PACIFIC PREMIER BANCORP INC
Form 10-K
March 30, 2012

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

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

For the fiscal year ended December 31, 2011

or

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

For the transition period from to .

Commission File No.: 0-22193

(Exact name of registrant as specified in its charter)

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

1600 Sunflower Ave. 2nd Floor, Costa Mesa, California 92626
(Address of Principal Executive Offices and Zip Code)
Registrant's telephone number, including area code: (714) 431-4000

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

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

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

None

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

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

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

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

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

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

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

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

The aggregate market value of the voting stock held by non-affiliates of the registrant, i.e., persons other than directors and executive officers of the registrant, was approximately $62,291,795 and was based upon the last sales price as quoted on The NASDAQ Stock Market as of June 30, 2011, the last business day of the most recently completed second fiscal quarter.

As of March 30, 2012, the Registrant had 10,329,934 shares outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant’s definitive proxy statement filed under Regulation 14A promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, which definitive proxy statement is to be filed within 120 days after the registrant’s fiscal year ended December 31, 2011, are incorporated by reference in Part III hereof.

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PART I

ITEM 1. BUSINESS

Forward-Looking Statements

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

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

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

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

- Geopolitical conditions, including acts or threats of terrorism, actions taken by the United States or other governments in response to acts or threats of terrorism and/or military conflicts, which could impact business and economic conditions in the United States and abroad;
- Unanticipated regulatory or judicial proceedings; and
- Our ability to manage the risks involved in the foregoing.

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

Overview

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

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

We provide banking services within our targeted markets in Southern California to businesses and consumers in the communities we serve. Through our branches and our Internet website at www.ppbi.com, we offer a broad array of deposit products and services for both business and consumer customers, including checking, money market and savings accounts, cash management services, electronic banking, and on-line bill payment. We offer a wide array of loan products, such as commercial business loans, lines of credit, commercial real estate loans, U.S. Small Business Administration ("SBA") loans, residential home loans, home equity lines of credit and consumer loans. At December 31, 2011, we had consolidated total assets of $961.1 million, net loans of $730.1 million, total deposits of $828.9 million, and consolidated total stockholders' equity of $86.8 million. At December 31, 2011, the Bank was considered a "well-capitalized" financial institution for regulatory capital purposes.

Acquisition of Canyon National Bank

Effective February 11, 2011, the Bank acquired certain assets and assumed certain liabilities of Canyon National Bank ("Canyon National") from the FDIC as receiver for Canyon National (the "Acquisition"), pursuant to the terms of a purchase and assumption agreement entered into by the Bank and the FDIC on February 11, 2011 (the "Agreement"). Canyon National was the wholly owned subsidiary of Canyon Bancorp and was a national bank headquartered in Palm Springs, California with three branches in Palm Springs and Palm Desert, California. Neither the Company nor the Bank acquired any assets or assumed any liabilities of Canyon Bancorp. The three branches of Canyon National all became branches of the Bank upon consummation of the Canyon National Acquisition. The transaction was structured as a whole bank purchase and assumption without a loss sharing agreement. The Bank participated in a competitive bid process with the FDIC. The FDIC accepted Pacific Premier's bid, which included an asset discount bid of $27.9 million and no deposit premium. As a result of the Canyon National Acquisition, the Bank acquired and received certain assets with a fair value of approximately $208.9 million, including $149.7 million of loans, $16.1 million of a FDIC receivable, $13.2 million of cash and cash equivalents, $12.8 million of investment securities, $12.0

million of other real estate owned, $2.3 million of a core deposit intangibles, $1.5 million of other assets and $1.3 million of FHLB and Federal Reserve Bank stock. Liabilities with a fair value of approximately $206.6 million were also assumed, including $204.7 million of deposits, $1.9 million in deferred tax liability and $39,000 of other liabilities. The fair values of the assets acquired and liabilities assumed were determined based on the requirements of Financial Accounting Standards Board Accounting Standards Codification Topic 820: Fair Value Measurements and Disclosures. Although the foregoing fair value amounts were subject to change for up to one year after the closing date of the Canyon National Acquisition, there was no additional information relative to closing date fair values that warranted any changes. Final settlement with the FDIC took place in the third quarter of 2011.

Operating Strategy

The Bank was founded in 1983 as a state chartered savings and loan, became a federally chartered stock savings bank in 1991 and, in March 2007, converted to a California-chartered commercial bank. In the fourth quarter of 2000, our management implemented a new business plan to refocus Pacific Premier's business model, emphasizing community banking. To achieve the Bank's goals, we implemented a three-phase strategic plan which involved:

Phase 1: lowering the risk profile of the Bank and re-capitalizing Pacific Premier;
Phase 2: growing the balance sheet through the origination of adjustable rate multi-family residential loans; and
Phase 3: transforming the institution to a commercial banking business model.

The first two phases of our strategic plan were completed in 2002 and 2004, respectively. Our transition to a commercial banking platform began in 2005 as we recruited experienced business bankers from other regional and national commercial banks. These business bankers helped us to introduce new credit and deposit products as well as on-line banking and cash management services. This in turn allowed us to begin to capture small and middle market business customers in our market. Our transition to a commercial banking platform is relatively complete although we continue to emphasize retention and growth in business banking relationships within the Southern California market.

Our primary goal is to develop the Bank into one of Southern California's top performing commercial banks as an alternative to the large regional and national banks for businesses, professionals, entrepreneurs and non-profit organizations for the long term benefit of our stockholders, customers and employees. The following are our operating strategies which we have adopted in order to achieve this goal:

Expansion through Acquisitions. The consolidation and turmoil in the banking industry has created an opportunity in our markets to expand the Bank's franchise through acquisitions. Many banks have been negatively impacted by the sluggish economic environment, which we expect will lead to the continued consolidation and elimination of certain of our competitors. We intend to take advantage of this opportunity over the next couple of years by pursuing whole bank acquisitions of all or certain parts of failing banks, either through FDIC-assisted transactions or through traditional merger and acquisitions opportunities consistent with this strategy, in February 2011, we completed the acquisition of Canyon National from the FDIC.

Expansion through Organic Growth. The industry wide consolidation and turmoil is also creating opportunities to acquire new business banking customers. Profitable businesses are not having their needs met either from a service level or credit availability basis and we intend to convert these businesses into customers of the Bank. We believe customer relationships are built through a series of consistently executed experiences in both routine transactions and higher value interactions. Our business bankers are focused on developing long term relationships with business owners, professionals, entrepreneurs, and non-profit organizations through consistent and frequent contact. Additionally, our bankers are actively involved in community organizations and events, thus building and capitalizing on the Bank's reputation within the local communities we serve.

Diversifying our Deposit and Loan Portfolios. We believe franchise value is created through growth in low cost transaction accounts, principally business and consumer checking accounts. Customers that utilize checking accounts and the Banks other related products and services become our most valuable relationships though out ability to reduce interest costs associated with the accounts and in turn generate greater fee income. We also believe it is important to diversify our loan portfolio in order to better manage credit, concentration and interest rate risks. We seek to increase the amount of owner occupied commercial real estate ("CRE") loans, commercial and industrial ("C&I") loans, SBA loans and other loan products that will lead to further diversification within the portfolio.

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

Our executive offices are located at 1600 Sunflower Avenue, 2nd Floor, Costa Mesa, California 92626 and our telephone number is (714) 431-4000. Our Internet website address is www.ppbi.com. Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, and all amendments thereto, from 1998 to present that have been filed with the SEC, are available free of charge on our Internet website. Also on our website are our Code of Ethics, Insider Trading and Beneficial Ownership forms, and Corporate Governance Guidelines. The information contained in our website, or in any websites linked by our website, is not a part of this Annual Report on Form 10-K.

Lending Activities

General. In 2011, we maintained our commitment to a high level of credit quality in our lending activities. We expanded our efforts to diversify our loan portfolio and focused our efforts on meeting the financial needs of qualified individuals and local businesses. These expanded efforts included an increased focus on the origination of warehouse repurchase facilities to qualified mortgage bankers operating principally in California. The Company offers a full complement of flexible and structured loan products tailored to meet the needs of our customers.

During 2011, we made or purchased loans to borrowers secured by real property and business assets located principally in Southern California, our market area. We emphasize relationship lending and focus on generating loans with customers who also maintain full depository relationships with us. These efforts assist us in establishing and expanding depository relationships consistent with the Company's strategic direction. The Company has generally ceased or placed less of an emphasis on originating loans secured by multi-family, commercial non-owner occupied real estate or land, although such loans continue to make up a substantial portion of our loan portfolio. We maintain an internal lending limit below our $24.5 million legal lending limit for secured loans and $14.7 million for unsecured loans as of December 31, 2011. During 2011, we originated or purchased $69.2 million of owner occupied commercial real estate loans, $62.8 million of warehouse facilities, $61.7 million of C&I loans, $58.1 million of commercial non-owner occupied real estate loans, $35.1 million of single family real estate loans, $22.0 million of other loans, $9.4 million of land loans, $7.4 million of multi-family real estate loans, $5.6 million of construction loans, and $4.3 million of SBA loans. At December 31, 2011, we had $739.2 million in total gross loans outstanding.

Multi-family Real Estate Lending. Although we were not an active multi-family lender in 2011, on occasion, we originate and purchase loans secured by multi-family residential properties (five units and greater) located predominantly in Southern California. Pursuant to our underwriting policies, multi-family residential loans may be made in an amount up to 75% of the lesser of the appraised value or the purchase price of the collateral property. In addition, we generally require a stabilized minimum debt service coverage ratio of 1.15:1, based on the qualifying loan interest rate. Loans are made for terms of up to 30 years with amortization periods up to 30 years. As part of our desired strategy to diversify the loan portfolio, we substantially reduced the origination of multi-family real estate loans beginning in late 2007. Historically, we have managed our concentration in multi-family real estate loans by selling excess loan production. However, in recent periods, the level of loan sales has decreased significantly due to dislocations in the credit markets. Multi-family loan sales remain a strategic option for us. At December 31, 2011, we had $193.8 million of multi-family real estate secured loans, constituting 26.2% of our loan portfolio.

Commercial Non-Owner Occupied Real Estate Lending. Although we were not an active commercial non-owner occupied real estate lender in 2011, on occasion, we originate and purchase loans that are not occupied by the borrower and are secured by commercial real estate, such as retail centers, small office and light industrial buildings, and mixed-use commercial properties located predominantly in Southern California. Pursuant to our underwriting policies, commercial non-owner occupied real estate loans may be made in amounts up to 75% of the lesser of the appraised value or the purchase price of the collateral property. We consider the net operating income of the property and typically require a stabilized debt service coverage ratio of at least 1.20:1, based on the qualifying interest rate. Loans are generally made for terms up to 15 years with amortization periods up to 30 years. At December 31, 2011, we had $164.3 million of commercial non-owner occupied real estate secured loans, constituting 22.2% of our loan portfolio.

One-to-Four Family Real Estate Lending. We participate in single family lending on occasion through purchases to diversify our portfolio; and, in keeping with the Company’s strategy of offering a full complement of loan products to customers, we have occasionally funded home loans to banking customers. In 2012 we anticipate expanding our one-to-four family lending activities. When we do originate or purchase loans we do not engage in Alt-A or subprime lending. The Company’s portfolio of one-to-four family loans at December 31, 2011 totaled $60.0 million, constituting 8.1% of our loan portfolio, of which $50.7 million consists of loans secured by first liens on real estate and $9.3 million, consists of loans secured by second or junior liens on real estate.

Commercial Owner Occupied Business Lending. We originate and purchase loans secured by commercial owner occupied real estate, such as retail buildings, small office and light industrial buildings, and mixed-use commercial properties located predominantly in Southern California. We will also, from time to time, make a loan secured by a special purpose property, such as a gas station. Pursuant to our underwriting policies, commercial owner occupied real estate loans may be made in amounts of up to 75% of the lesser of the appraised value or the purchase price of the collateral property. Loans are generally made for terms up to 15 years with amortization periods up to 30 years. At December 31, 2011, we had $152.3 million of commercial owner occupied real estate secured loans, constituting 20.6% of our loan portfolio.

Commercial and Industrial Lending. We originate C&I loans secured by business assets including inventory, receivables, machinery and equipment to businesses located in our primary market area. In many instances, real estate holdings of the borrower, its principals or loan guarantors are also taken as collateral. Loan types include revolving lines of credit, term loans, seasonal loans and loans secured by liquid collateral such as cash deposits or marketable securities. We also issue letters of credit on behalf of our customers, backed by loans or deposits with the Company. At December 31, 2011, C&I loans totaled $86.7 million, constituting 11.7% of our loan portfolio, and had additional commitments to extend credit of $41.3 million.

Warehouse Repurchase Facilities. We originate warehouse repurchase facilities to qualified mortgage bankers operating principally in California. These facilities provide short-term funding for one-to-four family mortgage loans via a mechanism whereby the mortgage banker sells us closed loans on an interim basis, to be repurchased in conjunction with the sale of each loan on the secondary market. We carefully underwrite and monitor the financial strength and performance of all counterparties to the transactions, including the mortgage bankers, secondary market participants and closing agents. We generally purchase only conforming/conventional (FNMA, FHLMC) and government guaranteed (FHA, VA and USDA) credits, and only after thorough due diligence including sophisticated fraud checks. At December 31, 2011, warehouse loans totaled $67.5 million constituting 9.1% of our loan portfolio, and had additional commitments to extend credit of $25.2 million.

SBA Lending. The Company is approved to originate loans under the SBA's Preferred Lenders Program ("PLP"). The PLP lending status affords the Company a higher level of delegated credit autonomy, translating to a significantly shorter turnaround time from application to funding, which is critical to our marketing efforts. We originate loans under the SBA's 7(a), Express, Patriot Express and 504 loan programs, in conformity with SBA underwriting and documentation standards. The guaranteed portion of the 7(a) loans is typically sold on the secondary market. At December 31, 2011, we had $4.7 million of SBA loans, constituting 0.7% of our loan portfolio.

Other Loans. We originate other consumer loan products, generally for banking customers only, which consist primarily of savings account loans and auto loans. Before we make a consumer loan, we assess the applicant's ability to repay the loan and, if applicable, the value of the collateral securing the loan. At December 31, 2011, we had $3.4 million in other loans that represented 0.5% of our gross loans.

Interest Rates on Our Loans. We employ a risk-based pricing strategy on all loans that we fund. The interest rates, fees and loan structure of our loans generally vary based on a number of factors, including the degree of credit risk, size, maturity of the loan, a borrower's business or property management expertise, and prevailing market rates for similar types of loans as well as the deposit balances the borrower maintains with us. Adjustable rate C&I and SBA loans are typically priced based on a margin over the Prime rate, while warehouse repurchase facilities are priced over the London Inter-Bank Offered Rate ("LIBOR"). Commercial real estate loans are typically 3, 5, 7, or 10-year fixed rate hybrid adjustable-rate loans and are based on one of several interest rate indices. Many of the C&I loans and substantially all of the non-owner occupied real estate loans originated by the Company in 2011 had minimum interest rates, or floor rates, below which the rate charged may not be reduced regardless of further reductions in the underlying interest rate index. Substantially all non-owner occupied commercial real estate loans also include prepayment penalties.

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

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

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

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

- Increases in interest rates, real estate and personal property tax rates; and
- Other factors beyond the control of the borrower or the lender.

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

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

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

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

Business loans are generally originated as recourse or with full guarantees from key borrowers or borrower principals. Loans secured by real estate are likewise originated on a full recourse basis. On loans made to entities, such as partnerships, limited liability companies, corporations or trusts, we typically obtain personal guarantees from the appropriate managing members, major stockholders, trustees or other appropriate principals. In 2011, substantially all of our loans to entities were originated with full recourse and/or personal guarantees from the principals of the borrowers.

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

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

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

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

- Capital and lease expenditures;
- Capital levels;
- Salaries and other withdrawals;
- Working capital levels;
- Debt to net worth ratios;
- Sale of assets;
- Change of management;
- Change of ownership;
- Cash flow requirements;
- Profitability requirements;
- Debt service ratio;
- Collateral coverage ratio; and
- Current and quick ratios.

Subject to the above standards, our board of directors delegates authority and responsibility to management for loan approvals of up to $1.5 million for all loans secured by real estate and up to $500,000 for loans not secured by real estate. Loan approvals at the management level require the approval of at least two members of our Management Loan Committee, consisting of our President and Chief Executive Officer, Chief Credit Officer, and Chief Banking Officer. All loans in excess of $1.5 million, including total aggregate borrowings by one borrower in excess of $1.5 million, and any loan in excess of $500,000 not secured by real estate, require a majority approval of our board’s Credit Committee, which is comprised of three directors, including our President and Chief Executive Officer.

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

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

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

Loan Portfolio Composition. At December 31, 2011, our net loans receivable held for investment totaled $730.1 million and we had no loans receivable held for sale. The types of loans that the Company may originate are subject to federal and state law.

