest income	67,325	59,494	44,696	45,054	40,782
Provision for loan losses	(1,500)	(5,346)	(8,337)	(16,646)	(1,150)
Net interest income after provision for loan losses	65,825	54,148	36,359	28,408	39,632
Other noninterest income	11,336	7,687	6,484	10,034	5,381
Gain from acquisitions	-	36,922	2,312	-	-
Other noninterest expense	(61,726)	(58,464)	(42,805)	(46,856)	(35,105)
Earnings (loss) before income tax (expense) benefit	15,435	40,293	2,350	(8,414)	9,908
Income tax (expense) benefit	(6,161)	(16,910)	(940)	3,753	(3,542)
Net earnings (loss)	$9,274	$23,383	$1,410	$(4,661)	$6,366
Per Common Share Data:					
Earnings (loss) per share (EPS):					
Basic	$0.27	$0.73	$0.01	$(0.50)	$0.56
Diluted	$0.27	$0.71	$0.01	$(0.50)	$0.54
Common dividends declared	$-	$-	$-	$-	$-
Book value per common share	$7.12	$6.75	$6.16	$11.45	$11.80
Tangible book value per common share	$4.81	$4.19	$3.65	$5.23	$6.69
Shares outstanding	29,226	29,220	28,171	11,623	11,463
Average shares outstanding:					
Basic EPS	29,229	28,716	24,411	11,605	11,457
Diluted EPS	29,589	29,451	24,735	11,605	11,844

	At or For the Year Ended December 31,				
	2012	2011	2010	2009	2008
	(In thousands, except per share amounts and percentages)				
Balance Sheet Data:					
Total assets	$1,887,843	$1,812,664	$1,521,334	$1,459,821	$1,178,045
Cash and cash equivalents	166,874	61,432	88,003	46,494	49,127
Investment securities	381,041	453,735	272,439	349,645	202,462
Loans held for sale	—	—	—	—	31,401
Non-covered loans and leases, net of unearned income	1,043,021	936,103	947,737	939,246	788,421
Allowance for loan losses, non-covered loans	18,172	17,747	17,033	16,505	8,048
Covered loans, net	102,431	135,412	53,878	—	—
FDIC shared-loss receivable	45,345	68,083	16,725	—	—
Goodwill	60,720	60,720	60,720	60,720	50,098
Core deposit and customer relationship intangibles	6,892	13,887	9,915	11,581	8,452
Deposits	1,507,832	1,425,269	1,156,288	1,124,715	817,595
Borrowings	107,054	117,719	131,500	143,500	167,000
Subordinated debentures	26,805	26,805	26,805	26,753	26,701
Stockholders' equity	234,118	223,107	198,041	157,226	158,923
Performance Ratios:					
Stockholders' equity to total assets ratio	12.40 %	12.31 %	13.02 %	10.77 %	13.49 %
Tangible common equity ratio	7.72 %	7.05 %	7.08 %	4.38 %	6.85 %
Total capital ratio (to risk weighted assets)	18.19 %	17.32 %	16.79 %	12.69 %	16.62 %
Tier 1 capital ratio (to risk weighted assets)	16.94 %	16.07 %	15.53 %	11.43 %	15.70 %
Tier 1 leverage ratio (to average assets)	10.20 %	10.33 %	11.00 %	8.52 %	12.77 %
Loans to deposits ratio	75.97 %	75.18 %	86.62 %	83.51 %	100.27 %
Net interest margin	4.01 %	3.92 %	3.46 %	3.53 %	4.08 %
Efficiency ratio (2)	74.74 %	74.69 %	74.75 %	84.22 %	73.43 %
Return on average assets	0.48 %	1.31 %	0.10 %	(0.32)%	0.56 %
Return on average equity	4.02 %	10.94 %	0.75 %	(2.91)%	4.59 %
Average equity to average assets	11.93 %	11.97 %	12.94 %	11.11 %	12.22 %
Common dividend payout ratio	—	—	—	—	—
Asset Quality:					
Non-covered nonaccrual loans and leases	$14,610	$13,860	$18,241	$39,958	$8,475
Non-covered foreclosed property	14,895	20,349	26,011	4,893	327
Non-covered nonperforming assets	$29,505	$34,209	$44,252	$44,851	$8,802
Asset Quality Ratios:					
Non-covered nonaccrual loans to non-covered loans, net of unearned income	1.40 %	1.48 %	1.92 %	4.25 %	1.07 %
Non-covered nonperforming assets					

to non-covered loans, net of unearned income, and OREO	2.79	%	3.58	%	4.54	%	4.75	%	1.12	%
Allowance for credit losses to non-covered nonaccrual loans	124.4	%	128.0	%	93.4	%	41.3	%	95.0	%
Allowance for credit losses to non-covered loans, net of unearned income	1.71	%	1.90	%	1.80	%	1.76	%	1.02	%
Net charge-offs to average non-covered loans	0.11	%	0.51	%	0.85	%	0.89	%	0.12	%

(1) Operating results of acquired companies are included from the respective acquisition dates.

(2) Computed by dividing noninterest expense, excluding amortization and impairment of intangible assets, integration/conversion expense and loss on and expense of foreclosed properties by net interest income and noninterest income, excluding gain on sale of securities, gain on acquisitions and market gain on foreclosed properties.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

This discussion contains certain forward-looking information about us; we intend such statements to fall under the safe harbor for "forward-looking statements" provided by the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact are forward-looking statements. Such statements involve inherent risks and uncertainties, many of which are difficult to predict and are generally beyond our control. We caution readers that a number of important factors could cause actual results to differ materially from those expressed in, implied or projected by, such forward-looking statements. Risks and uncertainties include, but are not limited to:

- risks related to our proposed merger with PacWest;
- revenues are lower than expected;
- credit quality deterioration, which could cause an increase in the provision for loan losses;
- competitive pressure among depository institutions increases significantly;
- changes in consumer spending, borrowings and savings habits;
- our ability to successfully integrate acquired entities or to achieve expected synergies and operating efficiencies within expected time-frames or at all;
- a slowdown in construction activity;
- technological changes;
- the cost of additional capital is more than expected;
- the resolution of pending legal matters;
- a change in the interest rate environment reduces interest margins;
- asset/liability repricing risks and liquidity risks;
- general economic conditions, particularly those affecting real estate values, either nationally or in the market areas in which we do or anticipate doing business, are less favorable than expected;
- legislative, accounting or regulatory requirements or changes adversely affecting our business;
- the effects of and changes in monetary and fiscal policies and laws, including the interest rate policies of the Board of Governors of the Federal Reserve, or the Federal Reserve Board;
- the costs and effects of legal, accounting and regulatory developments;
- recent volatility in the credit or equity markets and its effect on the general economy;

- regulatory approvals for acquisitions cannot be obtained on the terms expected or on the anticipated schedule; and
- demand for the products or services of First California and the Bank, as well as their ability to attract and retain qualified people.

If any of these risks or uncertainties materializes, or if any of the assumptions underlying such forward-looking statements proves to be incorrect, our results could differ materially from those expressed in, implied or projected by, such forward-looking statements. For information with respect to factors that could cause actual results to differ from the expectations stated in the forward-looking statements, see "Risk Factors" under Part I, Item 1A of this Annual Report on Form 10-K. We urge investors to consider all of these factors carefully in evaluating the forward-looking statements contained in this Annual Report on Form 10-K. We make these forward-looking statements as of the date of this document and we do not intend, and assume no obligation, to update the forward-looking statements or to update the reasons why actual results could differ from those expressed in, or implied or projected by, the forward-looking statements. All forward-looking statements contained in this document and all subsequent written and oral forward-looking statements attributable to us or any other person acting on our behalf, are expressly qualified by these cautionary statements.

Overview

First California Financial Group, Inc., or First California, or the Company, is a bank holding company which serves the comprehensive banking needs of businesses and individuals in Los Angeles, Orange, Riverside, San Bernardino, San Diego, San Luis Obispo and Ventura counties through our wholly-owned subsidiary, First California Bank, or the Bank. The Bank is a state chartered commercial bank that provides traditional business and consumer banking products and services through 15 full-service branch locations. The Company also has two unconsolidated statutory business trust subsidiaries, First California Capital Trust I and FCB Statutory Trust I, which raised capital through the issuance of trust preferred securities.

At December 31, 2012, we had consolidated total assets of $1.9 billion, total loans of $1.1 billion, total deposits of $1.5 billion and shareholders' equity of $234.2 million. A year ago, at December 31, 2011, we had consolidated total assets of $1.8 billion, total loans of $1.1 billion, total deposits of $1.4 billion and shareholders' equity of $223.1 million.

On November 5, 2010, the Bank assumed all of the deposits and substantially all of the assets of Western Commercial Bank, located in Woodland Hills, California, from the FDIC. The Bank acquired approximately $109 million of total assets, including $55 million in loans related to the transaction. The Bank assumed approximately $105 million of deposits related to the transaction. We accounted for the FDIC-assisted Western Commercial Bank transaction using the acquisition method of accounting; accordingly, our balance sheet includes the estimates of the fair value of the assets acquired and liabilities assumed. Our results of operations for the twelve months ended December 31, 2010 include the effects of the FDIC-assisted Western Commercial Bank transaction from the date of the transaction. As part of the Purchase and Assumption Agreement, the Bank and the FDIC entered into shared-loss agreements, whereby the FDIC will cover a substantial portion of any future losses on loans (and related unfunded loan commitments), foreclosed property and accrued interest on loans for up to 90 days. Under the terms of the shared-loss agreements, the FDIC will absorb 80 percent of losses and share in 80 percent of loss recoveries. The shared-loss agreements for commercial mortgage loans are in effect for 5 years from the November 5, 2010 acquisition date and the loss recovery provisions are in effect for 8 years from the acquisition date.

On February 18, 2011, the Bank assumed certain liabilities and acquired certain assets and substantially all of the operations of San Luis Trust Bank, or SLTB, located in San Luis Obispo, California, from the FDIC. The Bank acquired, received and recognized certain assets with an estimated fair value of approximately $367 million, including $139 million of loans, $99 million of cash and federal funds sold, $70 million of a FDIC shared-loss asset, $41 million of securities, $13 million of foreclosed property and $5 million of other assets. The Bank also assumed and recognized liabilities with an estimated fair value of approximately $346 million, including $266 million of deposits, $62 million of Federal Home Loan Bank advances, $15 million in a deferred tax liability, $2.6 million of a FDIC shared-loss liability and $0.4 million of other liabilities. The Bank recorded a pre-tax bargain purchase gain of $36.5 million in connection with this transaction. As part of the Purchase and Assumption Agreement, the Bank and the FDIC entered into shared-loss agreements, whereby the FDIC will cover a substantial portion of any future losses on loans (and related unfunded loan commitments), foreclosed property and accrued interest on loans for up to 90 days. Under the terms of the shared-loss agreements, the FDIC will absorb 80 percent of losses and share in 80 percent of loss recoveries. The shared-loss agreements for commercial and residential mortgage loans are in effect for 5 years and 10 years, respectively, from the February 18, 2011 acquisition date and the loss recovery provisions are in effect for 8 years and 10 years, respectively, from the acquisition date. Our results of operations for the twelve months ended December 31, 2011 include the effects of the FDIC-assisted San Luis Trust bank transaction from the date of the transaction.

On April 8, 2011, the Bank completed the acquisition of the Electronic Banking Solutions division of Palm Desert National Bank. The transaction included the division's customer base, core deposits, and employees. The Electronic

Payment Services Division, or the EPS division, its new name under the Bank, has issued prepaid cards and sponsored merchant acquiring services for all national and regional networks, including Visa, MasterCard, and Discover throughout all 50 states and U.S. territories. The Bank acquired cash of $85.4 million, recognized intangible assets of $6.0 million, assumed $91 million of deposits and recognized a pre-tax bargain purchase gain of $0.5 million in connection with this transaction. Our results of operations for the twelve months ended December 31, 2011 include the effects of the EPS acquisition from the date of the transaction.

On February 13, 2013, the Board of Directors of the Company and the Board of Directors of the Bank committed to a plan to wind down the EPS division. The Company previously announced on November 6, 2012, that the Company and PacWest entered into a Merger Agreement pursuant to which the Company would merge with and into PacWest, with PacWest as the surviving corporation. As previously disclosed in the amended Registration Statement on Form S-4 of PacWest, PacWest concluded that the EPS division was not suited to PacWest's commercial banking business model and PacWest would proceed to exit the EPS division upon completion of the PacWest Merger. In connection with the plan to discontinue the EPS division, we evaluated the core deposit intangible and customer relationship intangible assets related to the EPS division and determined that the full amount of both intangible assets was not recoverable and we recorded a pre-tax impairment charge of $4.8 million in December 2012. We have targeted December 31, 2013 for substantial completion of the wind down of the EPS division. Therefore, the results of operations of the EPS division will be presented as "discontinued operations" in future filings.

For the year ended December 31, 2012, we had net income of $9.3 million compared to net income of $23.4 million for the year ended December 31, 2011. After dividend payments of $1.3 million on our Series C preferred shares, we had net income per diluted common share of $0.27 for the year ended December 31, 2012. After dividend payments of $2.6 million on our Series B and Series C preferred shares, including a $1.1 million deemed dividend related to the full redemption of our Series B preferred shares in the third quarter of 2011, we had net income per diluted common share of $0.71 for the year ended December 31, 2011. The significant decrease in net income in 2012 was due largely to the bargain purchase gains on the SLTB and EPS acquisitions recorded in 2011 and the impairment charge taken in 2012 in connection with the wind down of the EPS division.

For the year ended December 31, 2011, we had net income of $23.4 million compared to net income of $1.4 million for the year ended December 31, 2010. After dividend payments of $2.6 million on our Series B and Series C preferred shares, including a $1.1 million deemed dividend related to the full redemption of our Series B preferred shares in the third quarter of 2011, we had net income per diluted common share of $0.71 for the year ended December 31, 2011. After dividend payments of $1.3 million on our Series B preferred shares, we had net income per diluted common share of $0.01 for the year ended December 31, 2010. The significant increase in net income in 2011 was due largely to the bargain purchase gains on the SLTB and EPS acquisitions.

Proposed Merger with PacWest

On November 6, 2012, First California entered into the Merger Agreement with PacWest. Under the terms of the Merger Agreement, the Company will be merged with and into PacWest, with PacWest as the surviving corporation, which we refer to as the PacWest Merger. The Merger Agreement also provides that, simultaneously with the PacWest Merger, the Bank will merge with and into Pacific Western Bank, a wholly owned subsidiary of PacWest, with Pacific Western Bank continuing as the surviving bank.

Pursuant to the Merger Agreement, in the PacWest Merger, each outstanding share of common stock of the Company, other than shares held by the Company as treasury stock or by PacWest, will be cancelled and converted into the right to receive a fractional share of PacWest common stock equal to the quotient (which we refer to as the Exchange Ratio) obtained by dividing $8.00 by the volume weighted average closing price of PacWest common stock for a specified period, or the Average PacWest Common Stock Price. However, if the Average PacWest Common Stock Price is greater than or equal to $27.00, then the Exchange Ratio will be 0.2963, and if the Average PacWest Common Stock Price is less than or equal to $20.00, then the Exchange Ratio will be 0.4000.

Immediately prior to the effective time of the PacWest Merger, each option to purchase First California common stock will become fully vested and be cancelled in exchange for the right to receive a cash payment calculated based on the Exchange Ratio, and each share of First California restricted stock will vest and will be converted into the right to receive a number of shares of PacWest common stock equal to the Exchange Ratio.

First California and PacWest have each made customary representations and warranties in the Merger Agreement and agreed to customary covenants, including covenants regarding the operation of the business of First California and its subsidiaries prior to the closing and covenants prohibiting First California from soliciting, providing information or entering into discussions concerning proposals relating to alternative business combination transactions, except in limited circumstances relating to unsolicited proposals that constitute, or are reasonably capable of becoming, a superior proposal.

Consummation of the PacWest Merger is subject to customary closing conditions, including approval of First California's stockholders and PacWest's stockholders. The Merger Agreement may be terminated under certain circumstances, including by either party if the PacWest Merger has not occurred by August 6, 2013, if an order is entered prohibiting or making illegal the transaction and the order has become final and non-appealable, if the stockholders of First California or PacWest fail to approve the transaction, or upon a material uncured breach by the other party that would cause the closing conditions not to be satisfied.

The Merger Agreement provides certain termination rights for both First California and PacWest and further provides that upon termination of the Merger Agreement under certain circumstances, PacWest will be obligated to pay First California a termination fee of $5,000,000 and under certain circumstances, First California will be obligated to pay PacWest a termination fee of $10,000,000.

Upon consummation of the PacWest Merger, the Board of Directors of PacWest will consist of the directors serving on the Board of Directors of PacWest prior to the effective time of the PacWest Merger plus two independent

directors designated by the Board of Directors of First California and approved by the Compensation, Nominating and Governance Committee of PacWest.

Critical Accounting Policies

We base our discussion and analysis of our consolidated results of operations and financial condition on our audited consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets and liabilities, income and expense, and the related disclosures of contingent assets and liabilities at the date of these consolidated financial statements. We believe these estimates and assumptions to be reasonably accurate; however, actual results may differ from these estimates under different assumptions or circumstances. The following are our critical accounting policies and estimates.

Allowance for loan losses

We establish the allowance for loan losses through a provision charged to expense. We charge-off loans against the allowance when we believe that the collectability of the loan is unlikely. We perform periodic and systematic detailed reviews of the loan portfolio to identify trends and to assess the overall collectability of the loan portfolio. The allowance is an amount that we believe will be adequate to absorb probable losses on existing loans that may become uncollectible based on evaluations of the collectability of loans and prior loan loss experience. We believe the accounting estimate related to the allowance for loan losses is a “critical accounting estimate” because: changes in it can materially affect the provision for loan losses and net income, it requires management to predict borrowers’ likelihood or capacity to repay, and it requires management to distinguish between losses incurred as of a balance sheet date and losses expected to be incurred in the future. Accordingly, this is a highly subjective process and requires significant judgment since it is often difficult to determine when specific loss events may actually occur. Our evaluation includes an assessment of the following factors: any external loan review and any regulatory examination, estimated probable loss exposure on each pool of loans, concentrations of credit, value of collateral, the level of delinquent and nonaccrual loans, trends in the portfolio volume, effects of any changes in the lending policies and procedures, changes in lending personnel, present economic conditions at the local, state and national levels, the amount of undisbursed off-balance sheet commitments, and a migration analysis of historical losses and recoveries for the prior twenty quarters. We also evaluate individual loans for impairment and if a portion of a loan is impaired, we charge-off the impaired amount or allocate a specific reserve for that loan. Various regulatory agencies, as a regular part of their examination process, periodically review our allowance for loan losses. Such agencies may require us to recognize additions to the allowance based on their judgment of information available to them at the time of their examinations. The allowance for loan losses was $18.2 million at December 31, 2012 and $17.7 million at December 31, 2011.

Non-covered foreclosed property

We acquire, through foreclosure or through full or partial satisfaction of a non-covered loan, real or personal property. At the time of foreclosure, we obtain an appraisal of the property and record the property at its estimated fair value less costs to sell. We charge the allowance for loan losses for the loan amount in excess of the fair value of the non-covered foreclosed property received; we credit earnings for the fair value amount of the non-covered foreclosed property in excess of the non-covered loan due. Subsequent to foreclosure, we periodically assess our disposition efforts and the estimated fair value less costs to sell of the non-covered foreclosed property. We establish a valuation allowance through a charge to earnings for estimated declines in fair value subsequent to foreclosure. Operating income and operating expense related to non-covered foreclosed property is included in earnings as are any ultimate gains or losses on the sale of the non-covered foreclosed property. Our recognition of gain is, however, dependent on the buyer’s initial investment in the purchase of the non-covered foreclosed property meeting certain criteria. The estimated fair value of non-covered foreclosed property was $14.9 million at December 31, 2012 and $20.3 million at December 31, 2011.

Covered foreclosed property

We refer to all foreclosed property acquired in FDIC-assisted acquisitions that are subject to a FDIC shared-loss agreement as “covered foreclosed property” and report such foreclosed property separately in our consolidated balance sheets. We report covered foreclosed property exclusive of expected reimbursement cash flows from the FDIC. We transfer foreclosed covered loan collateral into covered foreclosed property at the collateral’s net realizable value, less estimated selling costs.

We initially recorded covered foreclosed property at its estimated fair value on the acquisition date based on similar market comparable valuations less estimated selling costs. We charge any subsequent valuation adjustments due to declines in fair value to non-interest expense, with an offset to non-interest income representing the corresponding increase in the FDIC shared-loss asset for the reimbursement of the loss amount. We credit any recoveries of previous valuation adjustments to non-interest expense with a corresponding charge to non-interest income for the portion of the recovery that is due to the FDIC. The estimated fair value of covered foreclosed property was $3.9 million at December 31, 2012 and $14.6 million at December 31, 2011.

Deferred income taxes

We recognize deferred tax assets subject to our judgment that realization of the assets are more-likely-than-not. We establish a valuation allowance when we determine that realization of income tax benefits may not occur in future years. There were net deferred tax assets of $1.4 million at December 31, 2012 and net deferred tax liabilities of $7.4 million at December 31, 2011. There were no valuation allowances at either year-end.

FDIC shared-loss asset

We initially recorded the FDIC shared-loss asset at fair value, based on the discounted value of expected future cash flows under the shared-loss agreements. We accrete into non-interest income over the life of the FDIC shared-loss asset the difference between the present value and the undiscounted cash flows we expect to collect from the FDIC. Subsequent to initial recognition, we review quarterly the FDIC shared-loss asset and adjust for any changes in expected cash flows based on recent performance and expectations for future performance of the covered portfolio. We measure these adjustments on the same basis as the related covered loans, at a pool level, and covered foreclosed property. Generally, any increases in cash flow of the covered assets over those previously expected will result in prospective increases in the loan pool yield and amortization of the FDIC shared-loss asset. Any decreases in cash flow of the covered assets under those previously expected will trigger impairments on the underlying loan pools and will result in a corresponding gain on the FDIC shared-loss asset. We record increases and decreases to the FDIC shared-loss asset as adjustments to non-interest income. The FDIC shared-loss asset was $45.3 million at December 31, 2012 and $68.1 million at December 31, 2011.

FDIC shared-loss liability

Forty-five days following the tenth anniversary of the WCB and SLTB acquisition dates, we will be required to perform a calculation and determine if a payment to the FDIC is necessary. The payment amount will be 50 percent of the excess, if any, of (i) 20 percent of the intrinsic loss estimate minus (ii) the sum of (a) 20 percent of the net loss amount, plus (b) 25 percent of the asset discount bid, plus (c) 3.5 percent of total loss share assets at acquisition. Our estimate for the present value of this liability was $3.9 million and $3.8 million at December 31, 2012 and December 31, 2011.

Derivative instruments and hedging

For derivative instruments designated in cash flow hedging relationships, we assess the effectiveness of the instruments in offsetting changes in the overall cash flows of designated hedged transactions on a quarterly basis. The Company recognizes the unrealized gains or losses of derivative instruments directly in current period earnings to the extent these instruments are not effective. At December 31, 2012, the Company had $37.1 million notional interest rate caps to limit the variable interest rate payments on our $26.8 million junior subordinated debentures. Our quarterly effectiveness assessments throughout 2012 indicated that these instruments were effective.

At December 31, 2012, the Bank had $240 million notional interest rate caps to manage the interest rate risk associated with its fixed rate securities and loans; however, these instruments do not meet the criteria for hedge accounting. We mark-to-market derivatives not designated as hedges each period through earnings. At December 31, 2012 and 2011, the estimated fair value of these interest rate caps was $76,000 and $291,000 and we recorded these amounts within “accrued interest receivable and other assets” on the consolidated balance sheets.

Assessments of impairment

We assess goodwill for impairment on an annual basis as of December 31, or at interim periods if an event occurs or circumstances change that may indicate impairment may potentially exist. We estimate the implied fair value of goodwill by comparing the estimated fair value of the Company to the estimated fair value of the Company’s individual assets, liabilities, and identifiable intangible assets. Impairment exists when the carrying amount of goodwill exceeds this implied fair value.

At December 31, 2012, we had goodwill of $60.7 million. We recognized goodwill of $50.1 million in connection with the Merger in 2007 and $10.6 million in connection with the FDIC-assisted 1st Centennial Bank transaction in 2009. We consolidated all operations under First California Bank at the time of each transaction; accordingly, we performed our goodwill impairment analysis on a consolidated or single unit basis.

The first step of our analysis compared the fair value of the Company to the carrying amount of the Company, including goodwill. At December 31, 2012, the measurement date, the carrying amount of the Company was $234.0 million. First California entered into an Agreement and Plan of Merger with PacWest in November 2012. Management considered the consideration being paid for the Company in this arms-length transaction to be the best indicator of the Company’s fair value.

Based on this first step of the impairment analysis, we determined that the fair value of the Company exceeded the carrying amount of the Company, including goodwill, and therefore indicated no potential impairment. If this first step indicates no potential impairment, performing step 2 of the impairment analysis is not considered necessary.

We assess other intangible assets for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. We evaluated the core deposit intangible and customer relationship intangible assets related to the EPS division and determined that the full amount of both intangible assets was not recoverable and we recorded a pre-tax impairment charge of $4.8 million in December 2012.

We also undertake an impairment analysis on our debt and equity securities each quarter. When we do not intend to sell, and it is more-likely-than-not that we are not required to sell, a debt security before recovery of its cost basis, we separate other-than-temporary impairment into (a) the amount representing credit loss and (b) the amount related to other factors. We recognize in earnings the amount of the other-than-temporary impairment related to credit loss. We recognize in other comprehensive income the amount of other-than-temporary impairment related to other factors. Our assessment of other-than-temporary declines in fair value considers the duration the debt security has been in a continuous unrealized loss position, the severity of the decline in value, the rating of the debt security, and the long-term financial outlook of the issuer. In addition, we consider the expected future cash flows of the debt security and our ability and intent on holding the debt security until the fair values recover.

For 2012, other-than-temporary impairment related to the credit loss on debt securities and recognized in earnings was $0.7 million. In addition, we recognized impairment of $39,000 on a $1.0 million community development-related equity investment.

For 2011, other-than-temporary impairment related to the credit loss on debt securities and recognized in earnings was $1.4 million.

For 2010, other-than-temporary impairment related to the credit loss on debt securities and recognized in earnings was $0.7 million. In addition, we recognized impairment of $41,000 on a $1.0 million community development-related equity investment.

Results of Operations—for the two years ended December 31, 2012

Net interest income

Our earnings are derived predominantly from net interest income, which is the difference between interest and fees earned on loans, securities and federal funds sold (these asset classes are commonly referred to as interest-earning assets) and the interest paid on deposits, borrowings and debentures (these liability classes are commonly referred to as interest-bearing funds). The net interest margin is net interest income divided by average interest-earning assets.

Our net interest income for 2012 was $67.3 million, up 13 percent from $59.5 million last year. The increase in our net interest income principally reflects an increase in interest-earning assets combined with a lower cost of interest-bearing liabilities.

Our net interest margin (on a taxable equivalent basis) was 4.01 percent for 2012 compared with 3.92 percent for 2011. The increase in our net interest margin was primarily due to a 29 basis point reduction in the cost on our interest-earning liabilities partially offset by a 22 basis point reduction in the yield of our interest earning assets.

The following table presents the average balances, the amount of interest earned or incurred and the applicable taxable equivalent yields for interest-earning assets and the costs of interest-bearing liabilities that generate net interest income:

Average Balance Sheet and Analysis of Net Interest Income

	Year Ended December 31, 2012			Year Ended December 31, 2011		
	Average Amount	Interest Income/ Expense	Weighted Average Yield/ Rate	Average Amount	Interest Income/ Expense	Weighted Average Yield/ Rate
Loans (1)	$ 1,131,442	$ 70,190	6.20%	$ 1,065,350	$ 65,945	6.19%
Securities	486,133	6,397	1.39%	325,850	6,303	1.97%
Federal funds sold and deposits with banks	70,979	231	0.32%	127,470	350	0.27%
Total earning assets	1,688,554	76,818	4.57%	1,518,670	72,598	4.79%
Non-earning assets	252,046			267,839		
Total average assets	$ 1,940,600			$ 1,786,509		
Interest-bearing checking	$ 113,627	214	0.19%	$ 99,900	340	0.34%
Savings and money market	493,155	2,247	0.46%	469,468	3,922	0.84%
Certificates of deposit	335,782	2,713	0.81%	401,859	3,750	0.93%
Total interest-bearing deposits	942,564	5,174	0.55%	971,227	8,012	0.82%
Borrowings	123,082	3,533	2.87%	128,947	3,750	2.91%
Junior subordinated debentures	26,805	786	2.93%	26,805	1,342	5.01%
Total borrowed funds	149,887	4,319	2.87%	155,752	5,092	3.26%
Total interest-bearing liabilities	1,092,451	9,493	0.87%	1,126,979	13,104	1.16%
Noninterest checking	599,152			422,933		
Other liabilities	17,487			22,807		
Shareholders' equity	231,510			213,790		
Total liabilities and shareholders' equity	$ 1,940,600			$ 1,786,509		
Net interest income		$ 67,325			$ 59,494	
Net interest margin (tax equivalent) (2)			4.01%			3.92%

(1)

Yields and amounts earned on loans include loan fees and discount/premium accretion of $4.3 million and $2.9 million for the years ended December 31, 2012 and 2011, respectively. Yields and amounts earned on loans include interest income (discount accretion) on covered loans of $18.9 million and $14.3 million for the years ended December 31, 2012 and 2011, respectively. The average loan balance includes nonaccrual loans; however, there is no interest income related to nonaccrual loans in the amount earned on loans.

(2) Includes tax equivalent adjustments related to tax-exempt income on securities.

Our net interest income changes with the level and mix of average interest-earning assets and average interest-bearing funds. We call the changes between periods in interest-earning assets and interest-bearing funds balance changes. We measure the effect on our net interest income from balance changes by multiplying the change in the average balance between the current period and the prior period by the prior period average rate.

Our net interest income also changes with the average rate earned or paid on interest-earning assets and interest-bearing funds. We call the changes between periods in average rates earned and paid rate changes. We measure the effect on our net interest income from rate changes by multiplying the change in average rates earned or paid between the current period and the prior period by the prior period average balance.