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

	At December 31,								
	2011			2010			2009		
	Amount	% of Total	Weighted Average Interest Rate	Amount	% of Total	Weighted Average Interest Rate	Amount	% of Total	Weighted Average Interest Rate
	(dollars in thousands)								
Real estate loans:									
Multi-family	$ 193,830	26.2 %	6.0 %	$ 243,584	42.9 %	6.2 %	$ 278,744	48.4 %	6.2 %
Commercial non-owner occupied	164,341	22.2 %	6.6 %	130,525	22.9 %	6.7 %	149,577	26.0 %	6.8 %
One-to-four family (1)	60,027	8.1 %	5.1 %	20,318	3.6 %	5.4 %	8,491	1.5 %	8.3 %
Land	6,438	0.9 %	5.8 %	-	0.0 %	0.0 %	-	0.0 %	0.0 %
Business loans:									
Commercial owner occupied (2)	152,299	20.6 %	6.6 %	113,025	20.0 %	6.6 %	103,019	17.9 %	7.1 %
Commercial and industrial	86,684	11.7 %	5.8 %	42,077	7.5 %	6.3 %	31,109	5.4 %	7.0 %
Warehouse facilities	67,518	9.1 %	5.4 %	12,610	2.2 %	6.1 %	-	0.0 %	0.0 %
SBA	4,727	0.7 %	6.0 %	4,088	0.7 %	5.9 %	3,337	0.5 %	5.7 %
Other loans	3,390	0.5 %	7.6 %	1,417	0.2 %	4.5 %	1,991	0.3 %	1.3 %
Total gross loans	739,254	100.0 %	6.1 %	567,644	100.0 %	6.4 %	576,268	100.0 %	6.6 %
Less loans held for sale	-			-			-		
Total gross loans held for investment	739,254			567,644			576,268		
Plus (less) for:									
Deferred loan origination costs (fees) and	(665)			(3,227)			(779)		

premiums (discounts)			
Allowance for loan losses	(8,522)	(8,879)	(8,905)
Loans held for investment, net	$ 730,067	$ 555,538	$ 566,584

	At December 31,					
	2008			2007		
	Amount	% of Total	Weighted Average Interest Rate	Amount	% of Total	Weighted Average Interest Rate
	(dollars in thousands)					
Real estate loans:						
Multi-family	$ 287,592	45.7 %	6.3 %	$ 341,263	54.5 %	6.8 %
Commercial non-owner occupied	163,428	26.0 %	7.0 %	142,134	22.7 %	7.2 %
One-to-four family (1)	9,925	1.6 %	8.8 %	13,080	2.1 %	8.6 %
Construction	2,733	0.4 %	8.0 %	2,048	0.3 %	7.8 %
Land	2,550	0.4 %	9.5 %	5,389	0.9 %	11.9 %
Business loans:						
Commercial owner occupied (2)	112,406	17.9 %	7.1 %	57,614	9.2 %	7.6 %
Commercial and industrial	43,235	6.9 %	6.8 %	50,992	8.1 %	8.1 %
SBA	4,942	0.8 %	6.3 %	13,995	2.2 %	8.5 %
Other loans	1,956	0.3 %	2.3 %	177	0.0 %	8.6 %
Total gross loans	628,767	100.0%	6.7 %	626,692	100.0%	7.2 %
Less loans held for sale	668			749		
Total gross loans held for investment	628,099			625,943		
Plus (less) for:						
Deferred loan origination costs (fees) and premiums (discounts)	252			769		
Allowance for loan losses	(5,881)			(4,598)		
Loans held for investment, net	$ 622,470			$ 622,114		

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

Loan Portfolio Characteristics. In general, the Company does not require regular updates of collateral valuations for non-homogeneous loans that are not classified as potential problem or problem loans. However, updated valuations are obtained for collateral securing non-homogeneous loans that are identified as potential problem or problem loans at least every twenty-four months. Updated collateral valuations may be required more frequently at the discretion of the Company's management or for loans identified as impaired in accordance with the Company's allowance for loan loss ("ALLL") policy. Market values may be substantiated by obtaining an appraisal or an appropriate evaluation by the Company's Chief Appraiser. At December 31, 2011, 14% of multi-family, 25% of commercial non-owner occupied and 32% of commercial owner occupied loans had current updated collateral valuations within the last twenty-four months.

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

	At December 31, 2011			
	Average			
	Loan Size	Seasoning (months)	Loan-to-Value Ratio	Debt Coverage Ratio
	(dollars in thousands)			
Real estate loans:				
Multi-family	$ 972	62	69 %	1.21
Commercial non-owner occupied	1,068	55	60 %	1.35
One-to-four family	187	38	58 %	N/A
Land	358	53	48 %	N/A
Business loans:				
Commercial owner occupied	643	56	62 %	N/A
Commercial and industrial	265	35	N/A	N/A
Warehouse facilities	8,440	13	N/A	N/A
SBA	135	23	N/A	N/A
Other loans	10	25	N/A	N/A

Loan Maturity. For our commercial real estate and business loans, repayment typically depends on the successful operation of the businesses or the properties securing the loans. Several months before a loan matures, our portfolio managers contact our borrowers to obtain personal and/or business financial and operations data and property information for review. When deemed appropriate, business and property visits are made to assess the borrower's revenue-generating activities and to perform inspections of our collateral. This information is reviewed and evaluated for indications of potential payoff issues prior to maturity. If potential issues are discovered, our portfolio managers work on a strategy with the borrower well in advance of the loan maturing in order to maximize the benefit to the Company. At December 31, 2011, we had $58.6 million or 7.9% of total gross loans held for investment that were due to mature in one year or less, primarily in our C&I loan category totaling of $51.1 million.

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

	At December 31, 2011									
	Multi-Family	Commerical Non Owner Occupied	One-to-Four Family	Commercial Owner Occupied	Commercial and Industrial	Warehouse	Land	SBA	Other Loans	Total
	(in thousands)									
Amounts due										
One year or less	$572	$2,597	$869	$2,790	$51,097	$-	$165	$32	$495	$58,617
More than one year to three years	739	3,093	1,522	6,231	9,800	-	1,751	820	156	24,112
More than three years to five years	3,358	59,855	6,326	20,866	6,084	-	1,754	489	471	99,203
More than five years to 10 years	5,050	66,956	5,400	48,800	14,376	67,518	2,246	1,614	106	212,066
More than 10 years to 20 years	3,197	16,167	8,550	36,631	5,307	-	522	-	1,822	72,196
More than 20 years	180,914	15,673	37,360	36,981	20	-	-	1,772	340	273,060
Total gross loans	193,830	164,341	60,027	152,299	86,684	67,518	6,438	4,727	3,390	739,254
Plus (less) for										
Deferred loan origination (fees) costs	(174)	(148)	(54)	(137)	(78)	(61)	(6)	(4)	(3)	(665)
Allowance for loan losses (allocated)	(2,536)	(1,400)	(654)	(1,096)	(2,727)	-	-	(89)	(20)	(8,522)
Total loans, net	191,120	162,793	59,319	151,066	83,879	67,457	6,432	4,634	3,367	730,067
Loans held for sale, net	-	-	-	-	-	-	-	-	-	-
Loans held for investment, net	$191,120	$162,793	$59,319	$151,066	$83,879	$67,457	$6,432	$4,634	$3,367	$730,067

The following table sets forth at December 31, 2011 the dollar amount of gross loans receivable contractually due after December 31, 2012 and whether such loans have fixed interest rates or adjustable interest rates.

	At December 31, 2011		
	Loans Due After December 31, 2012		
	Fixed	Adjustable	Total
		(in thousands)	
Real estate loans:			
Multi-family	$ 1,469	$ 191,789	$ 193,258
Commercial non-owner occupied	28,603	133,141	161,744
One-to-four family	9,472	49,686	59,158
Land	2,247	4,026	6,273
Business loans:			
Commercial owner occupied	68,763	80,746	149,509
Commercial and industrial	7,391	28,196	35,587
Warehouse facilities	-	67,518	67,518
SBA	1,818	2,877	4,695
Other loans	2,824	71	2,895
Total gross loans	$ 122,587	$ 558,050	$ 680,637

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

	For the Year Ended December 31,				
	2011	2010	2009	2008	2007
			(in thousands)		
Beginning balance of gross loans	$ 567,644	$ 576,268	$ 628,767	$ 626,692	$ 607,618
Loans originated:					
Real estate loans:					
Multi-family	4,318	-	494	34,166	311,236
Commercial non-owner occupied	18,140	-	-	33,058	23,040
One-to-four family	6,085	-	200	250	341
Business loans:					
Commercial owner occupied	1,838	600	365	5,375	17,208
Commercial and industrial	33,209	28,030	4,249	17,512	37,705
Warehouse facilities	62,750	35,500	-	-	-

SBA	4,309	2,322	1,150	907	14,209
Other loans	65	5,183	958	1,215	2,992
Total loans originated	130,714	71,635	7,416	92,483	406,731
Loans purchased:					
Multi-family	3,075	-	4,051	4,577	-
Commercial non-owner occupied	39,963	2,579	-	9,305	-
Commercial owner occupied	67,359	26,380	-	53,710	-
Commercial and industrial	28,536	745	-	-	-
One-to-four family	28,987	-	-	-	-
Construction	5,592	-	-	-	2,750
Land	9,414	-	-	-	-
Other loans	21,995	9,884	-	-	-
Total loans purchased	204,921	39,588	4,051	67,592	2,750
Total loan production	335,635	111,223	11,467	160,075	409,481
Total	903,279	687,491	640,234	786,767	1,017,099
Plus (less) for:					
Principal repayments	(100,671)	(61,983)	(56,808)	(161,352)	(149,550)
Change in Canyon National mark-to-market discount	3,233	-	-	-	-
Change in undisbursed loan funds	(15,377)	(21,984)	4,701	10,854	-
Sales of loans	(42,201)	(29,977)	(2,515)	(6,235)	(239,396)
Charge-offs	(4,014)	(2,339)	(4,811)	(1,174)	(701)
Transfer to other real estate owned	(4,995)	(3,564)	(4,533)	(93)	(760)
Total gross loans	739,254	567,644	576,268	628,767	626,692
Less ending balance loans held for sale, gross	-	-	-	668	749
Ending balance loans held for investment, gross	$ 739,254	$ 567,644	$ 576,268	$ 628,099	$ 625,943

Delinquent Loans. When a borrower fails to make required payments on a loan and does not cure the delinquency within 30 days, we normally record a notice of default and, after providing the required notices to the borrower, commence foreclosure proceedings. If the loan is not reinstated within the time permitted by law, we may sell the property at a foreclosure sale. At these foreclosure sales, we generally acquire title to the property. At December 31, 2011, loans delinquent 60 or more days as a percentage of total gross loans was 0.68%, up from 0.54% at year-end 2010.

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

	30 - 59 Days		60 - 89 Days		90 Days or More (1)		Total	
	# of	Principal	# of	Principal	# of	Principal	# of	Principal

	Loans	Balance of Loans	Loans	Balance of Loans	Loans	Balance of Loans	Loans	Balance of Loans
			(dollars in thousands)					
At December 31, 2011								
Real estate loans:								
Commercial non-owner occupied	1	$ 434	-	$ -	3	$ 1,244	4	$ 1,678
One-to-four family	4	201	-	-	2	323	6	524
Land	-	-	1	617	1	52	2	669
Business loans:								
Commercial owner occupied	-	-	-	-	3	919	3	919
Commercial and industrial	1	12	-	-	4	1,057	5	1,069
SBA	1	49	1	113	8	665	10	827
Other	2	3	1	1	-	-	3	4
Total	9	$ 699	3	$ 731	21	$ 4,260	33	$ 5,690
Delinquent loans to total gross loans		0.09 %		0.10 %		0.58 %		0.77 %
At December 31, 2010								
Real estate loans:								
Commercial non-owner occupied	2	$ 617	-	$ -	-	$ -	2	$ 617
One-to-four family	3	402	1	17	1	20	5	439
Business loans:								
Commercial owner occupied	1	184	-	-	3	2,225	4	2,409
SBA	-	-	-	-	7	846	7	846
Total	6	$ 1,203	1	$ 17	11	$ 3,091	18	$ 4,311
Delinquent loans to total gross loans		0.21 %		0.00 %		0.54 %		0.76 %
At December 31, 2009								
Real estate loans:								
Multi-family	1	$ 3,150	-	$ -	3	$ 2,073	4	$ 5,223
Commercial non-owner occupied	1	694	-	-	1	1,851	2	2,545
One-to-four family	3	44	-	-	4	97	7	141

Business loans:								
Commercial owner occupied	-	-	-	-	2	996	2	996
SBA	1	69	1	52	3	463	5	584
Other	1	18	-	-	-	-	1	18
Total	7	$ 3,975	1	$ 52	13	$ 5,480	21	$ 9,507
Delinquent loans to total gross loans		0.69 %		0.01 %		0.95 %		1.65 %
At December 31, 2008								
Real estate loans:								
Multi-family	-	$ -	-	$ -	1	$ 350	1	$ 350
Commercial non-owner occupied	1	1,062	1	317	1	638	3	2,017
One-to-four family	4	129	2	32	8	637	14	798
Land	-	-	-	-	1	2,550	1	2,550
Business loans:								
SBA	1	216	-	-	2	127	3	343
Total	6	$ 1,407	3	$ 349	13	$ 4,302	22	$ 6,058
Delinquent loans to total gross loans		0.22 %		0.06 %		0.68 %		0.96 %
At December 31, 2007								
Real estate loans:								
Commercial non-owner occupied	1	$ 641	1	$ 641	1	$ 3,125	3	$ 4,407
One-to-four family and other loans	8	251	15	719	7	284	30	1,254
Business loans:								
Commercial and industrial	2	208	3	458	-	-	5	666
SBA	2	119	5	804	-	-	7	923
Total	13	$ 1,219	24	$ 2,622	8	$ 3,409	45	$ 7,250
Delinquent loans to total gross loans		0.19 %		0.42 %		0.54 %		1.16 %

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

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

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

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

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

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

The Company's CIRC reviews the Chief Credit Officer's recommendations for classifying our assets quarterly and reports the results of our review to the board of directors. At December 31, 2011, we had $23.6 million of assets classified as substandard, compared to $20.6 million at December 31, 2010. The increase primarily consists of $3.3 million of loans and $1.2 million of OREO, partially offset by a decrease in securities classified as substandard of $1.5 million.

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

At December 31, 2011

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

	At December 31, 2010							
	Loans		OREO		Securities		Total Substandard Assets	
	Gross Balance	# of Loans	Balance	# of Properties	Fair Value	# of Securities	Balance	# of Assets
				(dollars in thousands)				
Real estate loans:								
Multi-family	$4,153	5	$-	-	$--	--	$4,153	5
Commercial non-owner occupied	5,435	8	-	-	--	--	5,435	8
One-to-four family	495	9	34	1	--	--	529	10
Business loans:								
Commercial owner occupied	4,476	7	-	-	--	--	4,476	7
Commercial and industrial	1,139	5	-	-	--	--	1,139	5
SBA	1,132	11	-	-	--	--	1,132	11
Securities	--	--	--	--	3,781	52	3,781	52
Total substandard assets	$16,830	45	$34	1	$3,781	52	$20,645	98

In determining the allowance for loan losses, we evaluate loan credit losses on an individual basis in accordance with FASB Statement No. 114, Accounting by Creditors for Impairment of a Loan, and on a collective basis based on FASB Statement No. 5, Accounting for Contingencies. For loans evaluated on an individual basis, we analyze the borrower’s creditworthiness, cash flows and financial status, and the condition and estimated value of the collateral. Loans evaluated individually that are deemed to be impaired are separated from our collective credit loss analysis.

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

Internal Factors

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

External Factors

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

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

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

As of December 31, 2011, the allowance for loan losses totaled $8.5 million, down $400,000 from December 31, 2010 and December 31, 2009. At December 31, 2011, the allowance for loan losses as a percent of nonperforming loans was 139.9%, compared with 270.9% at December 31, 2010 and 88.9% at December 31, 2009. At December 31, 2011, the allowance for loan losses as a percent of gross loans was 1.15%, down from 1.56% at December 31, 2010 and 1.55% at December 31, 2009. The decrease in the current year ratio was primarily related to the Canyon National Acquisition that added a substantial amount of loans to the portfolio at a fair market value discount, which included a credit valuation component not included in the ALLL. At December 31, 2011, management deems the ALLL to be sufficient to provide for inherent losses within the loan portfolio.

The following table sets forth the activity in the Company’s allowance for loan losses for the periods indicated:

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

	For the Year Ended December 31,									
	2011		2010		2009		2008		2007	
	(dollars in thousands)									
Allowance for Loan Losses										
Balance at beginning of period	8,879		8,905		5,881		4,598		3,543	
ALLL Transfer In *	-		-		-		8		-	
Provision for loan losses	3,255		2,092		7,735		2,241		1,651	
Charge-offs:										
Real estate:										
Multi-family	489		334		1,527		-		-	
Commercial non-owner occupied	43		512		317		-		-	
One-to-four family	1,408		123		125		226		101	
Land	164		-		-		-		-	
Business loans:										
Commercial owner occupied	307		264		59		-		-	
Commercial and industrial	1,285		708		1,409		-		-	
SBA	90		398		906		948		600	
Other loans	228		-		468		-		-	
Total charge-offs	4,014		2,339		4,811		1,174		701	
Recoveries:										
Real estate:										
One-to-four family	142		40		26		88		103	
Land	23		-		-		-		-	
Business loans:										
Commercial and industrial	9		13		4		-		-	
SBA	211		154		31		-		-	
Other loans	17		14		39		120		2	
Total recoveries	402		221		100		208		105	
Net loan charge-offs	3,612		2,118		4,711		966		596	
Balance at end of period	$8,522		$8,879		$8,905		$5,881		$4,598	
Ratios										
Net charge-offs to average net loans	0.53	%	0.39	%	0.79	%	0.16	%	0.10	%
Allowance for loan losses to gross loans at end of period	1.15	%	1.56	%	1.55	%	0.94	%	0.73	%

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

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

	At December 31,								
	2011			2010			2009		
Balance at End of Period	Amount	% of Loans	Allowance as a %	Amount	% of Loans	Allowance as a %	Amount	% of Loans	Allowance as a %

Applicable to		% of Loans in Category to Total Loans	Allowance as a % of Loan Category Balance		% of Loans in Category to Total Loans	Allowance as a % of Loan Category Balance		% of Loans in Category to Total Loans	Allowance as a % of Loan Category Balance
				(dollars in thousands)					
Real estate loans:									
Multi-family	$ 2,281	26.2 %	1.18 %	$ 2,729	42.9 %	1.12 %	$ 3,386	48.4 %	1.21 %
Commercial non-owner occupied	1,287	22.2 %	0.78 %	1,580	22.9 %	1.21 %	1,602	26.0 %	1.07 %
One-to-four family	931	8.1 %	1.55 %	332	3.6 %	1.63 %	272	1.5 %	3.20 %
Land	39	0.9 %	0.61 %	-	0.0 %	0.00 %	-	0.0 %	0.00 %
Business loans:									
Commercial owner occupied	1,119	20.6 %	0.73 %	1,687	20.0 %	1.49 %	907	17.9 %	0.88 %
Commercial and industrial	1,361	11.7 %	1.57 %	2,018	7.5 %	4.80 %	2,410	5.4 %	7.75 %
Warehouse facilities	1,347	9.1 %	2.00 %	338	2.2 %	2.68 %	-	0.0 %	0.00 %
SBA	80	0.7 %	1.69 %	145	0.7 %	3.55 %	326	0.5 %	9.77 %
Other Loans	77	0.5 %	2.27 %	50	0.2 %	3.53 %	2	0.3 %	0.10 %
Total	$ 8,522	100.0 %	1.15 %	$ 8,879	100.0 %	1.56 %	$ 8,905	100.0 %	1.55 %

	At December 31,					
		2008			2007	
Balance at End of Period Applicable to	Amount	% of Loans in Category to Total Loans	Allowance as a % of Loan Category Balance	Amount	% of Loans in Category to Total Loans	Allowance as a % of Loan Category Balance
			(dollars in thousands)			
Real estate loans:						
Multi-family	$ 1,958	45.7 %	0.68 %	$ 1,718	54.5 %	0.50 %
Commercial non-owner occupied	1,373	26.0 %	0.84 %	1,349	22.7 %	0.95 %
One-to-four family	231	1.6 %	2.33 %	197	2.1 %	1.51 %
Construction	78	0.4 %	2.85 %	24	0.3 %	1.17 %
Land	-	0.4 %	0.00 %	-	0.9 %	0.00 %
Business loans:						
Commercial owner occupied	935	17.9 %	0.83 %	296	9.2 %	0.51 %
Commercial and industrial	1,123	6.9 %	2.60 %	765	8.1 %	1.50 %
SBA	177	0.8 %	3.58 %	247	2.2 %	1.76 %

Other Loans	6	0.3 %	0.31 %	2	0.0 %	1.13 %
Total	$ 5,881	100.0 %	0.94 %	$ 4,598	100.0 %	0.73 %

The following table sets forth the allowance for loan losses amounts calculated by the categories listed at the dates indicated:

	At December 31,									
	2011		2010		2009		2008		2007	
Balance at End of Period Applicable to	Amount	% of Allowance to Total	Amount	% of Allowance to Total	Amount	% of Allowance to Total	Amount	% of Allowance to Total	Amount	% of Allowance to Total
	(dollars in thousands)									
Allocated allowance	$8,522	100.0 %	$8,832	99.5 %	$8,905	100.0 %	$5,881	100.0 %	$4,598	100.0 %
Specific allowance	-	0.0 %	47	0.5 %	-	0.0 %	-	0.0 %	-	0.0 %
Total	$8,522	100.0 %	$8,879	100.0 %	$8,905	100.0 %	$5,881	100.0 %	$4,598	100.0 %

Investment Activities

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

Our investment securities portfolio amounted to $128.1 million at December 31, 2011, as compared to $168.4 million at December 31, 2010, representing a 23.9% decrease. As of December 31, 2011, the portfolio consisted of $88.8 million in government sponsor enterprises ("GSE") MBS, $24.1 million in municipal bonds, $2.5 million of private label MBS, $162,000 in U.S. Treasuries, $10.5 million of FHLB stock, and $2.0 million of stock of the Federal Reserve Bank of San Francisco (the "Federal Reserve Bank"). In addition, $37.0 million of the GSE securities have been pledged as collateral for the Company's $28.5 million of inverse putable reverse repurchase agreements.