We allocate the change in our net interest income attributable to both balance and rate on a pro rata basis to the change in average balance and the change in average rate. The following table presents the changes in our interest income and interest expense:

Increase (Decrease) in Net Interest Income/Expense Due to Change in Average Volume and Average Rate (1)

	2012 vs. 2011		
	Increase (Decrease) due to:		Net Increase (Decrease)
	Volume	Rate	
Interest Income:			
Interest on loans (2)	$4,091	$154	$4,245
Interest on securities	3,160	(3,066)	94
Interest on Federal funds sold and deposits with banks	(155)	36	(119)
Total interest income	7,096	(2,876)	4,220
Interest Expense:			
Interest on deposits	(236)	(2,602)	(2,838)
Interest on borrowings	(171)	(46)	(217)
Interest on junior subordinated debentures	-	(556)	(556)
Total interest expense	(407)	(3,204)	(3,611)
Net interest income	$7,503	$328	$7,831

(1) The change in interest income or interest expense that is attributable to both changes in average balance and average rate has been allocated to the changes due to (i) average balance and (ii) average rate in proportion to the relationship of the absolute amounts of changes in each.

(2) Table does not include interest income that would have been earned on nonaccrual loans.

Provision for loan losses

The provision for loan losses was $1.5 million for the year ended December 31, 2012 compared with $5.3 million for the year ended December 31, 2011. The decrease in the provision for loan losses in 2012 compared to 2011 reflects a decline in the quantitative and qualitative loss factors used in estimating the allowance for loan losses. At December 31, 2012, the ratio of the allowance for loan losses to non-covered loans was 1.71 percent compared with 1.90 percent at December 31, 2011.

Noninterest income

Noninterest income was $11.3 million for 2012 compared with $44.6 million for 2011. The decrease reflects primarily the $36.9 million gain on acquisitions recorded in 2011.

Service charges on deposit accounts were $3.1 million for 2012, down 10 percent from $3.4 million for 2011. The decrease reflects a lower incidence of customers drawing checks against their deposit account when insufficient funds are on deposit.

In 2012, we sold $10.9 million of U.S. Small Business Administration, or SBA, loans and realized gains of $534,000. We did not have an SBA department in 2011.

At December 31, 2012, the Bank had a $240 million notional amount portfolio of one-year interest rate caps, up from $120 million at the end of 2011. At December 31, 2012, $220 million of these interest rate caps were forward-starting and not yet effective. The estimated fair value of the portfolio of interest rate caps were $76,000 at December 31, 2012 and $291,000 at December 31, 2011. We recognized a loss on non-hedged derivatives of $536,000 for 2012 and a loss of $84,000 for 2011.

Amortization of the FDIC shared-loss asset was $3.3 million for 2012 compared with accretion of $0.2 million for 2011. The increased amortization in 2012 was the result of lower estimated claims to be paid by the FDIC related to our shared-loss agreements.

For all of 2012 we sold $286.0 million of securities and net gains from the sales of these securities were $5.7 million. For all of 2011 we sold $39.0 million of securities and net gains from the sales of these securities were $1.0 million.

In 2012, we recognized other-than-temporary impairment losses on private-label collateralized mortgage obligations of $0.7 million. In addition, we recognized an impairment loss of $39,000 on a $1.0 million community development-related equity investment. In 2011, we recognized other-than-temporary impairment losses on private-label collateralized mortgage obligations of $1.4 million. We will continue to evaluate our securities portfolio for other-than-temporary impairment at each reporting date and we can provide no assurance there will not be impairment losses in future periods.

In the 2011 fourth quarter, we completed the foreclosures on a $1.4 million office building and a $0.9 million multifamily property. We obtained current appraisals and determined the fair values of these properties were $0.4 million higher than the loan balances. Accordingly, we recognized a $0.4 million market gain on foreclosed assets in the 2011 fourth quarter. There was no such gain recognized in 2012.

On February 18, 2011, the Bank assumed all of the deposits and substantially all of the assets of San Luis Trust Bank, located in San Luis Obispo, California, from the FDIC. We recognized a pre-tax bargain purchase gain of $36.5 million in connection with this transaction. On April 8, 2011, the Bank acquired the Electronic Banking Solutions division of Palm Desert National Bank. We recognized a pre-tax bargain purchase gain of $0.5 million in connection with this transaction.

Other income was $6.1 million for 2012, up from $3.6 million in 2011. The significant increase was due to twelve months of operations from the EPS division for 2012 compared with nine months for 2011.

The following table presents a summary of noninterest income:

	For the years ended December 31,	
	2012	2011
	(in thousands)	
Service charges on deposit accounts	$ 3,108	$ 3,447
Earnings on cash surrender value of life insurance	427	438
Gain on loan sales and commissions	534	—
Loss on non-hedged derivatives	(536)	(84)
(Amortization)accretion of FDIC shared-loss asset	(3,269)	187
Net gain on sale of securities	5,672	1,022
Impairment loss on securities	(728)	(1,387)
Market gain on foreclosed assets	—	429
Gain on acquisitions	—	36,922
Other income	6,128	3,635
Total noninterest income	$ 11,336	$ 44,609

Noninterest expense

Our noninterest expense for 2012 was $61.7 million, up 6 percent from $58.5 million for 2011. The increase in noninterest expense reflects the $4.8 million pre-tax impairment charge related to the intangible assets of the EPS division, higher compensation and professional fee expenses partially offset by a net gain on and expense of foreclosed property for 2012 compared with a net loss and expense of foreclosed property for 2011. Salaries and benefits expense increased to $28.3 million in 2012 from $26.5 million in 2011 due to a full year of EPS division operations in 2012 compared with nine months for 2011. Professional expense increased to $7.8 million in 2012 from $5.6 million in 2011. The increase was due primarily to expense related to shareholder matters of $3.2 million in 2012. We recognized income of $0.4 million in 2012 on foreclosed property compared to a loss of $5.2 million in

2011. The loss in 2011 was mainly due to valuation allowances recorded on our two largest foreclosed properties.

The following table presents a summary of noninterest expense:

	For the years ended December 31,	
	2012	2011
	(in thousands)	
Salaries and employee benefits	$ 28,325	$ 26,510
Premises and equipment	6,393	6,298
Data processing	3,449	3,500
Legal, audit, and other professional services	7,812	5,570
Printing, stationary, and supplies	305	366
Telephone	856	800
Directors' fees	619	460
Advertising and marketing	1,545	1,637
Postage	217	222
Insurance and regulatory assessments	2,213	2,199
(Gain)/loss on and expense of foreclosed property, net	(362)	5,178
Amortization and impairment of intangible assets	6,995	2,289
Other expenses	3,359	3,435
Total noninterest expense	$ 61,726	$ 58,464

Our efficiency ratio was 75 percent for both 2012 and 2011. The efficiency ratio is the percentage relationship of noninterest expense, excluding amortization and impairment of intangibles, loss on and expense of foreclosed property and integration/conversion expenses related to acquisitions, to the sum of net interest income and noninterest income, excluding gains or losses on security sales, other-than-temporary impairment losses and gain on acquisitions.

Income taxes

The income tax provision was $6.2 million for 2012 compared with $16.9 million for 2011. The effective tax rate was 39.9 percent for 2012 compared with 42.0 percent for 2011.

The combined federal and state statutory rate for 2012 and 2011 was 42.05 percent. The effective tax rates for 2012 and 2011 approximated the combined federal and state statutory tax rate because the additions to and exclusions from taxable income were not material.

Results of Operations—for the two years ended December 31, 2011

Net interest income

Our earnings are derived predominantly from net interest income, which is the difference between interest and fees earned on loans, securities and federal funds sold (these asset classes are commonly referred to as interest-earning assets) and the interest paid on deposits, borrowings and debentures (these liability classes are commonly referred to as interest-bearing funds). The net interest margin is net interest income divided by average interest-earning assets.

Our net interest income for 2011 was $59.5 million, up 33 percent from $44.7 million last year. The increase in our net interest income principally reflects the increase in interest-earning assets from the SLTB acquisition combined with a lower cost of interest-bearing liabilities.

Our net interest margin (on a taxable equivalent basis) was 3.92 percent for 2011 compared with 3.46 percent for 2010. The increase in our net interest margin was primarily due to a 39 basis point reduction in the cost of our interest-bearing liabilities. The rate paid on interest-bearing liabilities for 2011 was 1.16 percent compared with 1.55 percent for 2010. The improvement in the yield on interest-earning assets also contributed to the increase in the net interest margin. The yield on interest-earning assets for 2011 increased 20 basis points to 4.79 percent from 4.59 percent for 2010.

The following table presents the average balances, the amount of interest earned or incurred and the applicable taxable equivalent yields for interest-earning assets and the costs of interest-bearing liabilities that generate net interest income:

Average Balance Sheet and Analysis of Net Interest Income

	Year Ended December 31, 2011			Year Ended December 31, 2010		
	Average Amount	Interest Income/ Expense	Weighted Average Yield/ Rate	Average Amount	Interest Income/ Expense	Weighted Average Yield/ Rate
Loans (1)	$ 1,065,350	$ 65,945	6.19%	$ 931,271	$ 53,240	5.72%
Securities	325,850	6,303	1.97%	300,162	5,914	2.00%
Federal funds sold and deposits with banks	127,470	350	0.27%	63,042	196	0.31%
Total earning assets	1,518,670	72,598	4.79%	1,294,475	59,350	4.59%
Non-earning assets	267,839			165,642		
Total average assets	$ 1,786,509			$ 1,460,117		
Interest-bearing checking	$ 99,900	340	0.34%	$ 81,016	277	0.34%
Savings and money market	469,468	3,922	0.84%	367,371	3,611	0.98%
Certificates of deposit	401,859	3,750	0.93%	334,914	4,085	1.22%
Total interest-bearing deposits	971,227	8,012	0.82%	783,301	7,973	1.02%
Borrowings	128,947	3,750	2.91%	133,995	4,945	3.69%
Junior subordinated debentures	26,805	1,342	5.01%	26,779	1,736	6.48%
Total borrowed funds	155,752	5,092	3.26%	160,774	6,681	4.14%
Total interest-bearing liabilities	1,126,979	13,104	1.16%	944,075	14,654	1.55%
Noninterest checking	422,933			317,533		
Other liabilities	22,807			9,543		
Shareholders' equity	213,790			188,966		
Total liabilities and shareholders' equity	$ 1,786,509			$ 1,460,117		
Net interest income		$ 59,494			$ 44,696	

Net interest margin (tax equivalent) (2)	3.92%	3.46%

---

(1) Yields and amounts earned on loans include loan fees and discount/premium accretion of $2.9 million and ($0.5) million for the years ended December 31, 2011 and 2010, respectively. Yields and amounts earned on loans include interest income (discount accretion) on covered loans of $14.3 million and $0.4 million for the years ended December 31, 2011 and 2010, respectively.The average loan balance includes nonaccrual loans; however, there is no interest income related to nonaccrual loans in the amount earned on loans.
(2) Includes tax equivalent adjustments related to tax-exempt income on securities.

Our net interest income changes with the level and mix of average interest-earning assets and average interest-bearing funds. We call the changes between periods in interest-earning assets and interest-bearing funds balance changes. We measure the effect on our net interest income from balance changes by multiplying the change in the average balance between the current period and the prior period by the prior period average rate.

Our net interest income also changes with the average rate earned or paid on interest-earning assets and interest-bearing funds. We call the changes between periods in average rates earned and paid rate changes. We measure the effect on our net interest income from rate changes by multiplying the change in average rates earned or paid between the current period and the prior period by the prior period average balance.

We allocate the change in our net interest income attributable to both balance and rate on a pro rata basis to the change in average balance and the change in average rate. The following table presents the changes in our interest income and interest expense:

Increase (Decrease) in Net Interest Income/Expense Due to Change in Average Volume and Average Rate (1)

	2011 vs. 2010		
	Increase (Decrease) due to:		Net Increase (Decrease)
	Volume	Rate	
Interest Income:			
Interest on loans (2)	$7,665	$5,040	$12,705
Interest on securities	513	(124)	389
Interest on Federal funds sold and deposits with banks	200	(46)	154
Total interest income	8,378	4,870	13,248
Interest Expense:			
Interest on deposits	1,913	(1,874)	39
Interest on borrowings	(186)	(1,009)	(1,195)
Interest on junior subordinated debentures	2	(396)	(394)
Total interest expense	1,729	(3,279)	(1,550)
Net interest income	$6,649	$8,149	$14,798

(1) The change in interest income or interest expense that is attributable to both changes in average balance and average rate has been allocated to the changes due to (i) average balance and (ii) average rate in proportion to the relationship of the absolute amounts of changes in each.

(2) Table does not include interest income that would have been earned on nonaccrual loans.

Provision for loan losses

The provision for loan losses was $5.3 million for the year ended December 31, 2011 compared with $8.3 million for the year ended December 31, 2010. The decrease in the provision for loan losses in 2011 compared to 2010 reflects a decline in non-covered loan balances. We revised downward in the fourth quarter of 2011 our estimated loss factors for the qualitative considerations used in the determination of the adequacy of our allowance for loan losses. We revised upward in the first three quarters of 2011 and revised downward in the final quarter of 2011, our estimated loss factors for the quantitative considerations used in the determination of the adequacy of our allowance for loan losses. The change in our estimated loss factors for the 2011 period was less than the change for the 2010 period; however, the changes resulted in a higher ratio of the allowance for loan losses to non-covered loans. At December 31, 2011, the ratio of the allowance for loan losses to non-covered loans was 1.90 percent compared with 1.80 percent at December 31, 2010.

Noninterest income

Noninterest income was $44.6 million for 2011 compared with $8.8 million for 2010. The increase is primarily due to gain on acquisitions.

Service charges on deposit accounts were $3.4 million for 2011, up 7 percent from $3.2 million for 2010. The increase reflects the related growth in our deposit balances from $1.2 billion at December 31, 2010 to $1.4 billion at December 31, 2011.

In 2011, we did not sell any loans. During 2010, we sold one loan for a gain of $8,000. We did not receive commissions on brokered commercial and multifamily mortgages in 2011 compared with $47,000 in 2010.

For all of 2011 we sold $39.0 million of securities and net gains from the sales of these securities were $1.0 million. For all of 2010 we sold $236.0 million of securities and net gains from the sales of these securities were $2.0 million.

In 2011, we recognized other-than-temporary impairment losses on private-label collateralized mortgage obligations of $1.4 million. In 2010, we recognized other-than-temporary impairment losses on private-label collateralized mortgage obligations of $0.7 million. In addition, we recognized an impairment loss of $41,000 on a $1.0 million community development-related equity investment. We will continue to evaluate our securities portfolio for other-than-temporary impairment at each reporting date and we can provide no assurance there will not be impairment losses in future periods.

In the 2011 fourth quarter, we completed the foreclosures on a $1.4 million office building and a $0.9 million multifamily property. We obtained current appraisals and determined the fair values of these properties were $0.4 million higher than the loan balances. Accordingly, we recognized a $0.4 million market gain on foreclosed assets in the 2011 fourth quarter. In the 2010 second quarter we completed the foreclosure on a $21.0 million completed office construction project. This project consisted of 20 completed units ranging from approximately 1,650 square feet to 14,600 square feet in size. We obtained a current appraisal, evaluated the estimated retail sales prices as well as the estimated costs to sell and determined the fair value of this project to be $21.7 million. Accordingly, in the 2010 second quarter, we recognized a market value gain on foreclosed assets of $0.7 million.