All of our $24.1 million municipal bond securities in our portfolio have an underlying rating of investment grade with the majority insured by the largest bond insurance companies to bring each of these securities to a Moody's AA- rating or better. The Company has only purchased general obligation bonds that are risk-weighted at 20% for regulatory capital purposes. The Company has reduced its exposure to any single adverse event by holding securities from geographically diversified municipalities. We are continually monitoring the quality of our municipal bond portfolio in light of the current financial conditions. To our knowledge, none of the municipalities in which we hold bonds are exhibiting financial problems that would require us to record an OTTI charge.

In June 2008, the Company redeemed its shares in two AMF mutual funds it owned and received a pro rata distribution in kind of the securities held by the mutual funds. The managers of the mutual funds had limited redemptions to payment-in-kind only and did not permit the owners of the funds to redeem their shares for cash. In aggregate, the Company received cash of $2.9 million and 160 securities with a market value totaling $21.3 million. The Company's redemption of its shares in the mutual funds resulted in a charge to earnings of approximately $3.6 million (pre-tax). The charge is the difference between the total purchase price of $27.7 million, paid by the Company for the mutual funds and the market value of the cash and securities of $24.1 million at the close of business on June 18, 2008, which is the date the Company redeemed its shares in the mutual funds. For 2011, the Company took OTTI charges of $617,000, compared with $1.1 million in 2010 and $2.0 million in 2009, all of which for both years were related to the private label MBS received from these mutual funds.

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

			At December 31, 2011			
Security Type	Ratings	Number	Face Value	Amortized Cost	Fair Value	Unrealized Gain/(Loss)
			(dollars in thousands)			
U.S. Treasury	AAA	2	$146	$147	$162	$15
Municipal bonds	AAA/AA	35	22,630	23,354	24,139	785
Government Sponsored Enterprise	AAA	69	85,502	88,469	88,816	347
Private Label:						
Investment Grade	AAA	1	77	77	68	(9)
Investment Grade	AA-BBB	10	276	272	231	(41)
Non-investment Grade *	Below BBB	53	5,754	2,787	2,229	(558)
Total investment securities available for sale		170	$114,385	$115,106	$115,645	$539

* Non-investment grade includes all ratings below BBB.

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

	At December 31,					
	2011		2010		2009	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in thousands)					
Investment securities available for sale						
U.S. Treasury	$147	$162	$148	$159	$148	$154
Municipal bonds	23,354	24,139	20,555	19,759	17,918	17,965
Mortgage-backed securities *	91,605	91,344	135,944	135,176	108,300	105,288
Total investment securities available for sale	115,106	115,645	156,647	155,094	126,366	123,407
Stock						
FHLB	10,456	10,456	11,315	11,315	12,731	12,731
Federal Reserve Bank	2,019	2,019	2,019	2,019	1,599	1,599
Total stock	12,475	12,475	13,334	13,334	14,330	14,330
Total securities	$127,581	$128,120	$169,981	$168,428	$140,696	$137,737
* GSE securities % of total investments for sale	76.8%	76.7%	83.2%	84.1%	79.4%	80.8%

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

At December 31, 2011

	One Year or Less		More than One to Five Years		More than Five Years to Ten Years		More than Ten Years		Total	
	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield
	(dollars in thousands)									
Investment securities available for sale										
U.S. Treasury	$ -	0.00 %	$ 76	3.40 %	$ 86	3.53 %	$ -	0.00 %	$ 162	3.84 %
Municipal bonds	-	0.00 %	-	0.00 %	1,261	3.72 %	22,878	3.62 %	24,139	3.75 %
Mortgage-backed securities	-	0.00 %	147	2.40 %	77	4.45 %	91,120	2.51 %	91,344	2.51 %
Total investment securities available for sale	-	0.00 %	223	2.74 %	1,424	3.74 %	113,998	2.73 %	$ 115,645	2.76 %
Stock										
FHLB	10,456	0.00 %	-	0.00 %	-	0.00 %	-	0.00 %	10,456	0.00 %
Federal Reserve Bank	2,019	6.00 %	-	0.00 %	-	0.00 %	-	0.00 %	2,019	6.00 %
Total stock	12,475	0.97 %	-	0.00 %	-	0.00 %	-	0.00 %	$ 12,475	0.97 %
Total securities	$ 12,475	0.97 %	$ 223	2.74 %	$ 1,424	3.74 %	$ 113,998	2.73 %	$ 128,120	2.59 %

Nonperforming Assets. Nonperforming assets consist of loans on which we have ceased accruing interest (nonaccrual loans), loans restructured at an interest rate below market and OREO. Nonaccrual loans consisted of all loans 90 days or more past due and on loans where, in the opinion of management, there is reasonable doubt as to the collection of interest. A "restructured loan" is one where the terms of the loan were renegotiated to provide a reduction or deferral of interest or principal because of deterioration in the financial position of the borrower. We did not include in interest income any interest on restructured loans during the periods presented. At December 31, 2011, we had $7.3 million of nonperforming assets, which consisted of $6.1 million of net nonperforming loans and $1.2 million of OREO. At December 31, 2010, we had $3.3 million of nonperforming assets, which consisted of $3.3 million of nonperforming loans and $34,000 of OREO.

At December 31, 2011, OREO consisted of four land, one commercial real estate and two residential one-to-four family properties, compared to one residential one-to-four family property at December 31, 2010. Properties acquired through or in lieu of foreclosure are recorded at fair value less cost to sell. The Company generally obtains an appraisal and/or a market evaluation on all OREO prior to obtaining possession. After foreclosure, valuations are periodically performed by management as needed due to changing market conditions or factors specifically attributable to the property's condition. If the carrying value of the property exceeds its fair value less estimated cost to sell, the asset is written down and a charge to operations is recorded.

We recognized loan interest income on nonperforming loans of $243,000 in 2011, $264,000 in 2010 and $95,000 in 2009. If these loans had paid in accordance with their original loan terms, we would have recorded additional loan interest income of $413,000 in 2011, $600,000 in 2010 and $781,000 in 2009.

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

At December 31,

	2011	2010	2009	2008	2007
			(dollars in thousands)		
Nonperforming assets					
Real estate loans:					
Multi-family	$ 293	$ -	$ 5,223	$ 350	$ -
Commercial non-owner occupied	1,495	-	1,851	3,188	3,125
One-to-four family	323	27	107	637	284
Land	52	-	-	-	-
Business loans:					
Commercial owner occupied	2,053	2,225	996	-	-
Commercial and industrial	1,177	54	955	-	-
SBA (1)	700	971	880	1,025	784
Total nonaccrual loans	6,093	3,277	10,012	5,200	4,193
Foreclosures in process	-	-	-	-	-
Specific allowance	-	-	-	-	-
Total nonperforming loans, net	6,093	3,277	10,012	5,200	4,193
Other real estate owned	1,231	34	3,380	37	711
Total nonperforming assets, net	$ 7,324	$ 3,311	$ 13,392	$ 5,237	$ 4,904
Allowance for loan losses	$ 8,522	$ 8,879	$ 8,905	$ 5,881	$ 4,598
Allowance for loan losses as a percent of total nonperforming loans, gross	139.87 %	270.95 %	88.94 %	113.10 %	109.48 %
Nonperforming loans, net of specific allowances, as a percent of gross loans receivable (2)	0.82 %	0.58 %	1.74 %	0.83 %	0.67 %
Nonperforming assets, net of specific allowances, as a	0.76 %	0.40 %	1.66 %	0.71 %	0.64 %

percent of total assets	

(1) The SBA totals include the guaranteed amount, which was $311,000 as of December 31, 2011.
(2) Gross loans include loans receivable held for investment and held for sale.

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

Sources of Funds

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

Deposits. Deposits represent our primary source of funds for our lending and investing activities. The Company offers a variety of deposit accounts with a range of interest rates and terms. The deposit accounts are offered through our nine branch network in Southern California. The Company's deposits consist of checking accounts, money market accounts, passbook savings, and certificates of deposit. Total deposits at December 31, 2011 were $828.9 million, compared to $659.2 million at December 31, 2010. At December 31, 2011, certificates of deposit constituted 51.7% of total deposits, compared to 62.0% at the year-end 2010. The terms of the fixed-rate certificates of deposit offered by the Company vary from three months to five years. Specific terms of an individual account vary according to the type of account, the minimum balance required, the time period funds must remain on deposit and the interest rate, among other factors. The flow of deposits is influenced significantly by general economic conditions, changes in money market rates, prevailing interest rates and competition. At December 31, 2011, the Company had $320.2 million of certificate of deposit accounts maturing in one year or less.

The Company relies primarily on customer service, sales and marketing efforts, business development, cross-selling of deposit products to loan customers, and long-standing relationships with customers to attract and retain local deposits. However, market interest rates and rates offered by competing financial institutions significantly affect the Company's ability to attract and retain deposits. Additionally, from time to time, the Company will utilize both wholesale and brokered deposits to supplement its generation of deposits from businesses and consumers. During 2011, the Company allowed $1.9 million of wholesale deposits to run off so that at December 31, 2011, we had no wholesale or broker deposits.

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

	For the Year Ended December 31,		
	2011	2010	2009
	(in thousands)		
Net deposits	$ 161,428	$ 30,962	$ 141,471
Interest credited on deposit accounts	8,209	9,544	20,135
Total increase in	$ 169,637	$ 40,506	$ 161,606

deposit accounts

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

	At December 31,								
	2011			2010			2009		
	Balance	% of Total Deposits	Weighted Average Rate	Balance	% of Total Deposits	Weighted Average Rate	Balance	% of Total Deposits	Weighted Average Rate
	(dollars in thousands)								
Transaction accounts:									
Non-interest bearing checking	$ 112,313	13.5 %	0.00 %	$ 47,229	7.2 %	0.00 %	$ 33,885	5.5 %	0.00 %
Interest bearing checking	63,620	7.7 %	0.23 %	21,137	3.2 %	0.14 %	22,406	3.6 %	0.39 %
Money market	132,509	16.0 %	0.66 %	113,333	17.2 %	0.97 %	77,687	12.6 %	1.17 %
Regular passbook	91,747	11.1 %	0.50 %	68,559	10.4 %	0.96 %	61,779	9.9 %	1.33 %
Total transaction accounts	400,189	48.3 %	0.37 %	250,258	38.0 %	0.72 %	195,757	31.6 %	0.93 %
Certificates of deposit accounts:									
Less than 1.00%	87,191	10.5 %	0.68 %	46,528	7.1 %	0.46 %	30,867	5.0 %	0.82 %
1.00 - 1.99	263,241	31.8 %	1.34 %	172,974	26.2 %	1.61 %	91,207	14.7 %	1.63 %
2.00 - 2.99	73,744	8.8 %	2.20 %	186,173	28.2 %	2.31 %	292,689	47.3 %	2.44 %
3.00 - 3.99	1,464	0.2 %	3.41 %	984	0.1 %	3.24 %	3,427	0.6 %	3.29 %
4.00 - 4.99	1,380	0.2 %	4.47 %	1,097	0.2 %	4.41 %	3,463	0.6 %	4.40 %
5.00 - 5.99	1,668	0.2 %	5.24 %	1,226	0.2 %	5.30 %	1,324	0.2 %	5.34 %
Total certificates of deposit accounts	428,688	51.7 %	1.39 %	408,982	62.0 %	1.82 %	422,977	68.4 %	2.18 %
Total deposits	$ 828,877	100.0 %	0.89 %	$ 659,240	100.0 %	1.40 %	$ 618,734	100.0 %	2.09 %

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

At December 31, 2011								
Less than 1.00%	1.00%- 1.99%	2.00%- 2.99%	3.00%- 3.99%	4.00%- 4.99%	5.00% and greater	Total	% of Total	Weighted Average Rate

(dollars in thousands)

Certificates of deposit accounts									
Within 3 months	$17,665	$34,874	$8,177	$150	$-	$163	$61,029	14.2 %	1.30%
4 to 6 months	13,334	55,707	47,984	-	568	537	118,130	27.6 %	1.67%
7 to 12 months	40,538	95,868	4,117	59	309	187	141,078	32.9 %	1.13%
13 to 24 months	14,344	74,822	1,850	472	501	211	92,200	21.5 %	1.26%
25 to 36 months	608	1,177	459	138	-	58	2,440	0.6 %	1.81%
37 to 60 months	162	764	11,056	631	-	278	12,891	3.0 %	2.85%
Over 60 months	540	29	101	14	2	234	920	0.2 %	1.30%
Total	$87,191	$263,241	$73,744	$1,464	$1,380	$1,668	$428,688	100.0%	1.39%

With the enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) deposit insurance coverage was made unlimited for non-interest bearing transaction accounts until December 31, 2012 and up to $250,000 per depositor for all other accounts. At December 31, 2011, the Company had $228.9 million in certificate accounts in amounts of greater than $100,000, and of that amount $47.4 million in certificate accounts in amounts of greater than $250,000 maturing as follows:

	At December 31, 2011								
	$100,000 to $250,000			Greater than $250,000			Total Greater than $100,000		
Maturity Period	Amount	Weighted Average Rate	% of Total Deposits	Amount	Weighted Average Rate	% of Total Deposits	Amount	Weighted Average Rate	% of Total Deposits
				(dollars in thousands)					
Three months or less	$ 23,172	1.37 %	2.80 %	$ 7,126	1.35 %	0.86 %	$ 30,298	1.36 %	3.66 %
Over three months through 6 months	47,135	1.76 %	5.69 %	12,504	1.68 %	1.51 %	59,639	1.74 %	7.20 %
Over 6 months through 12 months	62,600	1.16 %	7.55 %	17,119	1.11 %	2.07 %	79,719	1.15 %	9.62 %
Over 12 months	48,576	1.41 %	5.86 %	10,633	1.32 %	1.28 %	59,209	1.39 %	7.14 %
Total	$ 181,483	1.41 %	21.90%	$ 47,382	1.34 %	5.72 %	$ 228,865	1.40 %	27.62%

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

FHLB Advances. The FHLB system functions as a source of credit to financial institutions that are members. Advances are secured by certain real estate loans, investment securities, and the capital stock of the FHLB owned by the Company. Subject to the FHLB's advance policies and requirements, these advances can be requested for any business purpose in which the Company is authorized to engage. In granting advances, the FHLB considers a member's creditworthiness and other relevant factors. The Company has a line of credit with the FHLB which provides for advances totaling up to 45% of its assets, equating to a credit line of $415.6 million as of December 31, 2011. At December 31, 2011, the Company had no FHLB advances outstanding. At December 31, 2010, the Company had two FHLB term advances outstanding totaling $40.0 million with a weighted average interest rate of 0.61% and a weighted average remaining maturity of 1.0 years. In conjunction with the liquidity received from the Canyon National Acquisition, these advances were paid off in the in first quarter of 2011.

Other Borrowings. The Company maintains lines of credit to purchase federal funds and a reverse repurchase facility together totaling $64.0 million with six correspondent banks to be utilized as business needs dictate. Federal funds purchased and reverse repurchase facilities are short-term in nature and utilized to meet short-term funding needs. As of December 31, 2011, we had no outstanding balance with any of our correspondent banks. Additionally, in 2008 the Company entered into three inverse putable reverse repurchase agreements (the "repurchase agreements") totaling $28.5 million with a weighted average interest rate of 3.26% as of December 31, 2011 secured by GSE MBS totaling $37.0 million. The terms of each repurchase agreements is for 10 years with the buyers of the repurchase agreements having the option to terminate the repurchase agreements after the fixed interest rate period has expired. The interest rates reset quarterly with the maximum reset rate being 2.89% on one $10.0 million repurchase agreement, 3.47% on the other $10.0 million repurchase agreement, and 3.45% on the $8.5 million repurchase agreement.

Debentures. On March 25, 2004, the Corporation issued $10,310,000 of Floating Rate Junior Subordinated Deferrable Interest Debentures (the "Debt Securities") to PPBI Trust I, a statutory trust created under the laws of the State of Delaware. The Debt Securities are subordinated to effectively all borrowings of the Corporation and are due and payable on April 7, 2034. Interest is payable quarterly on the Debt Securities at three-month LIBOR plus 2.75% for an effective rate of 3.15% as of December 31, 2011.