On February 18, 2011, the Bank assumed all of the deposits and substantially all of the assets of San Luis Trust Bank, located in San Luis Obispo, California, from the FDIC. We recognized a pre-tax bargain purchase gain of $36.5 million in connection with this transaction. On April 8, 2011, the Bank acquired the Electronic Banking Solutions division of Palm Desert National Bank. We recognized a pre-tax bargain purchase gain of $0.5 million in connection with this transaction. On November 5, 2010, the Bank assumed all of the deposits and substantially all of the assets of Western Commercial Bank, located in Woodland Hills, California, from the FDIC. We recognized a pre-tax bargain purchase gain of $2.3 million in connection with this transaction.

Other income was $3.7 million for 2011, up 363 percent from $0.8 million in 2010. The significant increase was due to the acquisition of the EPS division in April 2011 that generates fee income from the issuance of prepaid cards and sponsoring merchant acquiring services for all national and regional credit card networks.

The following table presents a summary of noninterest income:

	For the years ended December 31,	
	2011	2010
	(in thousands)	
Service charges on deposit accounts	$3,447	$3,225
Earnings on cash surrender value of life insurance	438	441
Gain on loan sales and commissions	—	55
Loss on non-hedged derivatives	(84)	—
Accretion of FDIC shared-loss asset	187	—
Net gain on sale of securities	1,022	2,014
Impairment losses on securities	(1,387)	(749)
Market gain on foreclosed assets	429	691
Gain on acquisition	36,922	2,312
Other income	3,635	807
Total noninterest income	$44,609	$8,796

Noninterest expense

Our noninterest expense for 2011 was $58.5 million, up 37 percent from $42.8 million for 2010. The increase in noninterest expense was largely in salaries and benefits expense, professional expense and loss on and expense of foreclosed properties. Salaries and benefits expense reflects the workforce increases from the acquisitions of Western Commercial Bank in November 2010, San Luis Trust Bank in February 2011 and the EPS division in April 2011. Full-time equivalent employees were 304 at December 31, 2011 as compared with 248 at December 31, 2010. Professional expense increased to $5.6 million in 2011 from $2.0 million in 2010. The increase was due to litigation expense related to ongoing legal cases and a high level of legal loan collection expense. Loss on and expense of foreclosed properties increased to $5.2 million in 2011 from $3.0 million in 2010. The increase was mainly due to valuation allowances recorded on our two largest foreclosed properties.

The following table presents a summary of noninterest expense:

	For the years ended December 31,	
	2011	2010
	(in thousands)	
Salaries and employee benefits	$26,510	$19,014
Premises and equipment	6,298	6,268
Data processing	3,500	2,564
Legal, audit, and other professional services	5,570	2,033
Printing, stationary, and supplies	366	258
Telephone	800	841
Directors' fees	460	428
Advertising and marketing	1,637	918
Postage	222	212
Insurance and regulatory assessments	2,199	2,944
Loss on and expense of foreclosed property, net	5,178	2,954
Amortization of intangible assets	2,289	1,666
Other expenses	3,435	2,705
Total noninterest expense	$58,464	$42,805

Our efficiency ratio was 75 percent for both 2011 and 2010. The efficiency ratio is the percentage relationship of noninterest expense, excluding amortization of intangibles, loss on and expense of foreclosed property and integration/conversion expenses related to acquisitions, to the sum of net interest income and noninterest income, excluding gains or losses on security sales, other-than-temporary impairment losses and gain on acquisitions.

Income taxes

The income tax provision was $16.9 million for 2011 compared with $0.9 million for 2010. The effective tax rate was 42.0 percent for 2011 compared with 40.0 percent for 2010.

The combined federal and state statutory rate for 2011 and 2010 was 42.05 percent. The effective tax rates for 2011 and 2010 approximated the combined federal and state statutory tax rate because the additions to and exclusions from taxable income were not material.

Financial Position

Lending and credit risk

We provide a variety of loan and credit-related products and services to meet the needs of borrowers primarily located in the seven Southern California counties where our branches are located. Business loans, represented by commercial real estate loans, commercial loans and construction loans comprise the largest portion of the loan portfolio. Consumer or personal loans, represented by home mortgage, home equity and installment loans, comprise a smaller portion of the loan portfolio.

Credit risk is the risk to earnings or capital arising from an obligor's failure to meet the terms of any contract with us or otherwise to perform as agreed. All activities in which success depends on counterparty, issuer, or borrower

performance have credit risk. Credit risk is present any time we extend, commit or invest funds; whenever we enter into actual or implied contractual agreements for funds, whether on or off the balance sheet, credit risk is present.

All categories of loans present credit risk. Major risk factors applicable to all loan categories include changes in international, national and local economic conditions such as interest rates, inflation, unemployment levels, consumer and business confidence and the supply and demand for goods and services, among other factors.

Commercial real estate loans rely upon the cash flow originating from the underlying real property. Commercial real estate is a cyclical industry; general economic conditions and local supply and demand affect the commercial real estate industry. In the office sector, the demand for office space is highly dependent on employment levels. Consumer spending and confidence affect the demand for retail space and the levels of retail rents in the retail sector. The industrial sector has exposure to the level of exports, defense spending and inventory levels. Vacancy rates, location and other factors affect the amount of rental income for commercial property. Tenants may relocate, fail to honor their lease or go out of business. In the multifamily residential sector, the affordability of ownership housing, employment conditions and the vacancy of existing inventory heavily influences the demand for apartments. Population growth or decline and changing demographics, such as increases in the level of immigrants or retirees, are also factors influencing the multifamily residential sector.

Construction loans provide developers or owners with funds to build or improve properties; developers ultimately sell or lease these properties. Generally, construction loans involve a higher degree of risk than other loan categories because they rely upon the developer's or owner's ability to complete the project within specified cost and time limits. Cost overruns can cause the project cost to exceed the project sales price or exceed the amount of the committed permanent funding. Any number of reasons, such as poor weather, material or labor shortages, labor difficulties, or redoing substandard work to pass inspection, can delay construction projects. Furthermore, changes in market conditions or credit markets may affect a project's viability once completed.

Commercial loans rely upon the cash flow originating from the underlying business activity of the enterprise. The manufacture, distribution or sale of goods or sale of services are not only affected by general economic conditions but also by the ability of the enterprise's management to adjust to local supply and demand conditions, maintain good labor, vendor and customer relationships, as well as market, price and sell their goods or services for a profit. Customer demand for goods and services of the enterprise may change because of competition or obsolescence.

Home mortgages and home equity loans and lines of credit use first or second trust deeds on a borrower's real estate property, typically their principal residence, as collateral. These loans depend on a person's ability to regularly pay the principal and interest due on the loan and, secondarily, on the value of real estate property that serves as collateral for the loan. Generally, home mortgages involve a lower degree of risk than other loan categories because of the relationship of the loan amount to the value of the residential real estate and a person's reluctance to forego their principal place of residence. General economic conditions and local supply and demand, however, affect home real estate values. Installment loans and credit card lines also depend on a person's ability to pay principal and interest on a loan in a regular manner; however, generally these are unsecured loans or, if secured, the collateral value can rapidly decline, as is the case for automobiles. A person's ability to service debt is highly dependent upon their continued employment or financial stability. Job loss, divorce, illness and bankruptcy are just a few of the risks that may affect a person's ability to service their debt.

We obtain appraisals when extending credit for real estate secured loans as follows:

1. All business loans in excess of $1,000,000 where real estate will be taken as collateral but where the sale or rental of the real estate is not the primary source of repayment;

2. All business loans in excess of $250,000 where real estate will be taken as collateral and where the sale or rental of the real estate is the primary source of repayment; and

3. All other real estate secured loans in excess of $250,000.

All real estate secured loans, at the time of origination, renewal or extension, require a current appraisal. A current appraisal is an appraisal with an "as of' date not more than six months before the date of funding or renewal or extension. We also obtain updated appraisals when the useful life of the appraisal ceases. Under the Uniform Standards of Professional Appraisal Practice guidelines, the useful life of an appraisal, regardless of the dollar amount, is the life of the loan. However, useful life ends when (a) there has been a deterioration in the borrower's performance and there is an increasing likelihood of a forced liquidation of the property and the existing appraisal is older than two years old, or (b) there has been deterioration in the property's value due to a significant depreciation in local real estate values, lack of maintenance, changes in zoning, environmental contamination or other circumstances.

Since the risks in each category of loan changes based on a number of factors, it is not possible to state whether a particular type of lending carries with it a greater or lesser degree of risk at any specific time in the economic cycle. Generally, in a stabilized economic environment, home mortgage loans have the least risk, followed by home equity loans, multifamily property loans, commercial property loans, commercial loans and lines and finally construction loans. However, this ordering may vary from time to time and the degree of risk from the credits with the least risk to

those with the highest risk profile may expand or contract with the general economy.

We manage credit risk through Board approved policies and procedures. At least annually, the Board reviews and approves these policies. Lending policies provide us with a framework for consistent loan underwriting and a basis for sound credit decisions. Lending policies specify, among other things, the parameters for the type or purpose of the loan, the required debt service coverage and the required collateral requirements. Credit limits are also established. Management's Loan Committee meets regularly to approve certain loans, monitor delinquencies and reports quarterly to the Directors' Credit Review Committee on compliance with policies. The Directors' Audit Committee also engages a third party to perform a credit review of the loan portfolio to ensure compliance with policies and assist in the evaluation of the credit risk inherent in the loan portfolio.

Non-covered Loans

Non-covered loans increased 13 percent to $1.1 billion at December 31, 2012 from $936.1 million at December 31, 2011. Commercial mortgages increased 14 percent or $54.3 million in 2012 while commercial loans and lines declined 7 percent or $12.1 million for the same period. Multifamily mortgages increased 16 percent, with $18.5 million of the increase from originations and $44.8 million from purchases, partially offset by $33.4 million in reductions from pay-downs and pay-offs. In addition, we purchased $81.3 million of conforming and non-conforming residential mortgages secured by properties generally within our seven-county market area.

The following table presents our portfolio of non-covered loans:

	For the years ended December 31,				
	2012	2011	2010	2009	2008
			(in thousands)		
Commercial mortgage	$447,689	$393,376	$399,634	$381,334	$302,016
Commercial loans and lines of credit	168,325	180,421	213,576	235,849	228,958
Multifamily mortgage	217,158	187,333	135,639	138,548	51,607
Home mortgage	149,954	106,350	108,076	51,036	45,202
Construction and land development	36,772	35,082	55,260	86,609	133,054
Home equity loans and lines of credit	36,709	28,645	29,828	40,122	22,568
Installment & credit card	4,586	4,896	5,724	5,748	5,016
Total non-covered loans	1,061,193	936,103	947,737	939,246	788,421
Allowance for loan losses	(18,172)	(17,747)	(17,033)	(16,505)	(8,048)
Non-covered loans, net	$1,043,021	$918,356	$930,704	$922,741	$780,373
Loans held-for-sale	$—	$—	$—	$—	$31,401

The loan categories above are derived from bank regulatory reporting standards for loans secured by real estate; however, a portion of the commercial and home mortgage loans above are loans that we consider to be commercial loans for which we have taken real estate collateral as additional support or from an abundance of caution. In these instances, we are not looking to the real property as its primary source of repayment, but rather as a secondary or tertiary source of repayment.

Commercial mortgage loans, the largest segment of our portfolio, were 42 percent of non-covered loans at December 31, 2012, and 2011. We had approximately 435 commercial mortgage loans with an average balance of $1,028,000. Many different commercial property types collateralize our commercial mortgage loans. Our top three categories have been industrial, office, and retail. In addition, most of our commercial property lending is in the seven Southern California counties where our branches are located. The following is a table of our non-covered commercial mortgage lending by county.

Non-covered commercial mortgage loans by county	At December 31, 2012	At December 31, 2011
	(in thousands)	
Southern California		
Los Angeles	$204,256	$182,282

Orange	32,291	27,151
Ventura	117,785	122,921
Riverside	35,398	22,041
San Bernardino	13,977	15,538
San Diego	15,696	14,170
Santa Barbara	7,613	225
Total Southern California	427,016	384,328
Northern California		
Alameda	339	343
Alpine	—	569
Contra Costa	329	354
Fresno	2,364	2,404
Imperial	317	335
Kern	133	672
Madera	505	521
Placer	591	603
Sacramento	314	333
San Luis Obispo	15,244	—
San Mateo	—	2,363
Solano	257	265
Tulare	280	286
Total Northern California	20,673	9,048
Total non-covered commercial mortgage loans	$447,689	$393,376

The following table shows the distribution of our non-covered commercial mortgage loans by property type at December 31, 2012 and 2011.

Non-covered commercial mortgage loans by property type	At December 31, 2012	At December 31, 2011
	(in thousands)	
Industrial/warehouse	$106,288	$113,480
Office	97,316	87,136
Retail	85,862	64,646
Mixed use	29,468	12,343
Medical	23,543	14,043
Hotel	18,167	23,746
Self-storage	14,814	19,752
Restaurant	11,448	7,771
Assisted living	6,967	5,649
All other	53,816	44,810
Total non-covered commercial mortgage loans	$447,689	$393,376

The following table shows the maturity of our non-covered commercial mortgage loans by origination year.

Non-covered commercial mortgage loans by origination year/maturity year

(in thousands)

	Year of maturity					
Origination Year	2013	2014	2015	2016	2017 and Thereafter	Total
2008 and earlier	$8,564	$28,589	$3,997	$6,171	$165,054	$212,375
2009	961	1,637	42	—	26,245	28,885
2010	32	—	2,785	—	24,696	27,513
2011	52	—	—	—	48,197	48,249
2012	4,914	515	—	—	125,238	130,667
Total	$14,523	$30,741	$6,824	$6,171	$389,430	$447,689

We generally underwrite commercial mortgage loans with a maximum loan-to-value of 60 percent and a minimum debt-service-coverage ratio of 1.25. The weighted average loan-to-value ratio of our non-covered commercial mortgage portfolio was 59.1 percent and the weighted average debt-service-coverage ratio was 1.85 at December 31, 2012. At December 31, 2011, the weighted-average loan-to-value ratio was 58.6 percent and debt-service-coverage ratio was 1.70 for our non-covered commercial mortgage loan portfolio. We focus on cash flow; consequently, regardless of the collateral value, the commercial real estate project must provide sufficient cash flow, or alternatively the principals must supplement the project with other cash flow, to service the debt. We generally require the principals to guarantee the loan. We also "stress-test" commercial mortgage loans to determine the potential affect

changes in interest rates, vacancy rates, and lease or rent rates would have on the cash flow of the project. Additionally, at least on an annual basis, we require updates on the cash flow of the project and, where practicable, we visit the properties.

At December 31, 2012, commercial loans were 16 percent of non-covered loans, down from 19 percent at December 31, 2011. We had approximately 833 commercial loans with an average balance of $201,000. Unused commitments on commercial loans were $127.6 million at December 31, 2012 compared with $110.9 million at December 31, 2011. Working capital, equipment purchases or business expansion are the typical purposes for commercial loans. Commercial loans may be unsecured or secured by assets such as equipment, inventory, accounts receivables, and real property. Personal guarantees of the business owner may also be present. These loans may also have partial guarantees from the U.S. Small Business Administration, or SBA, or other federal or state agencies. Broadly diversified business sectors with the largest sectors in real estate/construction, finance and insurance, information, manufacturing and trade comprise the commercial loan portfolio. We also participate in larger credit facilities known as shared national credits. At December 31, 2012, five loans under these facilities had outstanding balances of $14.6 million. These loans consist of motion picture and video production loan participations. Below is a table of our non-covered loans by business sector.