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

	At or For Year Ended December 31,		
	2011	2010	2009
	(dollars in thousands)		
FHLB advances			
Balance outstanding at end of year	-	40,000	63,000
Weighted average interest rate at end of year	0.00 %	0.61 %	4.90 %
Average balance outstanding	$ 6,630	$ 38,178	$ 127,653
Weighted average interest rate during the year	0.80 %	4.88 %	4.77 %
Maximum amount outstanding at any month-end during the year	35,000	63,000	150,000
Other borrowings			
Balance outstanding at end of year	28,500	28,500	28,500

Weighted average interest rate at end of year	3.26 %	3.04 %	3.04 %
Average balance outstanding	$ 28,500	$ 28,500	$ 28,500
Weighted average interest rate during the year	3.32 %	3.08 %	2.61 %
Maximum amount outstanding at any month-end during the year	28,500	28,500	28,500
Debentures			
Balance outstanding at end of year	10,310	10,310	10,310
Weighted average interest rate at end of year	3.15 %	3.04 %	3.03 %
Average balance outstanding	$ 10,310	$ 10,310	$ 10,310
Weighted average interest rate during the year	3.01 %	3.05 %	3.57 %
Maximum amount outstanding at any month-end during the year	10,310	10,310	10,310
Total borrowings			
Balance outstanding at end of year	38,810	78,810	101,810
Weighted average interest rate at end of year	3.23 %	1.81 %	4.19 %
Average balance outstanding	$ 45,440	$ 76,988	$ 166,463
Weighted average interest rate during the year	2.88 %	3.97 %	4.33 %
Maximum amount outstanding at any month-end during the year	73,810	101,810	188,810

Subsidiaries

At December 31, 2011, we had two subsidiaries, the Bank, a wholly-owned consolidated subsidiary with no subsidiaries of its own, and PPBI Trust I, which is a wholly-owned special purpose entity accounted for using the equity method under which the subsidiaries' net earnings are recognized in our operations and the investment in the Trust is included in other assets on our balance sheet.

Personnel

As of December 31, 2011, we had 148 full-time employees and 1 part-time employee. The employees are not represented by a collective bargaining unit and we consider our relationship with our employees to be satisfactory.

Competition

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

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

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

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

In order to compete with these other institutions, the Company primarily relies on local promotional activities, personal relationships established by officers, directors and employees of the Company and specialized services tailored to meet the individual needs of the Company's customers.

Supervision And Regulation

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

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

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

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

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

Dodd-Frank Act

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

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

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

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

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

- Made permanent the $250,000 limit for federal deposit insurance and increased the cash limit of Securities Investor Protection Corporation protection from $100,000 to $250,000 and provides unlimited federal deposit insurance until January 1, 2013 for noninterest bearing demand transaction accounts at all insured depository institutions.

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

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

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

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

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

The BHCA requires a bank holding company to obtain prior approval of the Federal Reserve before: (1) taking any action that causes a bank to become a controlled subsidiary of the bank holding company; (2) acquiring direct or indirect ownership or control of voting shares of any bank or bank holding company, if the acquisition results in the acquiring bank holding company having control of more than 5% of the outstanding shares of any class of voting securities of such bank or bank holding company, unless such bank or bank holding company is majority-owned by the acquiring bank holding company before the acquisition; (3) acquiring all or substantially all the assets of a bank; or (4) merging or consolidating with another bank holding company.

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

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

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

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

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

Capital Requirements. Bank holding companies and banks are subject to various regulatory capital requirements administered by state and federal agencies. These agencies may establish higher minimum requirements if, for example, a banking organization previously has received special attention or has a high susceptibility to interest rate risk. Under federal regulations, bank holding companies and banks must meet the following risk-based capital requirements: a minimum ratio of 8% of total capital to risk-weighted assets, and a minimum ratio of 4% of Tier 1 capital to risk-weighted assets. To be deemed "well capitalized" under applicable federal regulations, banks must have a minimum ratio of 10% of total capital to risk-weighted assets, and a minimum ratio of 6% of Tier 1 capital to risk-weighted assets. The regulatory capital requirements, as well as the actual capital ratios for the Corporation and the Bank as of December 31, 2011, are presented in detail in Note 2, Regulatory Capital Requirements and Other Regulatory Matters in Item 8 hereof. See also "Capital Resources" within Management's Discussion and Analysis in Item 7 hereof. As of December 31, 2011, the Corporation had a consolidated ratio of 12.80% of total capital to risk-weighted assets and a consolidated ratio of 11.69% of Tier 1 capital to risk-weighted assets and the Bank had a ratio of 12.81% of total capital to risk-weighted assets and a ratio of 11.68% of Tier 1 capital to risk-weighted assets.

Under federal regulations, "Tier 1 capital" is defined to include: common shareholders' equity (including retained earnings), qualifying noncumulative perpetual preferred stock and related surplus, qualifying cumulative perpetual preferred stock and related surplus, minority interests in the equity accounts of consolidated subsidiaries (limited to a maximum of 25% of Tier 1 capital), and certain trust preferred securities. The Dodd-Frank Act excludes trust preferred securities issued after May 19, 2010, from being included in Tier 1 capital, unless the issuing company is a bank holding company with less than $500 million in total assets. Trust preferred securities issued prior to that date will continue to count as Tier 1 capital for bank holding companies with less than $15 billion in total assets, such as the Corporation. The trust preferred securities issued by our unconsolidated subsidiary capital trust qualify as Tier 1 capital up to a maximum limit of 25% of total Tier 1 capital. Any additional portion of our trust preferred securities would qualify as "Tier 2 capital." As of December 31, 2011, the subsidiary trust had $10.3 million in trust preferred securities outstanding, of which $10.0 million qualifies as Tier 1 capital. Also, goodwill and most intangible assets are deducted from Tier 1 capital. For purposes of applicable the total risk-based capital regulatory guidelines, Tier 2 capital (sometimes referred to as "supplementary capital") is defined to include, subject to limitations: perpetual preferred stock not included in Tier 1 capital, intermediate-term preferred stock and any related surplus, certain hybrid capital instruments, perpetual debt and mandatory convertible debt securities, allowances for loan and lease losses, and intermediate-term subordinated debt instruments. The maximum amount of qualifying Tier 2 capital is 100% of qualifying Tier 1 capital. For purposes of determining total capital under federal guidelines, total capital equals Tier 1 capital, plus qualifying Tier 2 capital, minus investments in unconsolidated subsidiaries, reciprocal holdings of bank holding company capital securities, and deferred tax assets and other deductions.

In addition to the risk-based guidelines described above, federal banking regulators require banking organizations to maintain a minimum amount of Tier 1 capital to total assets, referred to as the leverage ratio. For a banking organization rated in the highest of the five categories used by regulators to rate banking organizations, the minimum leverage ratio of Tier 1 capital to total assets is 3%. For all banking organizations not rated in the highest category, the minimum leverage ratio must be at least 4%. To be deemed "well capitalized" under applicable federal regulations, banks must have a minimum leverage ratio of 5%. As of December 31, 2011, Corporation had a consolidated leverage ratio of 9.50% and the Bank had a leverage ratio of 9.44%.

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

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

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

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

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

- a minimum ratio of common equity Tier 1 to risk-weighted assets of at least 4.5%, plus a 2.5% “capital conservation buffer,”
- a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus the capital conservation buffer,
- a minimum ratio of Total capital to risk-weighted assets of at least 8.0%, plus the capital conservation buffer, and
- a minimum leverage ratio of 3%, calculated as the ratio of Tier 1 capital to balance sheet exposures plus certain off-balance sheet exposures.

Basel III also includes the following significant provisions:

- An additional countercyclical capital buffer to be imposed by applicable national banking regulators periodically at their discretion, with advance notice.
- Restrictions on capital distributions and discretionary bonuses applicable when capital ratios fall within the buffer zone.
- Deduction from common equity of deferred tax assets that depend on future profitability to be realized.
- For capital instruments issued on or after January 13, 2013 (other than common equity), a loss-absorbency requirement that the instrument must be written off or converted to common equity if a triggering event occurs, either pursuant to applicable law or at the direction of the banking regulator. A triggering event is an event that would cause the banking organization to become nonviable without the write off or conversion, or without an injection of capital from the public sector.

Since the Basel III framework is not self-executing, the rules and standards promulgated under Basel III require that the U.S. federal banking regulators adopt them prior to becoming effective in the U.S. Although U.S. federal banking regulators have expressed support for Basel III, the timing and scope of its implementation, as well as any potential modifications or adjustments that may result during the implementation process, are not yet known.

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

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

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

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

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

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

As of December 31, 2011, the Bank was "well capitalized" according to the guidelines as generally discussed above.

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

The Bank's ability to pay dividends to the Corporation is subject to restrictions set forth in the Financial Code. The Financial Code provides that a bank may not make a cash distribution to its stockholders in excess of the lesser of a bank's (1) retained earnings; or (2) net income for its last three fiscal years, less the amount of any distributions made by the bank or by any majority-owned subsidiary of the bank to the stockholders of the bank during such period. However, a bank may, with the approval of the DFI, make a distribution to its stockholders in an amount not exceeding the greatest of (a) its retained earnings; (b) its net income for its last fiscal year; or (c) its net income for its current fiscal year. In the event that bank regulators determine that the stockholders' equity of a bank is inadequate or that the making of a distribution by the bank would be unsafe or unsound, the regulators may order the bank to refrain from making a proposed distribution. The payment of dividends could, depending on the financial condition of the Bank, be deemed to constitute an unsafe or unsound practice. Under these provisions, the amount available for distribution from the Bank to the Corporation was approximately $12.4 million at December 31, 2011.

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

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

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

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

Starting in April 2011, the total FDIC assessment rate for all financial institutions ranged from 2.5 basis points to 45 basis points of assessable deposits based on the risk category established for the bank by the FDIC. The assessment rate for the Bank during 2011 was 8.5 basis points.

The amount of the Bank's FDIC assessment prepayment was $3.9 million, which we paid on December 30, 2009. In addition, the FDIC imposed a special assessment on all depository institutions in the second quarter of 2009 totaling $360,000 for the Bank.

Additionally in 2008, as a result of the economic downturn and in an effort to strengthen confidence and encourage liquidity in the banking system, the FDIC temporarily increased the maximum amount of deposit insurance to $250,000 per customer and adopted a number of programs, including the Transaction Account Guarantee Program. Under Dodd-Frank Act, the $250,000 maximum amount was made permanent.

During 2011 with the implementation of the Dodd-Frank Act, the FDIC was required to amend its regulations to base the insurance assessment calculation on the average consolidated assets less average tangible equity of the insured institution. Thus, this new FDIC assessment methodology is favorable to smaller community banks due to their smaller asset size. However, the FDIC has indicated that that it may change the methodology of the deposit insurance premium to a more risk-based assessment in the future. Based on the current FDIC insurance assessment methodology and including our participation in the Transaction Account Guarantee Program our FDIC insurance premium expense was $809,000 for 2011, $1.3 million for 2010 and $1.4 million in 2009.

The Transaction Account Guarantee Program was originally setup in 2008 to guarantee the entire balance of non-interest bearing deposit transaction accounts through December 31, 2010. Institutions participating in the Transaction Account Guarantee Program were charged a 10-basis point fee on the balance of non-interest bearing deposit transaction accounts exceeding the existing deposit insurance limit of $250,000. This unlimited protection for noninterest-bearing transaction accounts was extended to December 31, 2012. The cost to the Bank for participating in the Transaction Account Guarantee Program was $5,000 for 2011, $18,000 for 2010 and $1,000 for 2009.

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

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

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

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

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

Loans-to-One Borrower. Under California law, our ability to make aggregate secured and unsecured loans-to-one-borrower is limited to 25% and 15%, respectively, of unimpaired capital and surplus. At December 31, 2011, the Bank’s limit on aggregate secured loans-to-one-borrower was $24.5 million and unsecured loans-to-one borrower was $14.7 million. The Bank has established internal loan limits which are lower than the legal lending limits for a California bank.

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

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

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

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

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

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

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

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

Federal and State Taxation

The Corporation and the Bank report their income on a consolidated basis using the accrual method of accounting, and are subject to federal income taxation in the same manner as other corporations with some exceptions. The Company has not been audited by the IRS. For its 2011 and 2010 taxable years, the Company is subject to a maximum federal income tax rate of 34% and state income tax rate of 10.84%.

ITEM 1A. RISK FACTORS

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

Risks Related to Our Business

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

From December 2007 through June 2009, the U.S. economy was in recession. Business activity across a wide range of industries and regions in the U. S. was greatly reduced. Although economic conditions have improved, certain sectors, such as real estate and manufacturing, remain weak and unemployment remains high. Continued declines in real estate values, home sales volumes, and financial stress on borrowers as a result of the uncertain economic environment could have an adverse effect on the Company's borrowers or its customers, which could adversely affect the Company's financial condition and results of operations. In addition, local governments and many businesses are still experiencing difficulty due to lower consumer spending and decreased liquidity in the credit markets. A worsening of these conditions would likely exacerbate the adverse effects on us and others in the financial institutions industry. For example, further deterioration in economic conditions in our markets could drive losses beyond that which is provided for in our allowance for loan losses. We may also face the following risks in connection with these events:

- Economic conditions that negatively affect real estate values and the job market have resulted, and may continue to result, in a deterioration in credit quality of our loan portfolio, and such deterioration in credit quality has had, and could continue to have, a negative impact on our business.
- Market developments may affect consumer confidence levels and may cause adverse changes in payment patterns, causing increases in delinquencies and default rates on loans and other credit facilities.
- The processes we use to estimate allowance for loan losses and reserves may no longer be reliable because they rely on complex judgments, including forecasts of economic conditions, which may no longer be capable of accurate estimation.
- Our ability to assess the creditworthiness of our customers may be impaired if the models and approaches we use to select, manage, and underwrite its customers become less predictive of future charge-offs.
- We expect to face increased regulation of its industry, and compliance with such regulation may increase our costs, limit our ability to pursue business opportunities and increase compliance challenges.

As these conditions or similar ones continue to exist or worsen, we could experience continuing or increased adverse effects on its financial condition and results of operations.

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

In recent years, there was significant disruption and volatility in the financial and capital markets. The financial markets and the financial services industry in particular suffered unprecedented disruption, causing a number of institutions to fail or require government intervention to avoid failure. These conditions were largely the result of the erosion of the U.S. and global credit markets, including a significant and rapid deterioration in the mortgage lending and related real estate markets. Continued declines in real estate values, high unemployment and financial stress on borrowers as a result of the uncertain economic environment could have an adverse effect on our borrowers or their customers, which could adversely affect our financial condition and results of operations.

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

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

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

We have experienced increases in the levels of our nonperforming assets, loan charge-offs and provision for loan losses as a result of the Canyon National Acquisition. Our total nonperforming assets amounted to $7.3 million, or 0.76% of our total assets, at December 31, 2011, up from $3.3 million or 0.40% at December 31, 2010. We had $3.6 million of net loan charge-offs for 2011, up from $2.1 million in 2010. Our provision for loan losses was $3.3 million in 2011, up from $2.1 million in 2010. Additional increases in our nonperforming assets, loan charge-offs or provision for loan losses may have an adverse effect upon our future results of operations.

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

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

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

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

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

Our business activities and credit exposure are concentrated in Southern California. As a result of continued difficult economic conditions, including state and local government deficits, in Southern California may cause us to incur losses associated with higher default rates and decreased collateral values in our loan portfolio. In addition, demand for our products and services may decline. The continued decline in the Southern California real estate market could hurt our business because the vast majority of our loans are secured by real estate located within Southern California. As of December 31, 2011, approximately 92% of our loans secured by real estate were located in Southern California. If real estate values continue to decline, especially in Southern California, the collateral for our loans provide less security. As a result, our ability to recover on defaulted loans by selling the underlying real estate would be diminished, and we would be more likely to suffer losses on defaulted loans.

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

As of December 31, 2011, our commercial real estate loans amounted to $358.2 million, or 48.4% of our total loan portfolio, and our commercial business loans amounted to $239.0 million, or 32.3% of our total loan portfolio. At such date, our largest multiple borrower relationship was $22.0 million, our largest outstanding commercial business loan was $16.4 million and our largest outstanding commercial real estate loan was $11.2 million. Commercial real estate and commercial business loans generally are considered riskier than single-family residential loans because they have larger balances to a single borrower or group of related borrowers. Commercial real estate and commercial business loans involve risks because the borrowers' ability to repay the loans typically depends primarily on the successful operation of the businesses or the properties securing the loans. Most of the Company's commercial business loans are made to small business or middle market customers who may have a heightened vulnerability to economic conditions. Moreover, a portion of these loans have been made or acquired by us in recent years and the borrowers may not have experienced a complete business or economic cycle. Furthermore, the deterioration of our borrowers' businesses may hinder their ability to repay their loans with us, which could adversely affect our results of operations.

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

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

We may be unable to successfully compete in our industry.

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

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

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

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

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

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

At December 31, 2011, $115.6 million of our securities were classified as available-for-sale. At such date, the aggregate net unrealized gain on our available-for-sale securities were $539,000. We increase or decrease stockholders' equity by the amount of change from the unrealized gain or loss (the difference between the estimated fair value and the amortized cost) of our available-for-sale securities portfolio, net of the related tax, under the category of accumulated other comprehensive income/loss. Therefore, a decline in the estimated fair value of this portfolio will result in a decline in reported stockholders' equity, as well as book value per common share and tangible book value per common share. This decrease will occur even though the securities are not sold. In the case of debt securities, if these securities are never sold and there are no credit impairments, the decrease will be recovered over the life of the securities. In the case of equity securities which have no stated maturity, the declines in fair value may or may not be recovered over time.

For the year ended December 31, 2011, we reported a non-cash, OTTI charge of $617,000 on our securities portfolio. We continue to monitor the fair value of our entire securities portfolio as part of our ongoing OTTI evaluation process. No assurance can be given that we will not need to recognize additional OTTI charges related to securities in the future. In addition, as a condition to membership in the FHLB of San Francisco, we are required to purchase and hold a certain amount of FHLB stock. Our stock purchase requirement is based, in part, upon the outstanding principal balance of advances from the FHLB. At December 31, 2011, we had stock in the FHLB of San Francisco totaling $10.5 million. The FHLB stock held by us is carried at cost and is subject to recoverability testing under applicable accounting standards. For the year ended December 31, 2011, we did not recognize an impairment charge related to our FHLB stock holdings. There can be no assurance, however, that future negative changes to the financial condition of the FHLB may not require us to recognize an impairment charge with respect to such holdings.

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

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

The soundness of other financial institutions could negatively affect us.

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

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

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

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

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

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

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

- Changes to regulatory capital requirements;
- Creation of new government regulatory agencies, including the CFPB;
- Changes in insured depository institution regulations and assessments; and
- Mortgage loan origination and risk retention.

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

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

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

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

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

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

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

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

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

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

Potential acquisitions may disrupt our business and dilute stockholder value.

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

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

- Potential exposure to unknown or contingent liabilities of the target company;
- Exposure to potential asset quality issues of the target company;
- Difficulty and expense of integrating the operations and personnel of the target company;
- Potential disruption to our business;
- Potential diversion of management's time and attention;
- The possible loss of key employees and customers of the target company;
- Difficulty in estimating the value of the target company; and
- Potential changes in banking or tax laws or regulations that may affect the target company.

Increases in FDIC deposit insurance premiums could adversely affect our earnings.

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

During 2011 with the implementation of the Dodd-Frank Act, the FDIC was required to amend its regulations to base the insurance assessment calculation on the average consolidated assets less average tangible equity of the insured institution. Thus, this new FDIC assessment methodology is favorable to smaller community banks due to their smaller asset size. However, the FDIC has indicated that that it may change the methodology of the deposit insurance premium to a more risk-based assessment in the future.

We are unable to control the amount of premiums that we are required to pay for FDIC insurance. Any future assessments and increases in FDIC insurance premiums required by the FDIC could have a material affect our business, financial condition or results of operations.

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

Liquidity is essential to our business. An inability to raise funds through deposits, borrowings, equity/debt offerings and other sources could have a substantial negative effect on our liquidity. Our access to funding sources in amounts adequate to finance our activities, or on terms attractive to us, could be impaired by factors that affect us specifically or the financial services industry in general. Factors that could detrimentally impact our access to liquidity sources include a reduction in our credit ratings, if any, an increase in costs of capital in financial capital markets, a decrease in the level of our business activity due to a market downturn or adverse regulatory action against us, or a decrease in depositor or investor confidence. Our ability to borrow could also be impaired by factors such as a severe disruption of the financial markets or negative views and expectations about the prospects for the financial services industry as a whole.

Our controls and procedures may fail or be circumvented.

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

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

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

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

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

We are dependent on our key personnel.

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

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

We are based in Costa Mesa, California, and approximately 92% of our loans secured by real estate were located in Southern California at December 31, 2011. In addition, the computer systems that operate our Internet websites and some of their back-up systems are located in Costa Mesa, California. Historically, California has been vulnerable to natural disasters. Therefore, we are susceptible to the risks of natural disasters, such as earthquakes, wildfires, floods and mudslides. Natural disasters could harm our operations directly through interference with communications, including the interruption or loss of our websites, which would prevent us from gathering deposits, originating loans and processing and controlling our flow of business, as well as through the destruction of facilities and our operational, financial and management information systems. A natural disaster or recurring power outages may also impair the value of our largest class of assets, our loan portfolio, which is comprised substantially of real estate loans. Uninsured or underinsured disasters may reduce borrowers' ability to repay mortgage loans. Disasters may also reduce the value of the real estate securing our loans, impairing our ability to recover on defaulted loans through foreclosure and making it more likely that we would suffer losses on defaulted loans. California has also experienced energy shortages, which, if they recur, could impair the value of the real estate in those areas affected. Although we have implemented several back-up systems and protections (and maintain business interruption insurance), these measures may not protect us fully from the effects of a natural disaster. The occurrence of natural disasters or energy shortages in California could have a material adverse effect on our business prospects, financial condition and results of operations.

Risks Related to Ownership of Our Common Stock

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

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

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

- Geopolitical conditions such as acts or threats of terrorism or military conflicts.

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

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

Our common stock is traded on the NASDAQ Global Market under the trading symbol "PPBI," but there is low trading volumes in our common stock. 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. Future sales of substantial amounts of common stock in the public market, or the perception that such sales may occur, could adversely affect the prevailing market price of the common stock. In addition, even if a more active market in our common stock develops, we cannot assure you that such a market will continue.

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

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

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

Anti-takeover defenses may delay or prevent future transactions

Our certificate of incorporation and bylaws, among other things:

- divide the board of directors into three classes with directors of each class serving for a staggered three year period;
- provide that our directors must fill vacancies on the board of directors;
- permit the issuance, without stockholder approval, of shares of preferred stock having rights and preferences determined by the board of directors;
- provide that stockholders holding 80% of our issued and outstanding shares must vote to approve certain business combinations and other transactions involving holders of more than 10% of our common stock or our affiliates;
- provide that stockholders holding 80% of our issued and outstanding shares must vote to remove directors for cause; and

- provide that record holders of our common stock who beneficially own in excess of 10% of our common stock are not entitled to vote shares held by them in excess of 10% of our common stock.

These provisions in our certificate of incorporation and bylaws could make the removal of incumbent directors more difficult and time-consuming and may have the effect of discouraging a tender offer or other takeover attempts not previously approved by our board of directors.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. PROPERTIES

Location	Leased or Owned	Original Year Leased or Acquired	Date of Lease Expiration	Net Book Value of Property or Leasehold Improvements at December 31, 2011	
Corporate Headquarters:					
1600 Sunflower Ave					
Costa Mesa, CA 92626	Owned (a)	2002	N.A.	$	4,415,629
Branch Office:					
1598 E Highland Avenue					
San Bernardino, CA 92404	Leased	1986	2015	$	246,342
Branch Office:					
19011 Magnolia Avenue					
Huntington Beach, CA 92646	Owned (b) (c)	2005	2023	$	1,100,614
Branch Office:					
13928 Seal Beach Blvd.					
	Leased	1999	2012	$	4,469

Seal Beach, CA 90740					
Branch Office:					
4957 Katella Avenue, Suite B					
Los Alamitos, CA 90720	Leased	2005	2015	$	165,165
Branch Office:					
4667 MacArthur Blvd.					
Newport Beach, CA 92660	Leased	2005	2016	$	429,363
Branch Office:					
74150 Country Club Drive					
Palm Desert, CA 92260	Owned	2011	N.A.	$	1,773,333
Branch Office:					
1711 East Palm Canyon Drive					
Palm Springs, CA 92264	Leased	2011	2016	$	30,472
Branch Office:					
901 East Tahquitz Canyon Way					
Palm Springs, CA 92262	Leased	2011	2013	$	3,800

(a) We lease to three tenants approximately 11,050 square feet of the 36,159 square feet of our corporate headquarters for $20,364 per month.
(b) The building is owned, but the land is leased on a long-term basis.
(c) During 2011 we leased to two tenants approximately 2,724 square feet of the 9,937 square feet of our Huntington Beach branch for $7,491 per month. Subsequent to December 31, 2011, one of the tenants terminated their lease agreement.

All of our existing facilities are considered to be adequate for our present and anticipated future use. In the opinion of management, all properties are adequately covered by insurance.

ITEM 3. LEGAL PROCEEDINGS

In February 2004, the Bank was named in a class action lawsuit titled “James Baker v. Century Financial, et al”, alleging various violations of Missouri’s Second Mortgage Loans Act by charging and receiving fees and costs that were either wholly prohibited by or in excess of that allowed by the Act relating to origination fees, interest rates, and other charges. The class action lawsuit was filed in the Circuit Court of Clay County, Missouri. The complaint seeks restitution of all improperly collected charges, interest thereon, the right to rescind the mortgage loans or a right to offset any illegal collected charges and interest against the principal amounts due on the loans and punitive damages. In March 2005, the Bank’s motion for dismissal due to limitations was denied by the trial court without comment. The Bank’s “preemption” motion was denied in August 2006. The Bank has answered the plaintiffs’ complaint and the parties have exchanged and answered initial discovery requests. When the record is more fully developed, the Bank intends to raise the limitations issue again in the form of a motion for summary judgment.

The Company is not involved in any other material pending legal proceedings other than legal proceedings occurring in the ordinary course of business. Management believes that none of these legal proceedings, individually or in the aggregate, will have a material adverse impact on the results of operations or financial condition of the Company.

ITEM 4. MINE SAFETY DISCLOSURES

None

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Price Range By Quarters

The common stock of the Corporation has been publicly traded since 1997 and is currently traded on the NASDAQ Global Market under the symbol PPBI. However, trading in the common stock has not been extensive and such trades cannot be characterized as constituting an active trading market.

As of March 17, 2012, there were approximately 1,370 holders of record of the common stock. The following table summarizes the range of the high and low closing sale prices per share of our common stock as quoted by the NASDAQ Global Market for the periods indicated.

	Sale Price of Common Stock	
	High	Low
2010		
First Quarter	$ 5.00	$ 3.32
Second Quarter	$ 5.20	$ 4.10

Third Quarter	$ 4.54	$ 3.78
Fourth Quarter	$ 6.48	$ 4.14
2011		
First Quarter	$ 7.15	$ 6.20
Second Quarter	$ 7.05	$ 6.20
Third Quarter	$ 6.76	$ 5.85
Fourth Quarter	$ 7.10	$ 5.66

Stock Performance Graph. The graph below compares the performance of our common stock with that of the NASDAQ Composite Index (U.S. companies) and the NASDAQ Bank Stocks Index from December 31, 2006 through December 31, 2011. The graph is based on an investment of $100 in our common stock at its closing price on December 31, 2006. The Corporation has not paid any dividends on its common stock.

Total Return Analysis	12/31/2006	12/31/2007	12/30/2008	12/29/2009	12/29/2010	12/29/2011
Pacific Premier Bancorp, Inc.	$100.00	$ 56.73	$ 32.84	$ 27.75	$ 53.20	$ 52.05
NASDAQ Bank Stocks Index	$100.00	$ 79.26	$ 57.79	$ 48.42	$ 57.29	$ 51.19
NASDAQ Composite Index	$100.00	$108.47	$ 66.35	$ 95.38	$113.19	$113.81

Dividends

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

Our ability to pay dividends on our common stock is dependent on the Bank's ability to pay dividends to the Corporation. Various statutory provisions restrict the amount of dividends that the Bank can pay without regulatory approval. For information on the statutory and regulatory limitations on the ability of the Corporation to pay dividends to its stockholders and on the Bank to pay dividends to the Corporation, see "Item 1. Business-Supervision and Regulation—Dividends" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity."

Issuer Purchase of Equity Securities

In February 2007, our board of directors authorized the management of the Company to purchase and retain up to 600,000 shares of our issued and outstanding common stock on a negotiated, non-open market basis by dealing directly with investment bankers representing stockholders of larger blocks of stock. The plan has no expiration date and remains open. No determination has been made to terminate the plan or to cease making purchases. At December 31, 2011, the Corporation had purchased 504,837 shares pursuant to that authorization.

The following table provides information with respect to purchases made by or on behalf of us or any "affiliated purchaser" (as defined in Rule 10b-18(a)(3) under the Exchange Act of the our common stock during the fourth quarter of 2011.

Month of Purchase	Total Number of shares purchased/ returned	Average price paid per share	Total number of shares repurchased as part of the publicly announced program	Maximum number of shares that may yet be purchased under the program at end of month
October-2011	72,000	$ 6.22	72,000	95,163
November-2011	-	-	-	95,163
December-2011	-	-	-	95,163
Total/Average	72,000	$ 6.22	72,000	95,163

ITEM 6. SELECTED FINANCIAL DATA

The selected financial data presented below is derived from the audited consolidated financial statements of the Company and should be read in conjunction with the Consolidated Financial Statements presented elsewhere herein.

	For the Year Ended December 31,				
	2011 (1)	2010	2009	2008	2007
Operating Data			(in thousands)		
Interest income	$50,225	$41,103	$43,439	$46,522	$49,432
Interest expense	9,596	12,666	20,254	25,404	31,166
Net interest income	40,629	28,437	23,185	21,118	18,266
Provision for loan losses	3,255	2,092	7,735	2,241	1,651
Net interest income after provision for loans losses	37,374	26,345	15,450	18,877	16,615
Net gains (losses) from loan sales	(3,605)	(3,332)	(351)	92	3,720
Other noninterest income (loss)	10,118	2,256	1,048	(2,264)	2,639
Noninterest expense	26,904	18,948	16,694	15,964	17,248
Income (loss) before income tax (benefit)	16,983	6,321	(547)	741	5,726
Income tax (benefit)	6,411	2,083	(87)	33	2,107
Net income (loss)	$10,572	$4,238	$(460)	$708	$3,619

	As of and For the Year Ended December 31,				
	2011 (1)	2010	2009	2008	2007
Share Data		(dollars in thousands, except per share data)			
Net income (loss) per share:					
Basic	$ 1.05	$ 0.42	$ (0.08)	$ 0.14	$ 0.70
Diluted	$ 0.99	$ 0.38	$ (0.08)	$ 0.11	$ 0.55
Weighted average common shares outstanding:					
Basic	10,092,181	10,033,836	5,642,589	4,948,359	5,189,104
Diluted	10,630,720	11,057,404	5,642,589	6,210,387	6,524,753
Book value per share (basic)	$ 8.39	$ 7.83	$ 7.33	$ 11.74	$ 11.77
Book value per share (diluted)	$ 8.34	$ 7.18	$ 6.75	$ 9.60	$ 9.69

Selected Balance Sheet Data										
Total assets	$ 961,128		$ 826,816		$ 807,323		$ 739,956		$ 763,420	
Securities and FHLB stock	128,120		168,428		137,737		70,936		73,042	
Loans held for sale, net	-		-		-		668		749	
Loans held for investment, net	730,067		555,538		566,584		622,470		622,114	
Allowance for loan losses	8,522		8,879		8,905		5,881		4,598	
Total deposits	828,877		659,240		618,734		457,128		386,735	
Total borrowings	38,810		78,810		101,810		220,210		308,275	
Total stockholders' equity	86,777		78,602		73,502		57,548		60,750	
Performance Ratios										
Return on average assets	1.12	%	0.53	%	(0.06	)%	0.09	%	0.50	%
Return on average equity	12.91	%	5.57	%	(0.76	)%	1.20	%	6.03	%
Average equity to average assets	8.69	%	9.55	%	7.74	%	7.96	%	8.16	%
Equity to total assets at end of period	9.03	%	9.51	%	9.10	%	7.78	%	7.96	%
Average interest rate spread	4.49	%	3.67	%	3.00	%	2.81	%	2.44	%
Net interest margin	4.55	%	3.77	%	3.12	%	2.99	%	2.63	%
Efficiency ratio (2)	56.50	%	59.24	%	63.81	%	83.66	%	69.87	%
Average interest-earning assets to average interest-bearing liabilities	104.74	%	105.88	%	104.21	%	105.01	%	104.20	%
Pacific Premier Bank Capital Ratios										
Tier 1 capital to adjusted total assets	9.44	%	10.29	%	9.72	%	8.71	%	8.81	%
Tier 1 capital to total risk-weighted assets	11.68	%	14.12	%	13.30	%	10.71	%	10.68	%
Total capital to total risk-weighted assets	12.81	%	15.38	%	14.55	%	11.68	%	11.44	%
Pacific Premier Bancorp, Inc. Capital Ratios										
Tier 1 capital to adjusted total assets	9.50	%	10.41	%	9.89	%	8.99	%	8.90	%
Tier 1 capital to total risk-weighted assets	11.69	%	14.16	%	13.41	%	11.11	%	10.81	%
Total capital to total risk-weighted assets	12.80	%	15.42	%	14.67	%	12.07	%	11.56	%
Asset Quality Ratios										
Nonperforming loans, net, to total loans	0.82	%	0.58	%	1.74	%	0.83	%	0.67	%
Nonperforming assets, net as a percent of total assets	0.76	%	0.40	%	1.66	%	0.71	%	0.64	%
Net charge-offs to average total loans, net	0.53	%	0.39	%	0.79	%	0.16	%	0.10	%
Allowance for loan losses to total loans at period end	1.15	%	1.56	%	1.55	%	0.94	%	0.73	%
Allowance for loan losses as a percent of nonperforming loans, gross at period end	139.87	%	270.95	%	88.94	%	113.10	%	109.48	%

(1) See "Item 1. Business – Acquisition of Canyon National Bank" for additional information regarding the financial items presented in this table.
(2) Represents the ratio of noninterest expense less OREO operations, to the sum of net interest income before provision for loan losses and total noninterest income, less gain/(loss) on sale of loans, gain/(loss) on sale of securities, and gain on FDIC transaction.

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

Summary

Our principal business is attracting deposits from small and middle market businesses and consumers and investing those deposits together with funds generated from operations and borrowings, primarily in commercial business loans and various types of commercial real estate loans. In 2012, the Company expects to fund substantially all of the loans that it originates or purchases through deposits, FHLB advances and internally generated funds. Deposit flows and cost of funds are influenced by prevailing market rates of interest primarily on competing investments, account maturities and the levels of savings in the Company's market area. The Company generates the majority of its revenues from interest income on loans that it originates and purchases, income from investment in securities and service charges on customer accounts. The Company's revenues are partially offset by interest expense paid on deposits and other borrowings, the provision for loan losses and noninterest expenses, such as operating expenses. The Company's operating expenses primarily consist of employee compensation and benefits, premises and occupancy expenses, and other general expenses. The Company's results of operations are also affected by prevailing economic conditions, competition, government policies and other actions of regulatory agencies.

Critical Accounting Policies and Estimates

We have established various accounting policies that govern the application of accounting principles generally accepted in the United States of America in the preparation of the Company's financial statements in Item 8 hereof. The Company's significant accounting policies are described in the Note 1 to the Consolidated Financial Statements. Certain accounting policies require management to make estimates and assumptions that have a material impact on the carrying value of certain assets and liabilities; management considers these to be critical accounting policies. The estimates and assumptions management uses are based on historical experience and other factors, which management believes to be reasonable under the circumstances. Actual results could differ significantly from these estimates and assumptions, which could have a material impact on the carrying value of assets and liabilities at balance sheet dates and the Company's results of operations for future reporting periods.

We consider the allowance for loan losses and the determination of the other-than-temporary impairment ("OTTI") of investment securities to be a critical accounting policy that requires judicious estimates and assumptions in the preparation of the Company's financial statements that is particularly susceptible to significant change. For further information on the Allowance for loan losses, see "Business—Allowances for Loan Losses" and Note 1 to the Consolidated Financial Statements in Item 8 hereof. For further information on OTTI of investment securities, see "Business—Investment Activities" and Note 1 to the Consolidated financial Statements in Item 8 hereof.