Non-covered commercial loans by industry/sector	At December 31, 2012	At December 31, 2011
	(in thousands)	
Real estate	$54,164	$47,439
Services	40,428	47,219
Information	27,509	30,040
Trade	17,641	22,988
Manufacturing	15,365	16,196
Healthcare	11,066	14,712
Transportation and warehouse	2,152	1,827
Total non-covered commercial loans	$168,325	$180,421

We generally underwrite commercial loans with maturities not to exceed seven years and we generally require full amortization of the loan within the term of the loan. We generally underwrite working capital lines for a 12 month period and have a 30-day out-of-debt requirement. Accounts receivable and inventory financing revolving lines of credit have an annual maturity date, a maximum advance rate, and an annual field audit for lines of $200,000 or more. Third-party vendors perform field audits for our accounts receivable and inventory financing revolving lines of credit. The maximum advance rate for accounts receivable is 80 percent and the maximum advance rate for eligible inventory is 25 percent.

Non-covered construction and land development loans were 3 percent of non-covered loans at December 31, 2012 down from 4 percent at December 31, 2011. At December 31, 2012, we had 93 projects with an average commitment of $1,052,000. Construction loans represent single-family, multi-family and commercial building projects. At December 31, 2012, 26 percent of these loans or $9.5 million represent single-family residential construction projects and 47 percent, or $17.3 million were commercial projects. The remaining 27 percent or $10.0 million were land development projects. Construction loans are typically short term, with maturities ranging from 12 to 18 months. The maximum loan-to-value is 70 percent for both commercial and residential projects. The weighted average loan-to-value ratio for our non-covered construction and land portfolio was 68.8 percent at December 31, 2012 and 69.9 percent at December 31, 2011. At the borrower's expense, we use a third party vendor for funds control, lien releases and inspections. In addition, we regularly monitor the marketplace and the economic trends for evidence of deterioration in real estate values. Below is a table of our non-covered construction and land loans by county.

Non-covered construction/land loans by county	At December 31, 2012		At December 31, 2011	
	Commitment	Outstanding	Commitment	Outstanding
	(in thousands)			
Los Angeles	$25,363	$14,692	$29,369	$11,603
Orange	1,215	1,068	5,857	2,909
Ventura	22,407	17,888	20,473	15,608
Riverside	2,545	1,732	3,772	3,726
San Luis Obispo	22,184	149	—	—
Santa Barbara	1,872	1,243	1,239	1,236
Total non-covered construction	$75,586	$36,772	$60,710	$35,082

We are mindful of the economic disruption in our marketplace and supplemented our regular monitoring practices with updated project appraisals, re-evaluation of estimated project marketing time and re-evaluation of the sufficiency

of the original loan commitment to absorb interest charges (i.e., interest reserves) when necessary. We also re-evaluate the project sponsor's ability, where applicable, to successfully complete other projects funded by other institutions. In circumstances where the interest reserve was not sufficient, we request the project sponsor to make payments to us from their general resources or request the project sponsor to place with us the proceeds from a portion of the project sales. While we believe that our monitoring practices are adequate, we cannot assure you that there will not be further delinquencies, lengthened project marketing time or declines in real estate values.

Multifamily residential mortgage loans were 20 percent of non-covered loans at both December 31, 2012 and December 31, 2011. We had approximately 198 multifamily loans with an average balance of $1,086,000. Apartments mostly located in our seven-county market area serve as collateral for our multifamily loans. We underwrite multifamily mortgage loans in a fashion similar to commercial mortgage loans previously described. The weighted average loan-to-value ratio was 61.7 percent and the weighted average debt-service-coverage ratio was 1.48 for our non-covered multifamily portfolio at December 31, 2012. A year ago, the weighted average loan-to-value ratio was 60.3 percent and the weighted average debt-service-coverage ratio was 1.44 percent. Below is a table of our non-covered multifamily mortgage loans by county.

Non-covered multi-family mortgage loans by county	At December 31, 2012	At December 31, 2011
	(in thousands)	
Southern California		
Los Angeles	$122,292	$107,580
Orange	5,472	15,638
Ventura	11,757	6,942
Riverside	1,368	496
San Bernardino	6,242	3,989
San Diego	18,976	20,965
Santa Barbara	4,095	1,853
Total	170,202	157,463
Northern California		
Alameda	2,837	7,247
Calaveras	1,330	1,337
Contra Costa	602	613
Fresno	233	239
Kern	2,444	2,538
Merced	638	650
Monterey	368	373
Mono	219	224
Napa	14,925	—
San Francisco	5,664	4,228
San Mateo	1,369	—
Santa Clara	15,996	12,085
Santa Cruz	331	336
Total	46,956	29,870
Total non-covered multifamily mortgage loans	$217,158	$187,333

The following table shows the maturity of our non-covered multifamily mortgage loans by origination year.

Non-covered multifamily mortgage loans by origination year/maturity year

(in thousands)

	Year of maturity					
Origination Year	2013	2014	2015	2016	2017 and Thereafter	Total
2008 and earlier	$ 1,080	$ 948	$ —	$ —	$ 46,228	$ 48,256
2009	—	203	—	—	32,220	32,423
2010	—	—	—	—	8,086	8,086
2011	—	—	—	—	63,742	63,742
2012	964	—	—	—	63,687	64,651
Total	$ 2,044	$ 1,151	$ —	$ —	$ 213,963	$ 217,158

The table below illustrates the distribution of our non-covered loan portfolio by loan size at December 31, 2012. We distribute all non-covered loans by loan balance outstanding except construction and land loans, which we distribute by loan commitment. At year-end 2012, 37 percent of our loans were less than $1 million; 82 percent of our loans were less than $5 million. We believe the high number of smaller-balance loans aids in the mitigation of credit risk; however, a prolonged and deep recession can affect a greater number of borrowers.

	December 31, 2012					
	Less than $500,000	$500,000 to $999,999	$1,000,000 to $2,999,999	$3,000,000 to $4,999,999	$5,000,000 to $9,999,999	$10,000,000 to $12,600,000
Commercial mortgage	10%	15%	37%	17%	16%	5%
Commercial loans and lines of credit	29%	15%	34%	9%	13%	0%
Construction and land development	3%	10%	24%	13%	50%	0%
Multifamily mortgage	9%	23%	44%	5%	14%	5%
Home mortgage	40%	31%	18%	2%	9%	0%
Home equity loans and lines of credit	34%	12%	18%	9%	27%	0%
Installment & credit card	84%	16%	0%	0%	0%	0%
Weighted average totals	18%	19%	34%	11%	15%	3%
Number	2,334	294	231	33	24	3

52

The following table presents the scheduled maturities of fixed and variable rate loans for our non-covered and covered loan portfolios.

	December 31, 2012			
	One year or less	After one year to five years	After five years	Total
	(in thousands)			
Fixed rate loans				
Commercial mortgage	$7,166	$39,188	$137,545	$183,899
Commercial loans and lines	12,881	30,002	17,837	60,720
Multifamily mortgage	1,793	3,800	44,303	49,896
Home mortgage	3,374	13,412	134,461	151,247
Construction and land	5,208	4,496	12,850	22,554
Home equity loans	1,115	4,865	1,478	7,458
Installment & credit card	333	1,072	709	2,114
Total fixed rate loan maturities	31,870	96,835	349,183	477,888
Variable rate loans				
Commercial mortgage	9,367	11,460	271,414	292,241
Commercial loans and lines	58,303	37,775	20,302	116,380
Multifamily mortgage	964	274	175,722	176,960
Home mortgage	11	1,139	27,453	28,603
Construction and land	27,249	1,383	2,488	31,120
Home equity loans	4,074	21,879	9,978	35,931
Installment & credit card	407	770	527	1,704
Total adjustable rate loan maturities	100,375	74,680	507,884	682,939
Total maturities	$132,245	$171,515	$857,067	$1,160,827

Allowance for Loan Losses

We maintain an allowance for loan losses to provide for inherent losses in the non-covered loan portfolio. We establish the allowance through a provision charged to expense. We charge-off all loans judged uncollectible against the allowance while we credit any recoveries on loans to the allowance. We charge-off commercial and real estate loans — construction, commercial mortgage, multifamily mortgage and home mortgage — by the time their principal or interest becomes 120 days delinquent unless the loan is well-secured and in the process of collection. We also charge-off consumer loans by the time they become 90 days delinquent unless the loan is well-secured and in the process of collection. We also charge-off deposit overdrafts when they become more than 60 days old. We evaluate impaired loans on a case-by-case basis to determine the ultimate loss potential to us after considering the proceeds realizable from a sale of collateral. In those cases where the collateral value is less than the loan, we charge-off the loan to reduce the balance to a level equal to the net realizable value of the collateral. We consider a loan impaired when, based on current information and events, we do not expect to be able to collect all amounts due according to the loan contract, including scheduled interest payments.

Our loan policy provides procedures designed to evaluate and assess the risk factors associated with our loan portfolio, to enable us to assess such risk factors prior to granting new loans and to evaluate the sufficiency of the

allowance for loan losses. We assess the allowance on a monthly basis and undertake a more critical evaluation quarterly. At the time of the quarterly review, the Board of Directors will examine and formally approve the adequacy of the allowance. The quarterly evaluation includes an assessment of the following factors: any external loan review and any regulatory examination, estimated probable loss exposure on each pool of loans, concentrations of credit, value of collateral, the level of delinquency and non-accruals, trends in the portfolio volume, effects of any changes in the lending policies and procedures, changes in lending personnel, present economic conditions at the local, state and national level, the amount of undisbursed off-balance sheet commitments, and a migration analysis of historical losses and recoveries for the prior twenty quarters.

Our evaluation of the adequacy of the allowance for loan losses includes a review of individual loans to identify specific probable losses and assigns estimated loss factors to specific groups or types of loans to calculate possible losses. In addition, we estimate the probable loss on previously accrued but unpaid interest. We refer to these as quantitative considerations. Our evaluation also considers subjective factors such as changes in local and regional economic and business conditions, financial improvement or deterioration in business sectors and industries, changes in lending practices, changes in personnel, changes in the volume and level of past due and nonaccrual loans and concentrations of credit. We refer to these as qualitative considerations.

Our year-end 2012 evaluation of the adequacy of the allowance for loan losses considered, among other things, estimated loss factors assigned to specific types of loans, changes and trends in the level of delinquencies, nonaccrual loans and loan charge-offs, changes in the value of collateral, changes in the local and regional economic and business conditions, the judgment of the bank regulatory agencies at the conclusion of their examination process with respect to information available to them during such examination process. Finally, we considered the weakness of the economic recovery and the impact it might have on our borrowers, especially our small business borrowers. More specifically, we revised downward in the first two quarters of 2012 and then upwards in the final quarter of 2012 our estimated loss factors for our qualitative considerations. We revised upward in the first quarter of 2012 and then downward in the final three quarters of 2012 our estimated loss factors for our quantitative considerations. Our reasons are as follows.

We considered the trend in the level of our loan credit quality indicators, delinquencies, nonaccrual loans and loan charge-offs. Non-covered loans rated Special mention, Substandard, Doubtful or Loss increased to $99.7 million at December 31, 2012 from $68.6 million at December 31, 2011. Total non-covered past due loans and nonaccrual loans increased to $25.7 million at December 31, 2012 from $17.3 million at December 31, 2011. Non-covered foreclosed property decreased to $14.9 million at December 31, 2012 from $20.3 million at December 31, 2011. Net non-covered loan charge-offs decreased to $1.1 million, or 0.11% of average non-covered loans for the year ended December 31, 2012 compared with $4.6 million, or 0.51% of average non-covered loans for the year ended December 31, 2011.

We considered the marketing time and sales prices for our completed construction loan portfolio. Our non-covered construction and land loan portfolio was 3 percent of non-covered loans at December 31, 2012 compared with 4 percent at December 31, 2011. The continued disruption in the residential and commercial mortgage loan markets and the continued downward pressure on real estate values may adversely affect these loans.

Finally, we considered the weakness of the economic recovery and the impact it might have on our borrowers, especially our small business borrowers, and the judgment of the bank regulatory agencies at the conclusion of their examination process with respect to information available to them during such examination process.

As a result, the allowance for loan losses increased to $18.2 million at December 31, 2012 from $17.7 million at December 31, 2011. The provision for loan losses was $1.5 million for the year ended December 31, 2012, compared with $5.3 million for the year ended December 31, 2011. The ratio of the allowance for loan losses to non-covered loans was 1.71 percent at December 31, 2012 compared with 1.90 percent at December 31, 2011.

We believe that our allowance for loan losses was adequate at December 31, 2012 and 2011. The determination of the allowance for loan losses, however, is a highly judgmental process and we cannot assure you that we will not further increase or decrease the allowance or that bank regulators will not require us to increase or decrease the allowance in the future.

The following table presents activity in the allowance for loan losses.

	For the years ended December 31,				
	2012	2011	2010	2009	2008
			(in thousands)		
Beginning balance	$17,747	$17,033	$16,505	$8,048	$7,828
Provision for loan losses	1,500	5,346	8,337	16,646	1,150
Loans charged-off	(1,485)	(5,177)	(8,535)	(8,580)	(1,075)
Recoveries on loans charged-off	410	545	726	391	145
Ending balance	$18,172	$17,747	$17,033	$16,505	$8,048
Allowance to non-covered loans	1.71 %	1.90 %	1.80 %	1.76 %	1.02 %
Net loans charged-off to average non-covered loans	0.11 %	0.51 %	0.85 %	0.89 %	0.12 %

The following table presents the net loan charge-offs by non-covered loan type for the periods indicated.

	Twelve months ended December 31,		
(in thousands)	2012	2011	2010
Construction	$—	$176	$382
Home mortgage	330	475	447
Commercial loans & lines	392	3,480	5,256

Commercial mortgage	184	366	1,680
Home equity	—	39	—
Consumer	169	96	44
Total	$1,075	$4,632	$7,809

The following table presents the allocation of the allowance for loan losses to each loan category and the percentage relationship of loans in each category to total non-covered loans:

	For the years ended December 31,									
	2012		2011		2010		2009		2008	
	Allocation of the allowance by loan category	Percent of Loans in Category to Total Non-covered Loans	Allocation of the allowance by loan category	Percent of Loans in Category to Total Non-covered Loans	Allocation of the allowance by loan category	Percent of Loans in Category to Total Non-covered Loans	Allocation of the allowance by loan category	Percent of Loans in Category to Total Non-covered Loans	Allocation of the allowance by loan category	Percent of Loans in Category to Total Non-covered Loans
	(in thousands)									
Commercial mortgage	$ 5,749	42%	$ 6,091	42%	$ 6,134	42%	$ 4,850	41%	$ 2,504	38%
Multifamily mortgage	2,851	21%	2,886	20%	2,273	14%	3,277	15%	421	7%
Commercial loans	6,388	16%	6,221	19%	4,934	23%	4,796	25%	2,463	29%
Construction loans	498	3%	814	4%	1,698	6%	2,460	9%	2,069	17%
Home equity loans	412	3%	390	3%	416	3%	453	4%	186	3%
Home mortgage	2,223	14%	1,274	11%	1,496	11%	605	5%	362	6%
Installment and credit card	51	1%	71	1%	82	1%	64	1%	43	—%
Total	$ 18,172	100%	$ 17,747	100%	$ 17,033	100%	$ 16,505	100%	$ 8,048	100%

The amounts or proportions displayed above do not imply that charges to the allowance will occur in those amounts or proportions.

We had forty-one non-covered restructured loans for $14.0 million at December 31, 2012; of these, twenty-two restructured loans for $7.8 million were current at December 31, 2012, two restructured loans for $0.9 million were included in the accruing loans past due 30 to 89 days category shown below and seventeen restructured loans for $5.3 million were included in the nonaccrual loan category shown below. We had sixteen non-covered restructured loans for $4.4 million at December 31, 2011; of these, six restructured loans for $0.9 million were current at December 31, 2011, one restructured loan for $0.7 million was included in the accruing loans past due 30 to 89 days category shown below and nine restructured loans for $2.8 million were included in the nonaccrual loan category shown below.

The following table presents non-covered past due and nonaccrual loans.

	For the years ended December 31,				
	2012	2011	2010	2009	2008
	(in thousands)				
Accruing non-covered loans past due 30 to 89 days	$ 11,062	$ 3,449	$ 11,630	$ 14,592	$ 2,644

Accruing non-covered loans past due 90 days or more	$	—	$	—	$	—	$	200	$	429
Nonaccrual loans	$	14,610	$	13,860	$	18,241	$	39,958	$	8,475
Ratios:										
Accruing loans past due 90 days or more to average non-covered loans		—		—		—		0.02%		0.05%
Non-covered nonaccrual loans to non-covered loans		1.38%		1.48%		1.92%		4.25%		1.07%
Interest foregone on non-covered nonaccrual loans	$	719	$	841	$	2,066	$	2,134	$	543

Accruing non-covered loans past due 30 to 89 days increased to $11.1 million at December 31, 2012 from $3.4 million at December 31, 2011. The increase is primarily from one $6.3 million home mortgage that became delinquent in December 2012. This category of non-covered loans historically has had the most fluctuation from period to period.

Our largest non-covered nonaccrual loan was a revolving credit facility to purchase and develop a film library with a balance of $5.8 million at December 31, 2012. This amount is after charge-off of $3.4 million. The charge-off represented the estimated excess of the loan advances over the value of the film library. This loan is a participation in a credit facility also known as a shared national credit. We estimated at December 31, 2012 a specific loss allowance of $2.6 million for this loan.

Our next largest non-covered nonaccrual loan was a $1.1 million commercial business loan to a commercial contractor. The borrower filed for Chapter 11 bankruptcy; however, this loan was performing in accordance with modified loan terms at December 31, 2012. We estimated a specific loss allowance of $539,000 for this loan at December 31, 2012.

All other non-covered nonaccrual loans were individually under $1 million at December 31, 2012.

The following table presents the activity in our non-covered nonaccrual loan category for the periods indicated.

	Twelve months ended December 31,			
	2012		2011	
	# of Loans	$ Amount	# of Loans	$ Amount
	(dollars in thousands)			
Beginning balance	29	$13,860	28	$18,241
New loans added	19	7,282	37	8,385
Loans transferred to foreclosed property	—	—	(5)	(3,103)
Loans returned to accrual status	(7)	(1,953)	(12)	(2,955)
Payoffs on existing loans	(3)	(372)	(9)	(2,144)
Partial charge-offs on existing loans	—	(51)	—	(221)
Charge-offs on existing loans	(5)	(822)	(10)	(3,234)
Payments on existing loans	—	(3,334)	—	(1,109)
Ending balance	33	$14,610	29	$13,860

Non-covered foreclosed property at December 31, 2012 consists of a $11.1 million completed office complex project consisting of 13 buildings in Ventura County and a $2.8 million unimproved land property of 161 acres located in an unincorporated section of western Los Angeles County known as Liberty Canyon. The remainder consists of one multifamily property and one single-family residence. At December 31, 2011, the completed office complex project had 16 buildings and a carrying amount of $14.0 million.

The following table presents the activity of our non-covered foreclosed property for the periods indicated.

	Twelve months ended December 31,			
	2012		2011	
	# of Properties	$ Amount	# of Properties	$ Amount
	(dollars in thousands)			
Beginning balance	7	$20,349	8	$26,011
New properties added	—	—	4	3,356
Valuation allowances	—	(1,732)	—	(5,784)
Partial sale proceeds received	—	(1,383)	—	—
Sales of properties	(3)	(2,339)	(5)	(3,234)
Ending balance	4	$14,895	7	$20,349

The allowance for losses on undisbursed commitments was $86,000 at December 31, 2012 and $101,000 at December 31, 2011. The allowance for losses on undisbursed commitments is included in "accrued interest payable and other liabilities" on the consolidated balance sheets.

We consider a loan impaired when, based on current information and events, we do not expect to be able to collect all amounts due according to the loan contract, including scheduled interest payments. We determine loan impairment through periodic evaluation on an individual loan basis. The average investment in impaired loans was $19.5 million for the year ended December 31, 2012 and $17.6 million for the year ended December 31, 2011. Impaired loans were $23.0 million at December 31, 2012 and $13.9 million at December 31, 2011. Allowances for losses for individually impaired loans are based on either the estimated collateral value less estimated selling costs (if the loan is a collateral-dependent loan), or the present value of expected future cash flows discounted at the loan's effective interest

rate. Of the $23.0 million of impaired loans at December 31, 2012, $18.5 million had specific allowances of $5.0 million. Of the $13.9 million of impaired loans at December 31, 2011, $11.1 million had specific allowances of $3.1 million.

Covered loans and FDIC shared-loss asset

We acquired loans in the WCB and SLTB acquisitions for which we entered into shared-loss agreements with the FDIC, or covered loans. We will share in the losses, which begin with the first dollar of loss incurred, on the loan pools covered under the shared-loss agreements. We refer to all other loans in our loan portfolio not acquired from WCB or SLTB and not covered by the shared-loss agreements as non-covered loans.

Pursuant to the terms of the shared-loss agreements, the FDIC is obligated to reimburse us for 80 percent of eligible losses with respect to covered assets (loans and foreclosed property). We have a corresponding obligation to reimburse the FDIC for 80 percent of eligible recoveries with respect to covered assets. The shared-loss agreements for commercial and single-family residential mortgage loans are in effect for five years and ten years, respectively, from the acquisition dates and the loss recovery provisions are in effect for eight years and ten years, respectively, from the acquisition dates.

The covered loan portfolio decreased to $102.4 million at December 31, 2012 from $135.4 million at December 31, 2011 because of pay-downs, pay-offs and transfers to foreclosed property. The following table sets forth the composition of the covered loan portfolio by type.

Covered loans by property type (in thousands)	At December 31, 2012	At December 31, 2011
Home mortgage	$29,896	$36,736
Commercial mortgage	28,079	37,804
Construction and land loans	19,699	22,875
Multifamily	9,699	15,944
Commercial loans and lines of credit	8,167	11,206
Home equity loans and lines of credit	6,891	10,841
Installment and credit card	—	6
Total covered loans	$102,431	$135,412

The FDIC shared-loss asset was $45.3 million at December 31, 2012 and $68.1 million at December 31, 2011. The decrease was due primarily to cash reimbursements from the FDIC in conjunction with the WCB and SLTB shared-loss agreements.

The acquired covered loans are and will continue to be subject to the Bank's internal and external credit review and monitoring practices. The covered loans have the same credit quality indicators, such as risk grade and classification, as the non-covered loans, to enable the monitoring of the borrower's credit and the likelihood of repayment. If credit deteriorates beyond the respective acquisition date fair value amount of covered loans, we will establish an allowance for credit losses through a charge to earnings.

The ultimate collectability of the FDIC shared-loss asset is dependent upon the performance of the underlying covered assets, the passage of time and claims paid by the FDIC. The following table presents the changes in the FDIC shared-loss asset for the twelve months ended December 31, 2012.

	Twelve months ended December 31, 2012		
(in thousands)	WCB	SLTB	Total
Balance, beginning of period	$9,159	$58,924	$68,083
FDIC share of additional losses	520	1,299	1,819
Cash payments received from FDIC	(3,926)	(17,362)	(21,288)
Net amortization	(287)	(2,982)	(3,269)
Balance, end of period	$5,466	$39,879	$45,345

Forty-five days following the tenth anniversary of the WCB and SLTB acquisition dates, we will be required to perform a calculation and determine if a payment to the FDIC is necessary. The payment amount will be 50 percent of the excess, if any, of (i) 20 percent of the intrinsic loss estimate minus (ii) the sum of (a) 20 percent of the net loss amount, plus (b) 25 percent of the asset discount bid, plus (c) 3.5 percent of total loss share assets at acquisition. Our estimate for the present value of this liability was $3.9 million and $3.8 million at December 31, 2012 and December 31, 2011, respectively.

Covered foreclosed property

Covered foreclosed property at December 31, 2012 was $3.9 million and $14.6 million at December 31, 2011. We acquired these properties as part of the FDIC-assisted Western Commercial Bank and San Luis Trust Bank acquisitions. We recorded these properties at their estimated fair value, less estimated costs to sell, at the time of acquisition.

The following table presents the activity of our covered foreclosed property for the periods indicated.

	Twelve months ended December 31, 2012		2011	
	# of Properties	$ Amount	# of Properties	$ Amount
	(dollars in thousands)			
Beginning balance	49	$14,616	2	$977
New properties acquired	—	—	22	11,052
New properties added	13	6,721	57	22,587
Valuation allowances	—	—	—	(455)
Partial sales proceeds received	—	(50)	—	—
Sales of properties	(52)	(17,387)	(32)	(19,545)
Ending balance	10	$3,900	49	$14,616

Investing, funding and liquidity risk

Liquidity risk is the risk to earnings or capital arising from the inability to meet obligations when they come due without incurring unacceptable losses. Liquidity risk includes the inability to manage unplanned decreases or changes in funding sources as well as the failure to recognize or address changes in market conditions that affect the ability to liquidate assets quickly and with minimal loss in value.

We manage bank liquidity risk through Board approved policies and procedures. The Directors review and approve these policies at least annually. Liquidity risk policies provide us with a framework for consistent evaluation of risk and establish risk tolerance parameters. Management's Asset and Liability Committee meets regularly to evaluate liquidity risk, review and establish deposit interest rates, review loan and deposit in-flows and out-flows and reports quarterly to the Directors' Balance Sheet Management Committee on compliance with policies. The Directors' Audit Committee also engages a third party to perform a review of management's asset and liability practices to ensure compliance with policies.

We enjoy a large base of core deposits (representing checking, savings and small balance non-brokered certificates of deposit). At December 31, 2012, core deposits were $1.2 billion, up from $1.1 billion at the 2011 year-end. Core deposits represent a significant low-cost source of funds that support our lending activities and represent a key part of our funding strategy. We seek and stress the importance of both loan and deposit relationships with customers in our business plans.

Alternative funding sources include large balance certificates of deposits, brokered deposits, prepaid debit cards, federal funds purchased from other institutions, securities sold under agreements to repurchase and borrowings. Effective December 31, 2012, we reclassified noninterest bearing checking deposits representing our prepaid debit cards as non-core or brokered deposits. Total alternative funds used at December 31, 2012 decreased to $406.1 million from $442.0 million at December 31, 2011.

In addition, we have lines of credit with other financial institutions providing for federal funds facilities up to a maximum of $30.0 million. The lines of credit support short-term liquidity needs and we cannot use them for more than 30 consecutive days. These lines are unsecured, have no formal maturity date and can be revoked at any time by the granting institutions. There were no borrowings under these lines of credit at December 31, 2012 and 2011. We also have a $15.4 million secured borrowing facility with the Federal Reserve Bank of San Francisco, which had no balance outstanding at December 31, 2012 and 2011. In addition, we had approximately $409.5 million of available borrowing capacity on the Bank's secured FHLB borrowing facility at December 31, 2012.

The primary sources of liquidity for the Company, on a stand-alone basis, include the dividends from the Bank and, historically, our ability to issue equity and debt instruments. The ability of the Company to obtain funds for its cash requirements, including payments on the junior subordinated debentures underlying our outstanding trust preferred securities and dividends on our series C preferred stock, is largely dependent upon the Bank's earnings. The Bank is subject to restrictions under certain federal and state laws and regulations, which limit its ability to transfer funds to the Company through intercompany loans, advances or cash dividends. The California Department of Financial Institutions, or DFI, under its general supervisory authority as it relates to a bank's capital requirements regulates dividends paid by California state banks. A California state bank may declare a dividend without the approval of the DFI as long as the total dividends declared in a calendar year do not exceed either the retained earnings or the total of net profits for three previous fiscal years less any dividends paid during such period. At January 1, 2013, there were $43.9 million of dividends available for payment under the method described. During the years ended December 31, 2012 and 2011, we received no dividends from the Bank. The Company had $1.1 million in cash on deposit with the Bank at December 31, 2012.

In order to meet our deposit, borrowings and loan obligations when they come due, we maintain a portion of our funds in liquid assets. Liquid assets include cash balances at the Reserve Bank, interest-bearing deposits with other financial institutions, and federal funds sold to other financial institutions. We also manage liquidity risk with readily saleable debt securities and debt securities that serve as collateral for borrowings.

At December 31, 2012, we had non-interest earning cash balances at the Reserve Bank of $39.3 million compared with $34.2 million at December 31, 2011. Interest-bearing deposits with the Reserve Bank and other financial institutions increased to $120.9 million at December 31, 2012 from $21.2 million at December 31, 2011. The $99.7 million increase reflects the decrease in securities. We believe that these sources of liquidity will be sufficient for the Company to meet its liquidity needs over the next twelve months. A number of factors may affect funds generated from these liquidity sources. See “Risk Factors” in Part I, Item 1A of this Annual Report on Form 10-K for a discussion of the factors that can negatively affect the amount of funds we could receive.

As disclosed in the Consolidated Statements of Cash Flows, net cash provided by operating activities was $18.4 million during the twelve months ended December 31, 2012. The difference between cash provided by operating activities and net income largely consisted of non-cash items including $7.0 million of amortization and impairment of intangible assets.

Net cash of $83.0 million used in investing activities consisted principally of $99.8 million of cash used to fund net loan originations, $415.4 million of purchases of securities available-for-sale and a $99.6 million increase in interest bearing deposits at other banks, partially offset by $487.9 million of proceeds from securities available-for-sale and $23.8 million of proceeds from the sale of foreclosed properties.

Net cash of $70.4 million provided by financing activities primarily consisted of an $82.6 million increase in net deposits partially offset by a $10.7 million decrease in borrowings.

Securities

We classify securities as ‘available-for-sale’ for accounting purposes and, as such, report them at their fair, or market, values in our balance sheets. We use quoted market prices for fair values. We report as ‘other comprehensive income or loss’, net of tax, changes in the fair value of our securities (that is, unrealized holding gains or losses) and carry these cumulative changes as accumulated comprehensive income or loss within shareholders’ equity until realized.

The following table presents securities, at amortized cost, by expected maturity distribution and weighted average yield (tax equivalent). Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	At December 31, 2012				
	One year or less	After one year to five years	After five years to ten years	Over ten years	Total
			(in thousands)		
Maturity distribution					
U.S. Treasury notes/bills	$ 8,009	$ —	$ —	$ —	$ 8,009
U.S. government agency notes	—	32,570	—	—	32,570
U.S. government agency mortgage-backed securities	—	125,514	30,263	10,356	166,133
U.S. government agency collateralized mortgage obligations	6,281	108,334	48,017	—	162,632

Municipal securities	—	—	3,524	4,363	7,887
Other domestic debt securities	—	—	—	4,367	4,367
Total	$ 14,290	$ 266,418	$ 81,804	$ 19,086	$ 381,598

	At December 31, 2012				
	One year or les	After one year to five years	After five years to ten years	Over ten years	Total
			(in thousands)		
Weighted average yield					
U.S. Treasury notes/bills	0.16%	—	—	—	0.16%
U.S. government agency notes	—	0.60%	—	—	0.60%
U.S. government agency mortgage-backed securities	—	1.34%	1.82%	2.12%	1.48%
U.S. government agency collateralized mortgage obligations	0.99%	1.65%	1.88%	—	1.69%
Municipal securities	—	—	1.61%	2.25%	1.97%
Other domestic debt securities	—	—	—	1.24%	1.24%
Total	0.52%	1.38%	1.84%	1.95%	1.47%

Securities, at amortized cost, decreased by $74.6 million, or 16 percent, from $456.2 million at December 31, 2011 to $381.6 million at December 31, 2012 primarily to provide liquidity to fund loan growth.