Allowance for Loan Losses

The Company maintains an allowance for loan losses at a level deemed appropriate by management to provide for known or inherent risks in the portfolio at the balance sheet date. The Company has implemented and adheres to an internal asset review system and loss allowance methodology designed to provide for the detection of problem assets and an adequate allowance to cover loan losses. Management's determination of the adequacy of the loan loss allowance is based on an evaluation of the composition of the portfolio, actual loss experience, industry charge-off experience on income property loans, current economic conditions, and other relevant factors in the area in which the Company's lending and real estate activities are based. These factors may affect the borrowers' ability to pay and the value of the underlying collateral. The allowance is calculated by applying loss factors to loans held for investment according to loan program type and loan classification. The loss factors are established based primarily upon the Bank's historical loss experience and the industry charge-off experience and are evaluated on a quarterly basis. Various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses. Such agencies may require the Bank to recognize additions to the allowance based on judgments different from those of management. In the opinion of management, and in accordance with the credit loss allowance methodology, the present allowance is considered adequate to absorb estimable and probable credit losses. Additions and reductions to the allowance are reflected in current operations. Charge-offs to the allowance are made when specific assets are considered uncollectible or are transferred to OREO and the fair value of the property is less than the loan's recorded investment. Recoveries are credited to the allowance.

Although management uses the best information available to make these estimates, future adjustments to the allowance may be necessary due to economic, operating, regulatory and other conditions that may be beyond the Company's control.

Other-Than-Temporary Impairment of Investment Securities

The Company has investment securities classified available for sale. Under the available for sale classification, securities can be sold in response to certain conditions, such as changes in interest rates, fluctuations in deposit levels or loan demand or need to restructure the portfolio to better match the maturity of interest rate characteristics of liabilities with assets. Securities classified as available for sale are accounted for at their current fair value. Unrealized holding gains and losses, net of tax, are excluded from earnings and reported as a separate component of stockholders' equity as accumulated other comprehensive income.

At each reporting date, investment securities available for sale are assessed to determine whether there is OTTI. If it is probable that the Company will be unable to collect all amounts due from the contractual terms of a debt security, OTTI is charged to operations with a corresponding write down to the fair value of the security. These related write downs are included in operations as realized losses in the category of OTTI loss on investment securities, net. In estimating OTTI losses, management considers: (i) the length of time and the extent to which the market value has been less than cost; (ii) the financial condition and near-term prospects of the issuer; (iii) the intent and ability of the Company to retain its investment in a security for a period of time sufficient to allow for any anticipated recovery in market value; and (iv) general market conditions which reflect prospects for the economy as a whole, including interest rates and sector credit spreads.

Operating Results

Overview. The Company reported net income for 2011 of $10.6 million or $0.99 per share on a diluted basis, compared with a net income of $4.2 million or $0.38 per share on a diluted basis for 2010 and net loss of $460,000 or $0.08 per share on a diluted basis for 2009.

The Company's pre-tax income totaled $17.0 million in 2011, compared with a pre-tax income of $6.3 million in 2010. The $10.7 million increase in the Company's pre-tax income for 2011, compared to 2010 was primarily related to the Canyon National Acquisition from the FDIC, as receiver, and included:

- A $12.2 million increase in net interest income due to a higher net interest margin and a higher level of interest earning assets; and
- A $7.6 million favorable change in noninterest income (loss), primarily due to a $4.2 million gain on acquisition and a $1.4 million increase in deposit fee income.

Partially offsetting the above favorable items were the following:

- A $8.0 million increase in noninterest expense, primarily associated with higher costs related to compensation of $4.7 million, other expense of $941,000 and premises and occupancy of $878,000; and
- A $1.2 million increase in provision for loan losses.

The Company's pre-tax income totaled $6.3 million in 2010, compared with a pre-tax loss of $547,000 in 2009. The $6.8 million increase in the Company's pre-tax income for 2010 compared to 2009 was primarily due to a $5.6 million decrease in provision for loan losses due to improved loan credit quality and a $5.3 million increase in net interest income due to a higher net interest margin and a higher level of interest earning assets. Partially offsetting the above favorable items were a $2.3 million increase in noninterest expense, primarily associated with higher costs related to OREO operations, compensation and benefits costs, legal and audit fees, and office expenses and a $1.8 million unfavorable change in noninterest income (loss), primarily due to losses on the sale of loans, partially offset by lower OTTI charges taken on our private label securities and higher gains on sales of investment securities available for sale.

For 2011, our return on average assets was 1.12% and our return on average equity was 12.91%. These returns were up from our 2010 returns of 0.53% on average assets and 5.75% on average equity and our 2009 negative returns of 0.06% on average assets and 0.76% on average equity.

Net Interest Income. Our primary source of revenue is net interest income, which is the difference between the interest and dividends earned on loans, mortgage-backed securities and investment securities ("interest-earning assets") and the interest paid on deposits and borrowings ("interest-bearing liabilities"). The difference between the yield on interest-earning assets and the cost of interest-bearing liabilities ("net interest rate spread") and the relative dollar amount of these assets and liabilities principally affects our net interest income.

Net interest income totaled $40.6 million in 2011, up $12.2 million or 42.9% from 2010, reflecting a higher net interest margin and a $138.3 million or 18.3% increase in average interest-earning assets. The increase in average interest-earning assets resulted primarily from the Canyon National Acquisition, which added $179.8 million in interest earning assets. The net interest margin was 4.55% in 2011, up 78 basis points from a year ago. Compared to 2010, the increase in our net interest margin resulted from a decrease in the average costs on interest-bearing liabilities of 65 basis points to 1.13% and an increase in the yield on interest-earning assets of 17 basis points to 5.62%. For 2011, the decrease in costs on our interest-bearing liabilities was mainly associated with a decline in our cost of deposits of 48 basis points from 1.51% to 1.03%, primarily as a result of the deposits acquired from Canyon National, which changed our deposit composition to have a higher mix of lower costing transaction accounts. In addition, our cost of borrowings declined by 109 basis points in 2011, due to the pay down of higher costing borrowings as a result of the liquidity received in the Canyon National Acquisition. The increase in yield on our interest-earning assets was mainly associated with a greater proportion of higher yielding loans to lower yielding investment securities in 2011, compared with such proportion in 2010. Due to the accounting rules associated with our purchased credit impaired loans acquired from Canyon National, each quarter we are required to re-estimate cash flows which can cause volatility in our yield on loans. For 2011, discount amortization on our purchased credit impaired loans contributed 7 basis points to our loan yield.

Net interest income totaled $28.4 million for 2010, up $5.3 million or 22.7% from 2009. The increase reflected a higher net interest margin of 3.77% in 2010, compared with 3.12% in 2009 and to a lesser extent higher average interest-earning assets in 2010 of $754.7 million, compared with 2009 of $743.6 million. The increase in the 2010 net interest margin of 65 basis points primarily reflected a faster decrease in the average costs on interest-bearing liabilities of 106 basis points than interest-earning assets, which decreased 39 basis points. For 2010, the decrease in costs on our interest-bearing liabilities resulted from a decline in our cost of deposits of 87 basis points, as the mix of deposits shifted to lower costing transaction accounts, and a decline in the cost of borrowings of 36 basis points, as lower costing borrowings replaced those that matured during the year. The decrease in our yield on interest-earning assets during 2010 was primarily due to a decrease in our average interest rate on investment securities of 115 basis points that more than offset both a 6 basis points increase in the loan average interest rate.

The following table presents for the periods indicated the average dollar amounts from selected balance sheet categories calculated from daily average balances and the total dollar amount, including adjustments to yields and costs, of:

- Interest income earned from average interest-earning assets and the resultant yields; and
- Interest expense incurred from average interest-bearing liabilities and resultant costs, expressed as rates.

The table also sets forth our net interest income, net interest rate spread and net interest rate margin for the periods indicated. The net interest rate spread represents the difference between the yield on interest-earning assets and the cost of interest-bearing liabilities. The net interest rate margin reflects the relative level of interest-earning assets to interest-bearing liabilities and equals our net interest rate spread divided by average interest-earning assets for the year.

	For the Year Ended December 31,								
	2011			2010			2009		
	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost
	(dollars in thousands)								
Assets									
Interest-earning assets:									
Cash and cash equivalents	$61,014	$121	0.20 %	$53,322	$120	0.23 %	$52,544	$122	0.23 %
Federal funds sold	6,821	5	0.07 %	29	-	0.00 %	3,000	8	0.27 %
Investment securities	139,770	3,730	2.67 %	157,782	4,474	2.84 %	93,606	3,739	3.99 %
Loans receivable, net (1)	685,434	46,369	6.76 %	543,567	36,509	6.72 %	594,483	39,570	6.66 %
Total interest-earning assets	893,039	50,225	5.62 %	754,700	41,103	5.45 %	743,633	43,439	5.84 %
Noninterest-earning assets	49,340			41,349			36,146		
Total assets	$942,379			$796,049			$779,779		
Liabilities and Equity									
Interest-bearing liabilities:									
Transaction accounts	$390,906	1,548	0.40 %	$232,567	1,710	0.74 %	$130,594	1,429	1.09 %
Retail certificates of deposit	408,720	6,704	1.64 %	400,556	7,871	1.97 %	405,886	11,309	2.79 %
Wholesale/brokered certificates of deposit	7,525	36	0.48 %	2,699	30	1.11 %	10,632	309	2.91 %
Total interest-bearing deposits	807,151	8,288	1.03 %	635,822	9,611	1.51 %	547,112	13,047	2.38 %
	35,130	998	2.84 %	66,678	2,741	4.11 %	156,153	6,839	4.38 %

FHLB advances and other borrowings												
Subordinated debentures	10,310	310	3.01	%	10,310	314	3.05	%	10,310	368	3.57	%
Total borrowings	45,440	1,308	2.88	%	76,988	3,055	3.97	%	166,463	7,207	4.33	%
Total interest-bearing liabilities	852,591	9,596	1.13	%	712,810	12,666	1.78	%	713,575	20,254	2.84	%
Noninterest-bearing liabilities	7,902				7,208				5,887			
Total liabilities	860,493				720,018				719,462			
Stockholders' equity	81,886				76,031				60,317			
Total liabilities and equity	$942,379				$796,049				$779,779			
Net interest income		$40,629				$28,437				$23,185		
Net interest rate spread			4.49	%			3.67	%			3.00	%
Net interest margin			4.55	%			3.77	%			3.12	%
Ratio of interest-earning assets to interest-bearing liabilities			104.74	%			105.88	%			104.21	%

(1) Average balance includes loans held for sale and nonperforming loans and is net of deferred loan origination fees, unamortized discounts and premiums, and allowance for loan losses.

Changes in our net interest income are a function of changes in both volumes and rates of interest-earning assets and interest-bearing liabilities. The following table presents the impact the volume and rate changes have had on our net interest income for the years indicated. For each category of interest-earning assets and interest-bearing liabilities, we have provided information on changes to our net interest income with respect to:

- Changes in volume (changes in volume multiplied by prior rate);
- Changes in interest rates (changes in interest rates multiplied by prior volume); and
- The change or the combined impact of volume and rate changes allocated proportionately to changes in volume and changes in interest rates.

	Year Ended December 31, 2011 Compared to Year Ended December 31, 2010 Increase (decrease) due to			Year Ended December 31, 2010 Compared to Year Ended December 31, 2009 Increase (decrease) due to		
	Average Rate	Average Volume	Net	Average Rate	Average Volume	Net
	(in thousands)					
Interest-earning assets						
Cash and cash equivalents	$(16)	$17	$1	$(4)	$2	$(2)
Federal funds sold	5	-	5	(4)	(4)	(8)
Investment securities	(256)	(488)	(744)	(1,307)	2,042	735
Loans receivable, net	274	9,586	9,860	354	(3,415)	(3,061)
Total interest-earning assets	7	9,115	9,122	(961)	(1,375)	(2,336)
Interest-bearing liabilities						
Transaction accounts	(1,007)	845	(162)	(578)	859	281

Retail certificates of deposit	(1,322)	155	(1,167)	(3,291)	(147)	(3,438)
Wholesale/brokered certificates of deposit	(24)	30	6	(126)	(153)	(279)
FHLB advances and other borrowings	(689)	(1,054)	(1,743)	(398)	(3,700)	(4,098)
Subordinated debentures	(4)	-	(4)	(54)	-	(54)
Total interest-bearing liabilities	(3,046)	(24)	(3,070)	(4,447)	(3,141)	(7,588)
Changes in net interest income	$3,053	$9,139	$12,192	$3,486	$1,766	$5,252

Provision for Loan Losses. The Company recorded a $3.3 million provision for loan losses for 2011, compared with a $2.1 million provision recorded in 2010. Net loan charge-offs amounted to $3.6 million in 2011, up $1.5 million from $2.1 million experienced during 2010. The loan-charge-offs for 2011 primarily consisted of $2.1 million of purchased loans and $900,000 of purchased credit impaired loans acquired in the Canyon National Acquisition. The prolonged sluggish economic conditions in the markets in which we lend continue to adversely affect our borrowers and their businesses and, consequently, the collateral securing our loans and played a significant part in determining the amount to provision for an adequate level of allowance for loan losses at December 31, 2011.

During 2010, the provision for loan losses totaled $2.1 million, down from $7.7 million in 2009. Net loan charge-offs amounted to $2.1 million in 2010, down from $4.7 million in 2009. Our charge-off history and strong credit quality metrics within our loan portfolio were significant factors in estimating the adequacy of our allowance for loan losses during 2010 and our ultimate determination to record a lower provision in 2010 versus 2009. The loan charge offs we experienced in 2010 were in response to uncertain and weak economic conditions.

Noninterest Income (Loss). For 2011, our noninterest income totaled $6.5 million, compared with a loss of $1.1 million in 2010. The favorable change of $7.6 million reflected a bargain purchase gain of $4.2 million on the Canyon National Acquisition and increases in deposit fee income of $1.4 million, loan servicing fee income of $660,000, other income of $596,000, gain on the sale of investment securities available for sale of $569,000 and an improvement in other-than-temporary impairment loss on investment securities of $470,000, partially offset by an increase in loss on the sale of loans of $273,000. Increases in deposit fee, servicing fee and other income categories were primarily related to the Canyon National Acquisition.

For 2010, our noninterest loss totaled $1.1 million, compared with noninterest income of $697,000 in 2009. The unfavorable change was primarily related to higher losses on the sales of loans of $3.0 million, partially offset by an improvement in OTTI charges of $943,000 and higher gains on sales of investment securities available for sale of $333,000 in 2010. The losses on sales of loans in 2010 were essentially all from the sale of $14.6 million of sub-performing and nonperforming loans included in loan sales. The OTTI charges in 2010 of $1.1 million and 2009 of $2.0 million were all on private label securities received by the Company when it redeemed its shares in two mutual funds in 2008.

Noninterest Expense. For 2011, noninterest expense totaled $26.9 million, up $8.0 million or 42.0% from 2010. With the exception of our FDIC insurance premiums, all expense categories increased in 2011 as compared to 2010 and included increases in compensation and benefits costs of $4.7 million, primarily from an increase in employee count and termination costs; other expenses of $941,000; premises and occupancy expense of $878,000; data processing and communications expense of $613,000; and marketing expense of $501,000. These expense increases almost entirely related to the Canyon National Acquisition and were partially offset by lower FDIC insurance premiums of $449,000, primarily due to the improvement in our assessment rate during the third quarter of 2011.

For 2010, noninterest expense totaled $18.9 million, up $2.3 million or 13.5% from 2009. The increase was due primarily to an increase in OREO operations costs of $998,000 from higher losses on sales of $489,000 and writedowns of $380,000; an increase in compensation and benefits costs of $436,000, primarily from annual incentive costs and an increase in employee count; an increase in legal and audit fees of $337,000, primarily from loan workouts; an increase in office and postage expenses of $235,000; and an increase in data processing and communication costs of $173,000.

Income Taxes. The Company recorded income taxes of $6.4 million in 2011, compared with $2.1 million in 2010 and a tax benefit for income taxes of $87,000 in 2009. Our effective tax rate was 37.7% for 2011, 33.0% for 2010 and tax benefit rate of 15.9% for 2009. The effective tax rate in each year is affected by various items, including enterprise zone net interest deductions, interest expense related to payments of prior year taxes, and adjustments to income tax reserves related to management’s favorable assessment of our income tax exposure. The net impact of these items was an expense reduction of $577,000 in 2011, $401,000 in 2010 and $40,000 in 2009. See Note 11 to the Consolidated Financial Statements included in Item 8 hereof for further discussion of income taxes and an explanation of the factors which impact our effective tax rate.

Financial Condition

As a result of the Canyon National Acquisition, the Bank acquired and received certain assets with a fair value of approximately $208.9 million, including $149.7 million of loans, $16.1 million of a FDIC receivable, $13.2 million of cash and cash equivalents, $12.8 million of investment securities, $12.0 million of OREO, $2.3 million of a core deposit intangibles, $1.5 million of other assets and $1.3 million of FHLB and Federal Reserve Bank stock. Liabilities with a fair value of approximately $206.6 million were also assumed, including $204.7 million of deposits, $1.9 million in deferred tax liability and $39,000 of other liabilities.

At December 31, 2011, total assets of the Company were $961.1 million, up $134.3 million or 16.2% from total assets of $826.8 million at December 31, 2010. The increase was primarily due to increases in loans held for investment of $174.2 million, partially offset by a decrease in investment securities of $39.4 million and cash and cash equivalents of $3.2 million. The increase in loans held for investment since year end 2010 was predominately related to the Canyon National Acquisition, which added $149.7 million in loans.

At December 31, 2011, total liabilities of the Company were $874.4 million, compared with $748.2 million at December 31, 2010. The $126.1 million, or 16.9%, increase during 2011 was due to an increase in deposits of $169.6 million to $828.9 million, partially offset by a decrease in borrowings of $40.0 million to $38.8 million and accrued expenses and other liabilities of $3.5 million. The increase in deposits was primarily associated with the Canyon National Acquisition, which added $204.7 million in deposits.

At December 31, 2011, our stockholders’ equity amounted to $86.8 million, compared with $78.6 million at December 31, 2010. The increase of $8.2 million or 10.4% in stockholders’ equity is primarily due to net income in 2011 of $10.6 million and a favorable change in accumulated other comprehensive income of $1.2 million due to the increase in value of our investment securities available for sale at December 31, 2011 from December 31, 2010, partially offset by a decrease in additional paid in capital of $3.6 million. The additional paid in capital decrease was primarily from the repurchase and retirement of two outstanding warrants that were exercisable for an aggregate of 600,000 shares of the Company’s common stock. The result of this transaction reduced the total amount of fully diluted shares outstanding by approximately 5.4%, and was accretive to the Company’s fully diluted book value per share. Also during 2011, the Company purchased and retired 72,000 shares of its common stock at a purchase price of $6.22 share.
At December 31, 2010, our stockholders’ equity amounted to $78.6 million, compared with $73.5 million at December 31, 2009. The increase of $5.1 million or 6.9% in stockholders’ equity is primarily due to net income in 2010 of $4.2 million and a decrease in accumulated other comprehensive loss of $827,000 due to the increase in value of our investment securities available for sale at December 31, 2010 from December 31, 2009.

Liquidity

Our primary sources of funds are principal and interest payments on loans, deposits, FHLB advances and other borrowings. While maturities and scheduled amortization of loans are a predictable source of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions and competition. We seek to maintain a level of liquid assets to ensure a safe and sound operation. Our liquid assets are comprised of cash and unpledged investments. As part of our daily monitoring, we calculate a liquidity ratio by dividing the sum of cash balances plus unpledged securities by the sum of deposits that mature in one year or less plus transaction accounts and FHLB advances. At December 31, 2011, our liquidity ratio was 18.13%, compared with 32.04% at December 31, 2010 and 23.39% at December 31, 2009. The reduction in the liquidity ratio at December 31, 2011 compared to December 31, 2010 is primarily related to the Canyon National Acquisition whereby we added $204.7 million in deposits and as we repositioned investments in securities into loans during 2011.

We believe our level of liquid assets is sufficient to meet current anticipated funding needs. At December 31, 2011, liquid assets of the Company represented approximately 14.1% of total assets, compared to 21.6% at December 31, 2010 and 16.9% at December 31, 2009. At December 31, 2011, the Company had six unsecured lines of credit with other correspondent banks to purchase federal funds totaling $44.0 million, one reverse repo line with a correspondent bank of $20.0 million and access through the Federal Reserve Board discount window to borrow $8.8 million, as business needs dictate. We also have a line of credit with the FHLB allowing us to borrow up to 45% of the Bank’s total assets. At December 31, 2011, we had a borrowing capacity of $298.6 million, based on collateral pledged at the FHLB, with no outstanding borrowings drawn. The FHLB advance line is collateralized by eligible loan collateral and FHLB stock. At December 31, 2011, we had approximately $482.2 million of loans pledged to secure FHLB borrowings.

At December 31, 2011, we had outstanding commitments to originate or purchase loans for $25,000 and at December 31, 2010 we had $1.8 million of outstanding commitments to originate or purchase loans. We had no outstanding commitments to originate or purchase loans at December 31, 2009.

At December 31, 2011, the Company’s loan to deposit and borrowing ratio was 85.1%, compared with 76.5% at December 31, 2010. The increase in the ratio from year-end 2010 to 2011 was primarily associated with an increase in loans that more than offset the increase in deposit and borrowing balances. Certificates of deposit, which are scheduled to mature in one year or less from December 31, 2011, totaled $319.5 million. We expect to retain a substantial portion of the maturing certificates of deposit at maturity. At December 31, 2010, the Company’s loan to deposit and borrowing ratio was 76.5%, compared with 79.9% at December 31, 2009. The decline in the ratio from year-end 2009 to 2010 was primarily associated with decreasing loan balance and higher deposit balances that more than offset a decline in borrowing balances. Certificates of deposit, which are scheduled to mature in one year or less from December 31, 2010, totaled $236.0 million.

The Company has a policy in place that permits the purchase of brokered funds, in an amount not to exceed 5% of total deposits, as a secondary source for funding. At December 31, 2011, the Company had no brokered time deposits, compared with $1.9 million at December 31, 2010 and $3.3 million at December 31, 2009.

The Corporation is a company separate and apart from the Bank that must provide for its own liquidity. The Corporation’s primary sources of liquidity are dividends from the Bank. There are statutory and regulatory provisions that limit the ability of the Bank to pay dividends to the Corporation. Management believes that such restrictions will not have a material impact on the ability of the Corporation to meet its ongoing cash obligations.

The Financial Code provides that a bank may not make a cash distribution to its shareholders in excess of the lesser of a (a) bank’s retained earnings; or (b) bank’s net income for its last three fiscal years, less the amount of any distributions made by the bank or by any majority-owned subsidiary of the bank to the shareholders of the bank during such period. However, a bank may, with the approval of the DFI, make a distribution to its shareholders in an amount not exceeding the greatest of (x) its retained earnings; (y) its net income for its last fiscal year; or (z) its net income for its current fiscal year. In the event that the DFI determines that the shareholders' equity of a bank is inadequate or that the making of a distribution by the bank would be unsafe or unsound, the DFI may order the bank to refrain from making a proposed distribution. Under these provisions, the amount available for distribution from the Bank to the Corporation was approximately $12.4 million at December 31, 2011.

Capital Resources

The Corporation and the Bank are subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can trigger certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on our financial condition and results of operations. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank 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. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

At December 31, 2011, the Bank's leverage capital amounted to $88.8 million and risk-based capital amounted to $97.4 million. At December 31, 2010, the Bank's leverage capital was $82.8 million and risk-based capital was $90.1 million. At December 31, 2009, the Bank's leverage capital was $78.5 million and risk-based capital was $85.9 million. Pursuant to regulatory guidelines under prompt corrective action rules, a bank must have total risk-based capital of 10.00% or greater, Tier 1 risk-based capital of 6.00% or greater and Tier I capital to adjusted tangible assets of 5.00% or greater to be considered ''well capitalized.'' At December 31, 2011, the Bank's total risk-based capital ratio was 12.81%, Tier 1 risk-based capital ratio was 11.68% and Tier I to adjusted tangible assets capital ratio was 9.44%. See Note 2 to the Consolidated Financial Statements included in Item 8 hereof for a discussion of the Bank's and Company's capital ratios.

Contractual Obligations and Commitments

The Company enters into contractual obligations in the normal course of business as a source of funds for its asset growth and to meet required capital needs. The following schedule summarizes maturities and payments due on our obligations and commitments, excluding accrued interest, at the date indicated:

	At December 31, 2011				
	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years	Total
			(in thousands)		
Contractual Obligations					
FHLB advances	$ -	$ -	$ -	$ -	$ -
Other borrowings	-	-	-	28,500	28,500
Subordinated debentures	-	-	-	10,310	10,310
Certificates of deposit	320,237	94,640	12,891	920	428,688
Operating leases	812	1,688	1,370	3,626	7,496
Total contractual cash obligations	$ 321,049	$ 96,328	$ 14,261	$ 43,356	$ 474,994

Off-Balance Sheet Arrangements

The following table summarizes our contractual commitments with off-balance sheet risk by expiration period at the date indicated:

	At December 31, 2011				
	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years	Total
			(in thousands)		
Other unused commitments:					
Home equity lines of credit	$ -	$ -	$ 1,423	$ 2,937	$ 4,360
Commercial lines of credit	24,960	15,102	44	25,865	65,971
Other lines of credit	641	2	-	278	921
Standby letters of credit	1,787	14	-	-	1,801
Total commitments	$ 27,388	$ 15,118	$ 1,467	$ 29,080	$ 73,053

See Note 14 to the Consolidated Financial Statements in Item 8 hereof for narrative disclosure regarding off-balance sheet arrangements.

Impact of Inflation and Changing Prices

Our consolidated financial statements and related data presented in this annual report on Form 10-K have been prepared in accordance with accounting principles generally accepted in the United States which require the measurement of financial position and operating results in terms of historical dollar amounts (except with respect to securities classified as available for sale which are carried at market value) without considering the changes in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased cost of our operations. Unlike most industrial companies, substantially all of our assets and liabilities are monetary in nature. As a result, interest rates have a greater impact on our performance than do the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or to the same magnitude as the price of goods and services.

Impact of New Accounting Standards

See Note 1 to the Consolidated Financial Statements included in Item 8 hereof for a listing of recently issued accounting pronouncements and the impact of them on the Company.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Asset/Liability Management and Market Risk

Market risk is the risk of loss or reduced earnings from adverse changes in market prices and interest rates. Our market risk arises primarily from interest rate risk in our lending and deposit taking activities. Interest rate risk primarily occurs to the degree that our interest-bearing liabilities reprice or mature on a different basis and frequency than our interest-earning assets. Since our earnings depend primarily on our net interest income, which is the difference between the interest and dividends earned on interest-earning assets and the interest paid on interest-bearing liabilities, our principal objectives are to actively monitor and manage the effects of adverse changes in interest rates on net interest income.

In addition to the interest rate risk associated with our lending for investment and deposit-taking activities, we also have market risk associated with loans held for sale. Changes in interest rates, primarily fixed rate loans, impact the fair value of loans held for sale. Rising interest rates typically result in a decrease in loan market value while declining interest rates typically result in an increase in loan market value.

Our Asset/Liability Committee is responsible for implementing the Bank's interest rate risk management policy which sets forth limits established by the board of directors of acceptable changes in net interest income and economic value of equity ("EVE") from specified changes in interest rates. Our Asset/Liability Committee reviews, among other items, economic conditions, the interest rate outlook, the demand for loans, the availability of deposits and borrowings, and our current operating results, liquidity, capital and interest rate exposure. Based on these reviews, our Asset/Liability Committee formulates a strategy that is intended to implement the objectives set forth in our business plan without exceeding the net interest income and EVE limits set forth in our guidelines approved by our board of directors.

Interest Rate Risk Management. The principal objective of the Company's interest rate risk management function is to evaluate the interest rate risk included in certain balance sheet accounts, determine the level of appropriate risk and manage the risk consistent with prudent asset and liability concentration guidelines approved by our board of directors. We monitor asset and liability maturities and repricing characteristics on a regular basis and review various simulations and other analyses to determine the potential impact of various business strategies in controlling the Company's interest rate risk and the potential impact of those strategies upon future earnings under various interest rate scenarios. Our primary strategy in managing interest rate risk is to emphasize the origination for investment of adjustable rate loans or loans with relatively short maturities. Interest rates on adjustable rate loans are primarily tied to 3-month or 6-month LIBOR index, 12-month moving average of yields on actively traded U.S. Treasury securities adjusted to a constant maturity of one year ("MTA") index and the Wall Street Journal Prime Rate ("Prime") index. Also as part of this strategy, we seek to lengthen our deposit maturities when deposit rates are considered in the lower end of the interest rate cycle and shorten our deposit maturities when deposit rates are considered in the higher end of the interest rate cycle.

Management monitors its interest rate risk as such risk relates to its operational strategies. The Company's board of directors reviews on a quarterly basis the Company's asset/liability position, including simulations of the effect on the Bank's capital in various interest rate scenarios. The extent of the movement of interest rates, higher or lower, is an uncertainty that could have a negative impact on the earnings of the Company. If interest rates rise we may be subject to interest rate spread compression, which would adversely impact our net interest income. This is primarily due to the lag in repricing of the indices, to which our adjustable rate loans and mortgage-backed securities are tied, as well as the repricing frequencies and interest rate caps and floors on these adjustable rate loans and mortgage-backed securities. The extent of the interest rate spread compression depends, among other things, upon the frequency and severity of such interest rate fluctuations.

Economic Value of Equity. The Company's interest rate sensitivity is monitored by management through the use of a model that estimates the change in the Company's EVE under alternative interest rate scenarios, primarily non-parallel interest rate shifts over a twelve month period, 100 basis point increments. The model computes the net present value of capital by discounting all expected cash flows from assets, liabilities under each rate scenario. First, we estimate our net interest income for the next twelve months and the current EVE assuming no change in interest rates from those at period end. Once this "base-case" has been estimated, we make calculations for each of the defined changes in interest rates and include any anticipated differences in the prepayment speeds of loans. We then compare those results against the base case to determine the estimated change to net interest income and EVE due to the changes in interest rates. An EVE ratio is defined as the EVE divided by the market value of assets within the same scenario. The sensitivity measure is the largest decline in the EVE ratio, measured in basis points, caused by an increase or decrease in rates, and the higher an institution’s sensitivity measure, the greater exposure it has to interest rate risk.

The following table shows the EVE and projected change in the EVE of the Company at December 31, 2011, assuming non-parallel interest rate shifts over a twelve month period of 100, 200, and 300 basis points ("BP"):

As of December 31, 2011
(dollars in thousands)

Change in Rates	Economic Value of Equity $ Amount	$ Change	% Change	EVE Ratio	EVE as % of Portfolio Value of Assets % Change (BP)
+300 BP	$ 130,199	$ (24,066)	(15.6)%	13.82 %	-132 BP
+200 BP	140,893	(13,372)	(8.7)%	14.62 %	-52 BP
+100 BP	153,664	(601)	(0.4)%	15.51 %	37 BP
Static	154,265	--	--	15.14 %	--
-100 BP	156,447	2,182	1.4 %	15.14 %	0 BP
-200 BP	142,755	(11,510)	(7.5)%	13.81 %	-133 BP
-300 BP	130,825	(23,440)	(15.2)%	12.67 %	-247 BP

It is important to note that the above table is a summary of several forecasts and actual results may vary. The forecasts are based on estimates and assumptions of Management that may turn out to be different and may change over time. Factors affecting these estimates and assumptions include, but are not limited to (1) competitor behavior, (2) economic conditions both locally and nationally, (3) actions taken by the Federal Reserve Board, (4) customer behavior and (5) Management’s responses. Changes that vary significantly from the assumptions and estimates may have significant effects on the Company’s EVE. Although the EVE measurement provides an indication of the Company’s interest rate risk exposure at a particular point in time, such measurement is not intended to provide a precise forecast of the effect of changes in market interest rates on the Company’s net interest income and will differ from actual results.

Selected Assets and Liabilities which are Interest Rate Sensitive. The following table provides information regarding the Company’s primary categories of assets and liabilities that are sensitive to changes in interest rates for the year ended December 31, 2011. The information presented reflects the expected cash flows of the primary categories by year, including the related weighted average interest rate. The cash flows for loans are based on maturity and re-pricing date. The loans and MBSs that have adjustable rate features are presented in accordance with their next interest-repricing date. Cash flow information on interest-bearing liabilities, such as passbooks, NOW accounts and money market accounts is also adjusted for expected decay rates, which are based on historical information. In addition, for purposes of cash flow presentation, premiums or discounts on purchased assets and mark-to-market adjustments are excluded from the amounts presented. All certificates of deposit and borrowings are presented by maturity date. The weighted average interest rates for the various assets and liabilities presented are based on the actual rates that existed at December 31, 2011. The degree of market risk inherent in loans with prepayment features may not be completely reflected in the disclosures. Although we have taken into consideration historical prepayment trends adjusted for current market conditions to determine expected maturity categories, changes in prepayment behavior can be triggered by changes in many variables, including market rates of interest. Unexpected changes in these variables may increase or decrease the rate of prepayments from those anticipated. As such, the potential loss from such market rate changes may be significantly larger.

	At December 31, 2011 Maturities and Repricing							
	2012 Year 1	2013 Year 2	2014 Year 3	2015 Year 4	2016 Year 5	Thereafter	Total Balance	Fair Value
	(dollars in thousands)							
Selected Assets								
Investments and federal funds, other than MBS	$ 12,503	$ 76	$ -	$ -	$ -	$ 24,225	$ 36,804	$ 36,804
Weighted average interest rate	0.97 %	3.53 %	0.00 %	0.00 %	0.00 %	3.63 %	2.73 %	
Mortgage - backed securities								
Fixed rate	$ -	$ -	$ 98	$ 23	$ 26	$ 48,696	$ 48,843	$ 48,843
Weighted average interest rate	0.00 %	0.00 %	0.95 %	6.06 %	5.21 %	2.60 %	2.60 %	
Adjustable rate	$ 12,471	$ -	$ -	$ 15,429	$ 4,417	$ 10,184	$ 42,501	$ 42,501
Weighted average interest rate	2.43 %	0.00 %	0.00 %	2.50 %	1.97 %	2.66 %	2.46 %	
Gross Loans - fixed rate	$ 5,254	$ 7,747	$ 2,301	$ 14,439	$ 13,127	$ 87,436	$ 130,304	$ 137,056
Weighted average interest rate	6.13 %	6.59 %	7.84 %	6.71 %	7.08 %	6.50 %	6.59 %	
Gross Loans - adjustable rate	$ 460,479	$ 55,875	$ 24,101	$ 6,973	$ 22,049	$ 39,473	$ 608,950	$ 666,372
Weighted average interest rate	6.05 %	6.53 %	6.56 %	6.22 %	4.64 %	5.30 %	6.01 %	
Total interest-sensitive assets	$ 490,707	$ 63,698	$ 26,500	$ 36,864	$ 39,619	$ 210,014	$ 867,402	$ 931,576
Weighted average interest rate	5.83 %	6.53 %	6.65 %	4.85 %	5.15 %	4.85 %	5.60 %	
Selected Liabilities								
Interest-bearing transaction accounts	$ 400,189	$ -	$ -	$ -	$ -	$ -	$ 400,189	$ 400,189
Weighted average interest rate	0.37 %	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %	0.37 %	
Certificates of deposit	$ 320,237	$ 92,200	$ 2,440	$ 12,211	$ 680	$ 920	$ 428,688	$ 431,236
Weighted average interest rate	1.36 %	1.26 %	1.81 %	2.86 %	2.68 %	3.95 %	1.39 %	
FHLB advances	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Weighted average interest rate	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %	
Other borrowings and subordinated debentures	$ 38,810	$ -	$ -	$ -	$ -	$ -	$ 38,810	$ 36,766

Weighted average interest rate	3.23 %	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %	3.23 %	
Total interest-sensitive liabilities	$ 759,236	$ 92,200	$ 2,440	$ 12,211	$ 680	$ 920	$ 867,687	$ 868,191
Weighted average interest rate	0.93 %	1.26 %	1.81 %	2.86 %	2.68 %	3.95 %	1.00 %	

The Company does not have any direct market risk from foreign exchange or commodity exposures.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
Pacific Premier Bancorp, Inc. and Subsidiaries
Costa Mesa, California

We have audited the accompanying consolidated statements of financial condition of Pacific Premier Bancorp, Inc. and Subsidiaries (the "Company") as of December 31, 2011 and 2010, and the related consolidated statements of operations, stockholders' equity and comprehensive income (loss), and cash flows for each of the three years in the period ended December 31, 2011. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as, evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2011 and 2010, and the results of its operations, changes in its stockholders' equity, and its cash flows for each of the three years in the period ended December 31, 2011 in conformity with accounting principles generally accepted in the United States of America.