Net unrealized holding losses were $0.6 million at December 31, 2012 and $2.5 million at December 31, 2011. As a percentage of securities, at amortized cost, net unrealized holding losses were 0.15 percent and 0.55 percent at the end of each respective period. Securities are comprised largely of U.S. Treasury bills and notes, and U.S. government agency notes, mortgage-backed securities and collateralized mortgage obligations. On a quarterly basis, we evaluate our individual available-for-sale securities in an unrealized loss position for other-than-temporary impairment. As part of this evaluation, we consider whether we intend to sell each security and whether it is more-likely-than-not that we will be required to sell the security before the anticipated recovery of the security's amortized cost basis. Should a security meet either of these conditions, we recognize an impairment charge to earnings equal to the entire difference between the security's amortized cost basis and its fair value at the balance sheet date. For securities in an unrealized loss position that meet neither of these conditions, we consider whether we expect to recover the entire amortized cost basis of the security by comparing our best estimate, on a present value basis, of the expected future cash flows from the security with the amortized cost basis of the security. If our best estimate of expected future cash flows is less than the amortized cost basis of the security, we recognize an impairment charge to earnings for this estimated credit loss.

We determined that, as of December 31, 2012, our U.S. Treasury notes and bills, and U.S. government agency notes, mortgage-backed securities and collateralized mortgage obligations were temporarily impaired because these securities were in a continuous loss position for less than 12 months. We believe the cause of the gross unrealized losses was from movements in interest rates and not by the deterioration of the issuers' creditworthiness.

We own one pooled trust preferred security, rated triple-A at purchase, with an amortized cost basis of $4.4 million and an unrealized loss of $1.6 million at December 31, 2012. The gross unrealized loss reflects the extraordinarily high investor yield requirements resulting from an illiquid market, causing this security to be valued at a discount to its acquisition cost. Since 2009, this security had credit rating agency ratings of less than investment grade; however, in the 2012 third quarter, the security's rating increased to investment grade. The senior tranche owned by us has a collateral balance well in excess of the amortized cost basis of the tranche at December 31, 2012. Seventeen of the fifty-six issuers in the security have deferred or defaulted on their interest payments as of December 31, 2012. Our analysis determined that approximately half of the issuers would need to default on their interest payments before the

senior tranche owned by us would be at risk of loss. As our estimated present value of expected cash flows to be collected was in excess of our amortized cost basis, we concluded that the gross unrealized loss on this security was temporary.

At December 31, 2012, we no longer owned any private-label CMOs. For the year ended December 31, 2012, we recognized other-than-temporary impairment charges of $689,000 on these securities. For the year ended December 31, 2011, we recognized other-than-temporary impairment charges of $1.4 million on our private-label CMOs. We also have a $1.0 million community development-related equity investment for which we recognized a $39,000 impairment in 2012 and a $41,000 impairment in 2010.

Deposits

The following tables present the balance of each deposit category at the periods indicated:

	At December 31, 2012 Balance	At December 31, 2011 Balance	At December 31, 2010 Balance
Core deposits			
Non-interest bearing checking	$ 546,638	$ 433,053	$ 331,648
Interest checking	124,765	107,077	88,638
Savings and money market accounts	478,052	486,000	388,289
Retail time deposits less than $100,000	59,311	74,861	84,133
Total core deposits	1,208,766	1,100,991	892,708
Noncore deposits			
Prepaid debit cards	89,817	49,103	—
Retail time deposits of $100,000 or more	157,767	169,523	144,974
Wholesale time deposits	1,482	5,652	18,606
State of California time deposits	50,000	100,000	100,000
Total noncore deposits	299,066	324,278	263,580
Total core and noncore deposits	$ 1,507,832	$ 1,425,269	$ 1,156,288

Large balance time deposits (that is, balances of $100,000 or more) were $209.2 million at December 31, 2012. Large balance time deposits were $275.2 million at December 31, 2011. A portion of these large balance time deposits represent time deposits placed by the State Treasurer of California with the Bank. The time deposit program is one element of a pooled investment account managed by the State Treasurer for the benefit of the State of California and all participating local agencies. The pooled investment account has approximately $63.2 billion of investments of which approximately $4.3 billion represented time deposits placed at various financial institutions. At December 31, 2012 and 2011, State of California time deposits placed with us, with original maturities of three to six months, were $50.0 million and $100.0 million. We believe that the State Treasurer will continue this program; we also believe that we have the ability to establish large balance certificates of deposit rates that will enable us to attract, replace, or retain those deposits accepted in our local market area if it becomes necessary under a modified funding strategy.

From time to time we use brokered time deposits, categorized as wholesale time deposits in the table above, to supplement our liquidity and achieve other asset-liability management objectives. Brokered time deposits are wholesale certificates of deposit accepted by us from brokers whose customers do not have any other significant relationship with us. As a result, we believe these funds are very sensitive to credit risk and interest rates, and pose greater liquidity risk to us. These customers may refuse to renew the certificates of deposit at maturity if higher rates are available elsewhere or if they perceive that our creditworthiness is deteriorating. At December 31, 2012 and 2011, we had no brokered time deposits.

We also use the Certificate of Deposit Account Registry System, or CDARS, for our deposit customers who wish to obtain FDIC insurance on their deposits beyond that available from a single institution. We place these deposits into the CDARS network and accept in return other customers' certificates of deposits in the same amount and at the same interest rate. We had $1.5 million of these reciprocal deposits, categorized as wholesale time deposits in the table above, at December 31, 2012. We had $5.7 million of these reciprocal deposits at the end of 2011.

Effective December 31, 2012, we reclassified our noninterest bearing checking deposits representing prepaid debit cardholder deposit balances as brokered or noncore deposits. At December 31, 2012, prepaid debit card deposits were $89.8 million, up from $49.1 million for the 2011 year-end.

The following table presents the maturity of large balance certificates of deposits for the periods indicated:

	For the Years Ending December 31,					
	2012		2011		2010	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
	(in thousands)					
Three months or less	$ 80,544	38%	$ 132,043	48%	$ 131,710	50%
Over three months through six months	22,358	11%	26,871	10%	23,815	9%
Over six months through one year	24,595	12%	41,644	15%	44,002	17%
Over one year	81,752	39%	74,617	27%	63,890	24%
Total	$ 209,249	100%	$ 275,175	100%	$ 263,417	100%

Borrowings

Borrowings are comprised of federal funds purchased from other financial institutions, FHLB advances and securities sold under agreements to repurchase. At December 31, 2012, we had $107.1 million of borrowings outstanding, of which $30.0 million was comprised of securities sold under agreements to repurchase and $77.1 million of FHLB advances. For our FHLB advances, the following table presents the amounts and weighted average interest rates outstanding.

	Year Ended December 31, 2012		Year Ended December 31, 2011	
	Federal Home Loan Bank Advances	Weighted average interest rate	Federal Home Loan Bank Advances	Weighted average interest rate
	(in thousands)			
Amount outstanding at end of period	$ 77,054	2.49%	$ 87,719	3.01%
Maximum amount outstanding at any month-end during the period	$ 102,700	2.76%	$ 138,750	2.69%
Average amount outstanding during the period	$ 93,082	2.60%	$ 98,290	2.66%

The following table presents the maturities of FHLB advances at December 31, 2012.

	Amount	Maturity Year	Weighted Average Interest Rate
	(in thousands)		
Term advances	$ 7,054	2013	2.93%
Term advances	32,500	2014	2.95%
Term advances	15,000	2015	1.76%

Term advances	22,500	2017	2.20%
	$ 77,054		

The following table presents the maturities of securities sold under agreements to repurchase at December 31, 2012.

Amount	Maturity Year	Weighted Average Interest Rate
	(in thousands)	
$ 20,000	February 2013	3.60%
10,000	December 2014	3.72%
$ 30,000		

62

Junior Subordinated Debentures

At December 31, 2012, we had $26.8 million of junior subordinated debentures outstanding from two issuances of trust preferred securities. First California Capital Trust I's capital securities have an outstanding balance of $16.5 million, mature on March 15, 2037, and are redeemable, at par, at the Company's option at any time. The securities had a fixed annual rate of 6.80 percent until March 15, 2012, and a variable annual rate thereafter, which resets quarterly, equal to the 3-month LIBOR rate plus 1.60 percent per annum. At December 31, 2012, the rate was 1.91 percent. FCB Statutory Trust I's capital securities have an outstanding balance of $10.3 million, mature on December 15, 2035, and are redeemable, at par, at the Company's option at any time. The securities have a variable annual rate, which resets quarterly, equal to the 3-month LIBOR rate plus 1.55 percent per annum. At December 31, 2012, the rate was 1.86 percent. The weighted average interest rate paid on the debentures for 2012 was 2.93 percent and 2011 was 5.00 percent. Our interest payments for 2012 were $0.7 million and for 2011 were $1.3 million.

In December 2009, we purchased a $10.3 million notional forward-starting interest rate cap to limit the variable interest rate payments on our $10.3 million junior subordinated debentures. This interest rate cap became effective on December 15, 2010, has a rate cap of 4.00 percent and will expire on December 15, 2015. In September 2010, we purchased a $16.5 million notional forward-starting interest rate cap to limit the variable interest rate payments on our $16.5 million junior subordinated debentures. This interest rate cap became effective March 15, 2012, has a rate cap of 4.00 percent and will expire on March 15, 2017.

Capital resources

We have 1,000 issued shares of preferred stock series A, $0.01 par value, with a liquidation preference of $1,000 per share. Redemption of the preferred stock series A is at our option. The redemption amount is computed at the per-share liquidation preference plus unpaid dividends at a rate of 8.5%. Each holder of preferred stock series A has the right, exercisable at the option of the holder, to convert all or some of such holder's series A shares into common stock, which such holders have agreed to do prior to the consummation of the PacWest Merger. The sum of each share's liquidation preference plus unpaid dividends divided by the conversion factor of $5.63 per share represents the number of common shares issuable upon the conversion of each share of preferred stock series A. As of December 31, 2012, we reserved 344,565 of common shares for the conversion of the preferred stock series A.

On December 19, 2008, we participated in the U.S. Treasury Capital Purchase Program, under which we received $25 million in exchange for issuing 25,000 preferred stock series B shares and a warrant to purchase common stock to the Treasury. The common stock warrant entitled the Treasury to purchase 599,042 shares of our common stock at an exercise price of $6.26 for a term of ten years. On July 14, 2011, we redeemed all 25,000 preferred stock series B shares and exited the CPP program. On August 24, 2011, we purchased the 10-year warrant from the Treasury for $599,042. In connection with the redemption of the preferred stock series B shares, the Company accelerated the amortization of the remaining difference between the par amount and the initially recorded fair value of the preferred stock series B shares. This $1.1 million deemed dividend reduced the amount of net income available to common shareholders in 2011.

We redeemed the $25 million of preferred stock series B shares with the $25 million of proceeds received in exchange for issuing 25,000 preferred stock series C shares to the Treasury as a participant in the Small Business Lending Fund (SBLF) program. The preferred stock series C shares will receive non-cumulative quarterly dividends and the initial dividend rate was 5 percent. The dividend rate can fluctuate between 1 and 5 percent during the next eight quarters and is a function of the growth in qualified small business loans each quarter. The dividend rate for the quarter ended December 31, 2012, was 5 percent. On February 27, 2013, First California notified the Treasury that, subject to receipt of requisite regulatory approvals, First California intends to redeem all of its outstanding shares of Series C preferred stock simultaneously with the consummation of First California's pending merger with PacWest.

The Company is subject to various regulatory capital requirements administered by the federal and state banking agencies. Failure to meet minimum requirements can initiate certain mandatory — and possibly additional discretionary — actions by regulators that, if undertaken, could have a direct material effect on a company's financial statements. Under capital adequacy guidelines, bank holding companies must meet specific capital guidelines that involve quantitative measures of the company's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. Capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

The following tables present the capital amounts and ratios of the Company with a comparison to the minimum ratios for the periods indicated:

	Actual		For Capital Adequacy Purposes	
	Amount	Ratio	Amount	Ratio
		(in thousands)		
December 31, 2012				
Total capital (to risk weighted assets)	$ 209,164	18.19%	$ 91,971	≥ 8.00%
Tier I capital (to risk weighted assets)	$ 194,746	16.94%	$ 45,986	≥ 4.00%
Tier I capital (to average assets)	$ 194,746	10.20%	$ 76,396	≥ 4.00%

	Actual		For Capital Adequacy Purposes	
	Amount	Ratio	Amount	Ratio
		(in thousands)		
December 31, 2011				
Total capital (to risk weighted assets)	$ 194,694	17.32%	$ 89,924	≥ 8.00%
Tier I capital (to risk weighted assets)	$ 180,597	16.07%	$ 44,962	≥ 4.00%
Tier I capital (to average assets)	$ 180,597	10.33%	$ 69,906	≥ 4.00%

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of Total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital to average assets (as defined). Management believes, as of December 31, 2012, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2012, the Bank exceeded the minimum ratios to be "well-capitalized" under the prompt corrective action provisions. There are no conditions or events since December 31, 2012 that we believe would change the Bank's category.

The following tables present the capital amounts and ratios of the Bank with a comparison to the minimum ratios for the periods indicated:

	Actual	For Capital Adequacy Purposes	To be Well Capitalized Under Prompt Corrective

		Amount	Ratio		Amount	Ratio		Action Provision Amount	Ratio
					(in thousands)				
December 31, 2012									
Total capital (to risk weighted assets)	$	208,901	18.16%	$	92,025	≥ 8.00%	$	115,031	≥ 10.00%
Tier I capital (to risk weighted assets)	$	194,474	16.91%	$	46,013	≥ 4.00%	$	68,019	≥ 6.00%
Tier I capital (to average assets)	$	194,474	10.18%	$	76,409	≥ 4.00%	$	95,512	≥ 5.00%

	Actual		For Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(in thousands)			
December 31, 2011						
Total capital (to risk weighted assets)	$ 192,227	17.10%	$ 89,944	≥ 8.00%	$ 112,430	≥ 10.00%
Tier I capital (to risk weighted assets)	$ 178,126	15.84%	$ 44,972	≥ 4.00%	$ 67,458	≥ 6.00%
Tier I capital (to average assets)	$ 178,126	10.18%	$ 69,968	≥ 4.00%	$ 87,460	≥ 5.00%

We recognize that a strong capital position is vital to growth, continued profitability, and depositor and investor confidence. Our policy is to maintain sufficient capital at not less than the well-capitalized thresholds established by banking regulators.

Commitments, contingent liabilities, contractual obligations and off-balance sheet arrangements

In the normal course of business, we make commitments to extend credit or issue letters of credit to customers. We generally do not recognize these commitments in our balance sheet. These commitments do involve, to varying degrees, elements of credit risk; however, we use the same credit policies and procedures as we do for on-balance sheet credit facilities. Commitments to extend credit were $161.4 million at December 31, 2012 compared with $159.5 million at December 31, 2011. Commercial and stand-by letters of credit were $1.7 million and $1.5 million at December 31, 2012 and December 31, 2011, respectively. The known contractual obligations of the Company at December 31, 2012 are as follows:

			Payments Due		
	Twelve months and less	After one year but within three years	After three years but within five years	After five years	Total
			(in thousands)		
FHLB term advances	$ 7,054	$ 47,500	$ 22,500	$ —	$ 77,054
Securities sold under agreements to repurchase	20,000	10,000	—	—	30,000
Salary continuation benefits	—	—	—	938	938
Junior subordinated debentures	—	—	—	26,805	26,805
Operating lease obligations	2,763	3,596	2,659	2,843	11,861
Total	$ 29,817	$ 61,096	$ 25,159	$ 30,586	$ 146,658

Merchant card processing----Merchant card processing guarantees represent the Bank's indirect obligations in connection with the processing of credit and debit card transactions on behalf of merchants. The EPS division provides transaction processing services to various merchants through an independent third party vendor ("ISO") with respect to credit and debit cards and has potential liability for card transaction processing services. The nature of the liability arises as a result of a billing dispute ("chargeback") between a merchant and a cardholder that is ultimately resolved in the cardholder's favor. The merchant is liable to refund the amount to the cardholder. In general, if the ISO is unable to collect this amount from the merchant, the ISO bears the loss for the amount of the chargeback refund paid to the cardholder. If the ISO and merchant are insolvent or incapable of paying the chargeback, the Bank bears the risk and responsibility to pay the chargeback.

Our risk of loss is mitigated as the cash flows between the Bank and the merchant are settled on a net basis with the networks (Visa, MasterCard and Discover) directly through the Bank, and the Bank has the right to offset any payments with cash flows otherwise due to the merchant. Additionally, the Bank retains cash reserve accounts on balance to offset risk for merchants and the ISO. To further mitigate this risk the Bank may delay settlement. The Bank may require at any time an increase to reserve account balances. The Bank also maintains an insurance policy of $10.0 million for losses due to fraud.

The Bank's maximum potential contingent liability related to merchant card processing services is estimated to be the total volume of card transactions that meet the requirements to be valid chargeback transactions at any given time. However, the Bank believes that the maximum exposure is not representative of the actual potential loss exposure based on the Bank's historical experience. The Bank assesses the probability and amount of its contingent liability related to merchant card processing based on the financial strength of the ISO, the extent and nature of unresolved charge-backs and its historical loss experience. For the years ended December 31, 2012 and 2011, the Bank incurred no losses related to merchant card processing activities.

Prepaid card services---Prepaid card services guarantees represent the Bank's indirect obligations in connection with the processing of prepaid card transactions on cards issued by the Bank. The EPS division provides card issuing and sponsorship services through various third party service providers ("Program Managers"), who are considered third-party affiliates of the Bank, with respect to various prepaid card programs and has potential liability for prepaid card processing services. The nature of the liability arises from possible non-compliance with legal and regulatory requirements related to the prepaid card programs. The prepaid card programs are subject to federal, state and local laws and regulations including anti-money laundering laws, escheatment laws, privacy and safeguard laws, banking regulations and consumer protection laws. These laws are continuously evolving and sometimes ambiguous or inconsistent, and the extent to which they apply to particular practices of the Bank and its Program Managers is at times unclear. Any failure to comply with applicable law, either by us or our Program Managers could result in restrictions on our ability to provide our products and services, as well as the imposition of civil fines, restitution to customers and other penalties.

If the Bank is subject to monetary losses, such as parment of restitution to prepaid card customers related to prepaid card services, the contracts between the Bank and the Program Managers require the Program Managers to provide indemnification to the Bank. If a Program Manager is required to pay restitution to its customers, based on the financial strength of the Program Manager or other factors, the Bank may potentially be liable for the payment of the restitution because we are the issuing bank of the cards.

The Bank assesses the probability and amount of its contingent liability related to prepaid card services based on the financial strength of the Program Managers, the extent and nature of known violations of laws and regulations and historical trends in loss experience. The Company requires the Program Managers to maintain a specific cash reserve accounts on deposit the Company to mitigate risk. The Bank may require at any time an increase to reserve account balances. The Bank also maintains an insurance policy of $10.0 million for losses due to fraud. For the years ended December 31, 2012 and 2011, the Bank incurred no losses related to prepaid card services.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Our market risk arises primarily from credit risk and interest rate risk inherent in our investment, lending and financing activities. To manage our credit risk, we rely on various controls, including our underwriting standards and loan policies, internal loan monitoring and periodic credit reviews as well as our allowance for loan and lease losses, or ALLL, methodology, all of which are administered by the Bank's Credit Administration division. Additionally, the Director's Credit Review Committee provides board oversight over the Company's ALLL process and reviews and approves the ALLL methodology. Also, the Director's Audit Committee engages a third party to perform a credit review of the loan portfolio to ensure compliance with policies and assist in the evaluation of the credit risk inherent in the loan portfolio.

Interest rate risk is the potential for loss resulting from adverse changes in the level of interest rates on the Company's net interest income. The absolute level and volatility of interest rates can have a significant impact on our profitability. The objective of interest rate risk management is to identify and manage the sensitivity of net interest income to changing interest rates to achieve our overall financial objectives. Based on economic conditions, asset quality and various other considerations, management establishes tolerance ranges for interest rate sensitivity and manages within these ranges. Net interest income and the fair value of financial instruments are greatly influenced by changes in the level of interest rates. We manage exposure to fluctuations in interest rates through policies that are established by the Asset/Liability Management Committee, or ALCO. The ALCO meets monthly and has responsibility for developing asset/liability management policy, formulating and implementing strategies to improve balance sheet positioning and earnings and reviewing interest rate sensitivity. The Board of Directors' Balance Sheet Management Committee provides oversight of the asset/liability management process, reviews the results of the interest rate risk analyses prepared for the ALCO and approves the asset/liability policies on an annual basis.

We measure our interest rate risk position on at least a quarterly basis using two methods: (i) net interest income simulation and (ii) economic value of equity modeling. The results of these analyses are reviewed by ALCO and the Balance Sheet Management Committee quarterly. If hypothetical changes to interest rates cause changes to our simulated net interest income or economic value of equity outside of our pre-established internal limits, we may adjust our asset and liability size or mix in our effort to bring our interest rate risk exposure within our established limits.

Net interest income simulation

Interest rate risk is the risk to earnings or capital arising from movements in interest rates. Interest rate risk arises from differences between the timing of rate changes and the timing of cash flows (re-pricing risk), from changing rate relationships among different yield curves affecting bank activities (basis risk), from changing rate relationships across the spectrum of maturities (yield curve risk), and from interest-related options embedded in loans and products (options risk).

We use simulation-modeling techniques that apply alternative interest rate scenarios to periodic forecasts of future business activity and assess the potential changes to net interest income. Our base scenario examines our balance sheet where we assume rate changes occur ratably over an initial 12-month horizon based upon a parallel shift in the yield curve and then is maintained at that level over the remainder of the simulation horizon. We also create alternative scenarios where we assume different types of yield curve movements. In our most recent base simulation, we estimated that net interest income would decrease approximately 0.92% within a 12-month time horizon for an assumed 100 basis point decrease in prevailing interest rates or increase approximately 1.94% for an assumed 100 basis point increase in prevailing interest rates. In addition, we estimated that net interest income would increase approximately 3.62% within a 12-month time horizon for an assumed 200 basis point increase in prevailing rates. These estimated changes were within the policy limits established by the Board. The table below illustrates the estimated percentage change in our net interest income in our base scenario over hypothetical 1, 3 and 5 year horizons.

	Time Horizon		
Percentage Change	1 Year	3 Years	5 Years
-100 bps	-0.92%	-2.52%	-4.19%
+100 bps	1.94%	2.83%	4.81%
+200 bps	3.62%	5.48%	12.26%
+400 bps	3.77%	14.77%	30.85%

All interest-earning assets, interest-bearing liabilities and related derivative contracts are included in the interest rate sensitivity analysis at December 31, 2012. At December 31, 2012, approximately 42 percent of our loans had a fixed rate of interest and approximately 58 percent had a variable interest rate. Of loans with a variable rate of interest, approximately 26 percent use an interest rate that floats with a specified index rate such as the Wall Street Journal Prime Rate or 3-month LIBOR rate. Approximately 14 percent of our variable interest rate loans use an interest rate that adjusts periodically, such as monthly, quarterly or annually, with a specified interest rate. Finally, approximately 60 percent of our variable interest rate loans have an interest rate that remains fixed for a period of time, such as 1, 3 or 5 years, then adjusts periodically with a specified index rate.

In addition, approximately 86 percent of our variable interest rate loans have a minimum, or floor, rate of interest. Of these, 22 percent were at their minimum, or floor rate of interest. In a declining rate environment, the interest rate floors contribute to the favorable impact on our net interest income. However, in a rising rate environment, these interest rate floors serve to lessen the full benefit of higher interest rates. In our most recent base simulation, an assumed 200 basis point increase in prevailing interest rates would cause 72 percent of loans at their minimum rate of interest not to be at their floor rate of interest.

Our simulation model includes assumptions about anticipated prepayments on mortgage-related instruments, the estimated cash flow on loans and deposits, and our future business activity. These assumptions are inherently uncertain and, as a result, our modeling techniques cannot precisely estimate the effect of changes in net interest income. Actual results will differ from simulated results due to the timing, magnitude and frequency of interest rate changes, cash flow and business activity.

Economic value of equity modeling

Another interest rate sensitivity measure we utilize is the quantification of market value changes for all financial assets and liabilities, given an increase or decrease in market interest rates. This approach provides us a longer-term view of interest rate risk, capturing all future expected cash flows. We measure financial assets and liabilities with option characteristics based on different interest rate path valuations using statistical rate simulation techniques. The projections are by their nature forward-looking and therefore inherently uncertain and include various assumptions regarding expected cash flows and discount rates.

The table below illustrates the effects of various instantaneous market interest rate changes on the economic value of financial assets and liabilities as compared to the corresponding carrying values on our balance sheet.

	2012		2011	
(dollars in thousands)	Decrease in Estimated Economic Value of Equity	Percentage Change	Decrease in Estimated Economic Value of Equity	Percentage Change
Up 200 basis points	$(7,540)	-3.8%	$(20,202)	-9.9%
Up 100 basis points	$(396)	-0.2%	$(5,302)	-2.6%
Down 100 basis points	$(23,271)	-11.7%	$(13,572)	-6.6%

The lower percentage change in the economic value of equity from 2011 to 2012 in a hypothetical rising interest rate environment reflects the increase in the Company's non-maturity deposits and the impact of forward-starting interest rate caps.

Report of independent registered public accounting firm	69
Consolidated balance sheets as of December 31, 2012 and December 31, 2011	70
Consolidated statements of income for the years ended December 31, 2012, 2011 and 2010	71
Consolidated statements of comprehensive income for the years ended December 31, 2012, 2011 and 2010	72
Consolidated statements of changes in shareholders' equity for the years ended December 31, 2012, 2011 and 2010	73
Consolidated statements of cash flows for the years ended December 31, 2012, 2011 and 2010	74
Notes to consolidated financial statements	75

Report of Independent Registered Public Accounting Firm

(c) Report of Independent Registered Public Accounting Firm:

To the Board of Directors and Shareholders
First California Financial Group, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of First California Financial Group, Inc. and Subsidiaries (the "Company") as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2012. We also have audited the Company's internal control over financial reporting as of December 31, 2012 based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Controls over Financial Reporting. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall consolidated financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of First California Financial Group, Inc. and Subsidiaries as of December 31, 2012 and

2011, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2012, in conformity with generally accepted accounting principles. Also in our opinion, First California Financial Group, Inc. and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ MOSS ADAMS LLP
Portland, Oregon
March 18, 2013

FIRST CALIFORNIA FINANCIAL GROUP, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

	December 31, 2012	December 31, 2011
	(in thousands, except share data)	
ASSETS		
Cash and due from banks	$46,024	$40,202
Interest bearing deposits with other banks	120,850	21,230
Securities available-for-sale, at fair value	381,041	453,735
Non-covered loans, net	1,043,021	918,356
Covered loans	102,431	135,412
Premises and equipment, net	18,087	18,480
Goodwill	60,720	60,720
Other intangibles, net	6,892	13,887
FDIC shared-loss receivable	45,345	68,083
Non-covered foreclosed property	14,895	20,349
Covered foreclosed property	3,900	14,616
Cash surrender value of life insurance	13,097	12,670
Deferred tax assets, net	1,369	—
Accrued interest receivable and other assets	30,171	34,924
Total assets	$1,887,843	$1,812,664
LIABILITIES AND SHAREHOLDERS' EQUITY		
Non-interest checking	$636,455	$482,156
Interest checking	124,765	107,077
Savings and money market	478,052	486,000
Certificates of deposit, under $100,000	59,311	74,861
Certificates of deposit, $100,000 and over	209,249	275,175
Total deposits	1,507,832	1,425,269
	30,000	30,000

Securities sold under agreements to repurchase		
Federal Home Loan Bank advances	77,054	87,719
Junior subordinated debentures	26,805	26,805
Deferred tax liabilities, net	—	7,370
FDIC shared-loss liability	3,900	3,757
Accrued interest payable and other liabilities	8,134	8,637
Total liabilities	1,653,725	1,589,557
Commitments and Contingencies (Note 22)		
Perpetual preferred stock – authorized 2,500,000 shares		
Series A—$0.01 par value, 1,000 shares issued and outstanding as of December 31, 2012 and 2011	1,000	1,000
Series C—$0.01 par value, 25,000 shares issued and outstanding as of December 31, 2012 and 2011	25,000	25,000
Common stock, $0.01 par value; authorized 100,000,000 shares; 29,271,630 shares issued at December 31, 2012 and 29,220,079 at December 31, 2011; 29,225,851 and 29,220,079 shares outstanding as of December 31, 2012 and 2011	292	292
Additional paid-in capital	175,188	173,062
Treasury stock, 45,779 shares at cost at December 31, 2012 and no shares at December 31, 2011	(255)	—
Retained earnings	33,451	25,427
Accumulated other comprehensive loss	(558)	(1,674)
Total shareholders' equity	234,118	223,107
Total liabilities and shareholders' equity	$1,887,843	$1,812,664

See accompanying notes to consolidated financial statements.

FIRST CALIFORNIA FINANCIAL GROUP, INC. AND SUBSIDIARIES

Consolidated Statements of Income

	For the Year Ended December 31,		
	2012	2011	2010
	(in thousands, except per share data)		
Interest income:			
Interest and fees on loans	$70,190	$65,945	$53,240
Interest on securities	6,397	6,303	5,914
Interest on federal funds sold and interest bearing deposits	231	350	196
Total interest income	76,818	72,598	59,350
Interest expense:			
Interest on deposits	5,174	8,012	7,973
Interest on borrowings	3,533	3,750	4,945
Interest on junior subordinated debt	786	1,342	1,736
Total interest expense	9,493	13,104	14,654
Net interest income before provision for loan losses	67,325	59,494	44,696
Provision for loan losses	1,500	5,346	8,337
Net interest income after provision for loan losses	65,825	54,148	36,359
Noninterest income:			
Service charges on deposit accounts	3,108	3,447	