/s/ Vavrinek, Trine, Day & Co., LLP
Rancho Cucamonga, California
March 30, 2012

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(dollars in thousands, except share data)

	At December 31,	
ASSETS	2011	2010
Cash and due from banks	$ 60,207	$ 63,433
Federal funds sold	28	29
Cash and cash equivalents	60,235	63,462
Investment securities available for sale	115,645	155,094
FHLB stock/Federal Reserve Bank stock, at cost	12,475	13,334
Loans held for investment	738,589	564,417
Allowance for loan losses	(8,522)	(8,879)
Loans held for investment, net	730,067	555,538
Accrued interest receivable	3,885	3,755
Other real estate owned	1,231	34
Premises and equipment	9,819	8,223
Deferred income taxes	8,998	11,103
Bank owned life insurance	12,977	12,454
Intangible assets	2,069	-
Other assets	3,727	3,819
TOTAL ASSETS	$ 961,128	$ 826,816
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Deposit accounts:		
Noninterest bearing	$ 112,313	$ 47,229
Interest bearing:		
Transaction accounts	287,876	203,029
Retail certificates of deposit	428,688	407,108
Wholesale/brokered certificates of deposit	-	1,874
Total deposits	828,877	659,240
FHLB advances and other borrowings	28,500	68,500
Subordinated debentures	10,310	10,310
Accrued expenses and other liabilities	6,664	10,164
TOTAL LIABILITIES	874,351	748,214
COMMITMENTS AND CONTINGENCIES (Note 12)	-	-
STOCKHOLDERS' EQUITY:		
	-	-

Preferred stock, $.01 par value; 1,000,000 shares authorized; no shares outstanding				
Common stock, $.01 par value; 15,000,000 shares authorized; 10,337,626 shares at December 31, 2011, and 10,033,836 shares at December 31, 2010 issued and outstanding		103		100
Additional paid-in capital		76,310		79,942
Retained earnings (accumulated deficit)		10,046		(526)
Accumulated other comprehensive income (loss), net of tax (benefit) of $221 at December 31, 2011, and ($639) at December 31, 2010		318		(914)
TOTAL STOCKHOLDERS' EQUITY		86,777		78,602
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$	961,128	$	826,816

See Notes to Consolidated Financial Statements.

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(dollars in thousands, except per share data)

	For the Years ended December 31,					
		2011		2010		2009
INTEREST INCOME						
Loans	$	46,369	$	36,509	$	39,570
Investment securities and other interest-earning assets		3,856		4,594		3,869
Total interest income		50,225		41,103		43,439
INTEREST EXPENSE						
Interest-bearing deposits:						
Interest on transaction accounts		1,548		1,710		1,429
Interest on certificates of deposit		6,740		7,901		11,618
Total interest-bearing deposits		8,288		9,611		13,047
FHLB advances and other borrowings		998		2,741		6,839
Subordinated debentures		310		314		368
Total interest expense		9,596		12,666		20,254

NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES	40,629	28,437	23,185
PROVISION FOR LOAN LOSSES	3,255	2,092	7,735
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	37,374	26,345	15,450
NONINTEREST INCOME (LOSS)			
Loan servicing fees	1,060	400	486
Deposit fees	2,195	817	851
Net loss from sales of loans	(3,605)	(3,332)	(351)
Net gain from sales of investment securities	1,589	1,020	687
Other-than-temporary impairment loss on investment securities, net	(617)	(1,087)	(2,030)
Gain on FDIC transaction	4,189	-	-
Other income	1,702	1,106	1,054
Total noninterest income (loss)	6,513	(1,076)	697
NONINTEREST EXPENSE			
Compensation and benefits	13,205	8,483	8,047
Premises and occupancy	3,501	2,623	2,559
Data processing and communications	1,419	806	633
Other real estate owned operations, net	1,497	1,371	373
FDIC insurance premiums	809	1,258	1,382
Legal and audit	1,438	1,134	797
Marketing expense	1,287	786	664
Office and postage expense	850	530	295
Other expense	2,898	1,957	1,944
Total noninterest expense	26,904	18,948	16,694
INCOME (LOSS) BEFORE INCOME TAX (BENEFIT)	16,983	6,321	(547)
INCOME TAX (BENEFIT)	6,411	2,083	(87)
NET INCOME (LOSS)	$ 10,572	$ 4,238	$ (460)
EARNINGS (LOSS) PER SHARE			
Basic	$ 1.05	$ 0.42	$ (0.08)
Diluted	$ 0.99	$ 0.38	$ (0.08)
WEIGHTED AVERAGE SHARES OUTSTANDING			
Basic	10,092,181	10,033,836	5,642,589
Diluted	10,630,720	11,057,404	5,642,589

See Notes to Consolidated Financial Statements.

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY AND OTHER COMPREHENSIVE INCOME (LOSS)
FOR THE THREE YEARS ENDED DECEMBER 31, 2011
(dollars in thousands)

	Common Stock		Additional Paid-in	Retained Earnings (Accumulated	Accumulated Other Comprehensive Income	Comprehensive Income	Total Stockholders'
	Shares	Amount	Capital	Deficit)	(loss)	(Loss)	Equity
Balance at December 31, 2008	4,903,451	$ 49	$ 64,679	$ (4,304)	$ (2,876)		$ 57,548
Comprehensive income:							
Net loss				(460)		$ (460)	(460)
Unrealized holding gains on securities arising during the period, net of tax						1,310	
Reclassification adjustment for gain on sales of securities included in net income, net of tax						(175)	
Net unrealized gain on securities, net of tax					1,135	1,135	1,135
Total comprehensive income						$ 675	
Share-based compensation expense			271				271
Issuance of common stock, net of issuance costs	5,030,385	50	15,191				15,241
Warrant exercise	200,000	2	148				150
Repurchase of common stock	(100,000)	(1)	(382)				(383)
Balance at December 31, 2009	10,033,836	$ 100	$ 79,907	$ (4,764)	$ (1,741)		$ 73,502
Comprehensive income:							
Net income				4,238		$ 4,238	4,238
Unrealized holding gains on securities arising during the period, net of tax						462	
						365	

Reclassification adjustment for gain on sales of securities included in net income, net of tax							
Net unrealized gain on securities, net of tax					827	827	827
Total comprehensive income						$ 5,065	
Share-based compensation expense			86				86
Reclassification adjustment for Common Stock			(51)				(51)
Balance at December 31, 2010	10,033,836	$ 100	$ 79,942	$ (526)	$ (914)		$ 78,602
Comprehensive income:							
Net income				10,572		$ 10,572	10,572
Unrealized holding gains on securities arising during the period, net of tax						2,170	
Reclassification adjustment for gain on sales of securities included in net income, net of tax						(938)	
Net unrealized gain on securities, net of tax					1,232	1,232	1,232
Total comprehensive income						$ 11,804	
Share-based compensation expense			208				208
Repurchase of warrants			(3,660)				(3,660)
Warrant exercise	366,400	4	270				274
Repurchase of common stock	(72,000)	(1)	(450)				(451)
Exercise of stock options	9,390	-	-				-
Balance at December 31, 2011	10,337,626	$ 103	$ 76,310	$ 10,046	$ 318		$ 86,777

See Notes to Consolidated Financial Statements.

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

For the Years ended December 31,

	2011	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss)	$ 10,572	$ 4,238	$ (460)
Adjustments to net income (loss):			
Depreciation and amortization expense	1,203	991	1,017
Provision for loan losses	3,255	2,092	7,735
Share-based compensation expense	208	86	271
Loss (gain) on sale of other real estate owned	783	461	(28)
Write down of other real estate owned	172	698	319
Loss on sale and disposal on premises and equipment	65	30	25
Amortization of premium/discounts on securities available for sale, net	685	835	70
Amortization of mark-to-market discount	(1,600)	-	-
Gain on sale of loans held for sale	-	-	(7)
Net gain from sales of investment securities available for sale	(1,589)	(1,020)	(687)
Other-than-temporary impairment loss on investment securities, net	617	1,087	2,030
Recoveries on loans	402	221	100
Proceeds from the sales of and principal payments from loans held for sale	-	-	549
Loss on sale of loans held for investment	3,605	3,332	351
Gain on FDIC transaction	(4,189)	-	-
Deferred income tax provision (benefit)	1,244	(216)	(1,831)
Change in accrued expenses and other liabilities, net	(3,500)	(3,113)	(31)
Income from bank owned life insurance	(523)	(528)	(531)
Change in accrued interest receivable and other assets, net	587	238	(3,164)
Net cash provided by operating activities	11,997	9,432	5,728
CASH FLOW FROM INVESTING ACTIVITIES			

Proceeds from sale and principal payments on loans held for investment	139,267	88,628	54,818
Net change in undisbursed loan funds	15,377	21,984	(4,701)
Purchase and origination of loans held for investment	(185,896)	(108,775)	(6,731)
Proceeds from sale of other real estate owned	14,794	5,751	886
Principal payments on securities available for sale	14,842	21,562	14,430
Purchase of securities available for sale	(84,450)	(156,347)	(218,896)
Proceeds from sale or maturity of securities available for sale	123,972	103,550	146,418
Purchase of premises and equipment	(2,822)	(531)	(167)
Redemption (purchase) of Federal Reserve Bank stock	1,167	(420)	-
Redemption of Federal Home Loan Bank of San Francisco stock	1,014	1,416	-
Cash acquired in FDIC transaction	26,389	-	-
Net cash provided by (used in) investing activities	63,654	(23,182)	(13,943)
CASH FLOW FROM FINANCING ACTIVITIES			
Net increase (decrease) in deposit accounts	(35,041)	40,506	161,606
Proceeds from FHLB advances and other borrowings	-	40,000	-
Repayments of FHLB advances and other borrowings	(40,000)	(63,000)	(118,400)
Proceeds from issuance of common stock, net of issuance cost	-	-	15,241
Proceeds from exercise of warrants	274	-	150
Warrants purchased and retired	(3,660)	-	-
Repurchase of common stock	(451)	-	(383)
Net cash provided by (used in) financing activities	(78,878)	17,506	58,214
Net increase (decrease) in cash and cash equivalents	(3,227)	3,756	49,999
Cash and cash equivalents, beginning of year	63,462	59,706	9,707
	$ 60,235	$ 63,462	$ 59,706

Cash and cash equivalents, end of year						
SUPPLEMENTAL CASH FLOW DISCLOSURES						
Interest paid	$	9,576	$	12,711	$	20,455
Income taxes paid		4,105		2,300		1,110
Assets acquired (liabilities assumed) in Canyon National acquisition:						
Investment securities		14,076				
FDIC receivable		2,838				
Loans		149,739				
Core deposit intangible		2,270				
Other real estate owned		11,953				
Fixed assets		42				
Other assets		1,599				
Deposits		(204,678)				
Other liabilities		(39)				
NONCASH OPERATING ACTIVITIES DURING THE PERIOD						
Restricted stock vested	$	-	$	-	$	104
NONCASH INVESTING ACTIVITIES DURING THE PERIOD						
Loan transfers to loans held for investment from loans held for sale	$	-	$	-	$	126
Transfers from loans to other real estate owned		4,995		3,564		4,533
Investment securities available for sale purchased and not settled		-		5,125		8,238

See Notes to Consolidated Financial Statements.

PACIFIC PREMIER BANCORP, INC., AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business and Summary of Significant Accounting Policies

Principles of Consolidation—The consolidated financial statements include the accounts of Pacific Premier Bancorp, Inc., (the ‘‘Corporation’’) and its wholly owned subsidiary, Pacific Premier Bank (the ‘‘Bank’’) (collectively, the ‘‘Company’’). The Company accounts for its investments in its wholly-owned special purpose entity, PPBI Statutory Trust I, (the “Trust”) using the equity method under which the subsidiaries’ net earnings are recognized in the Company’s

Statement of Operations and the investment in the Trust is included in Other Assets on the Company's Balance Sheet. All significant intercompany accounts and transactions have been eliminated in consolidation.

Description of Business—The Corporation, a Delaware corporation organized in 1997, is a California-based bank holding company that owns 100% of the capital stock of the Bank, the Corporation's principal operating subsidiary. The Bank was incorporated and commenced operations in 1983.

The principal business of the Company is attracting deposits from the general public and investing those deposits, together with funds generated from operations and borrowings, primarily in real estate property loans and business loans. At December 31, 2011, the Company had nine depository branches located in the cities of Costa Mesa, Huntington Beach, Los Alamitos, Newport Beach, Palm Desert, Palm Springs (2), San Bernardino, and Seal Beach. The Company is subject to competition from other financial institutions. The Company is subject to the regulations of certain governmental agencies and undergoes periodic examinations by those regulatory authorities.

Basis of Financial Statement Presentation—The accompanying consolidated financial statements have been prepared in conformity with account principles generally accepted in the United States of America. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the dates of the balance sheets and the results of operations for the reporting periods. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the valuation of foreclosed real estate, OTTI on investment securities available for sale and the deferred tax asset.

Cash and Cash Equivalents—Cash and cash equivalents include cash on hand, due from banks and fed funds sold. At December 31, 2011, $12.9 million was allocated to cash reserves required by the Federal Reserve for depository institutions based on the amount of deposits held. The Company maintains amounts due from banks that exceed federally insured limits. The Company has not experienced any losses in such accounts.

Securities—The Company has established written guidelines and objectives for its investing activities. At the time of purchase, management designates the security as either held to maturity, available for sale or held for trading based on the Company's investment objectives, operational needs and intent. The investments are monitored to ensure that those activities are consistent with the established guidelines and objectives.

Securities Held to Maturity—Investments in debt securities that management has the positive intent and ability to hold to maturity are reported at cost and adjusted for unamortized premiums and unearned discounts that are recognized in interest income using the interest method over the period to maturity. If the cost basis of these securities is determined to be other than temporarily impaired, the amount of the impairment is charged to operations. The Company had no investment securities classified as held to maturity at December 31, 2011 or 2010.

Securities Available for Sale—Investments in debt securities that management has no immediate plan to sell, but which may be sold in the future, are valued at fair value. Premiums and discounts are amortized using the interest method over the remaining period to the call date for premiums or contractual maturity for discounts and, in the case of mortgage-backed securities, adjusted for anticipated prepayments. Unrealized holding gains and losses, net of tax, are excluded from earnings and reported as a separate component of stockholders' equity as accumulated other comprehensive income. If the cost basis of the security is deemed other than temporarily impaired the amount of the impairment is charged to operations. Realized gains and losses on the sales of securities are determined on the specific identification method, recorded on a trade date basis based on the amortized cost basis of the specific security and are included in noninterest income as net gain (loss) on investment securities.

Securities Held for Trading—Securities held for trading are carried at fair value. Realized and unrealized gains and losses are reflected in earnings. The Company had no investment securities classified as held for trading at December 31, 2011 or 2010.

Impairment of Investments—Declines in the fair value of individual held to maturity and available for sale securities below their cost that are OTTI result in write-downs of the individual securities to their fair value. The related write-downs are included in operations as realized losses in the category of other-than-temporary impairment loss on investment securities, net. In estimating OTTI losses, management considers: (i) the length of time and the extent to which the market value has been less than cost; (ii) the financial condition and near-term prospects of the issuer; (iii) the intent and ability of the Company to retain its investment in a security for a period of time sufficient to allow for any anticipated recovery in market value; and (iv) general market conditions which reflect prospects for the economy as a whole, including interest rates and sector credit spreads.

Loans Held for Sale—The Company identifies at origination those loans which foreseeably may be sold prior to maturity as loans held for sale and records them at the lower of amortized cost or fair value. Premiums paid and discounts obtained on such loans are deferred as an adjustment to the carrying value of the loans until the loans are sold. Interest is recognized as revenue when earned according to the terms of the loans and when, in the opinion of management, it is collectible. Loans are evaluated for collectability, and if appropriate, previously accrued interest is reversed. The Company may sell loans which had been held for investment. In such occurrences, the loans are transferred to the held for sale portfolio at the lower of amortized cost or fair value. If any part of a decline in value of the loans transferred is due to credit deterioration, that decline is recorded as a charge-off to the allowance for loan losses at the time of transfer. Gains or losses on sales of loans are recognized at the time of sale and are determined by the difference between the net sales proceeds and the basis of the loans sold. There were no loans held for sale at December 31, 2011 or 2010.

Loans Held for Investment—Loans held for investment are carried at amortized cost, net of discounts and premiums, deferred loan origination fees and costs and allowance for loan losses. Net deferred loan origination fees and costs on loans are amortized or accreted using the interest method over the expected life of the loans. Amortization of deferred loan fees and costs are discontinued for loans placed on nonaccrual. Any remaining deferred fees or costs and prepayment fees associated with loans that payoff prior to contractual maturity are included in loan interest income in the period of payoff. Loan commitment fees received to originate or purchase a loan are deferred and, if the commitment is exercised, recognized over the life of the loan as an adjustment of yield or, if the commitment expires unexercised, recognized as income upon expiration of the commitment. Loans held for investment are not adjusted to the lower of cost or estimated market value because it is management's intention, and the Company has the ability, to hold these loans to maturity.

Interest on loans is credited to income as earned. Interest receivable is accrued only if deemed collectible. Loans on which the accrual of interest has been discontinued are designated as nonaccrual loans. The accrual of interest on loans is discontinued when principal or interest is past due 90 days based on contractual terms of the loan or when, in the opinion of management, there is reasonable doubt as to collection of interest. When loans are placed on nonaccrual status, all interest previously accrued but not collected is reversed against current period interest income. Interest income generally is not recognized on impaired loans unless the likelihood of further loss is remote. Interest payments received on such loans are applied as a reduction to the loan principal balance. Interest accruals are resumed on such loans only when they are brought current with respect to interest and principal and when, in the judgment of management, the loans are estimated to be fully collectible as to all principal and interest.

A loan is considered to be impaired when it is probable that the Company will be unable to collect all amounts due (principal and interest) according to the contractual terms of the loan agreement. Measurement of impairment is based on the loan’s expected future cash flows discounted at the loan’s effective interest rate, measured by reference to an observable market value, if one exists, or the fair value of the collateral if the loan is deemed collateral dependent. The Company selects the measurement method on a loan-by-loan basis except those loans deemed collateral dependent. All loans are generally charged-off at such time the loan is classified as a loss.

Allowance for Loan Losses—The Company maintains an allowance for loan losses at a level deemed appropriate by management to provide for known or inherent risks in the portfolio at the balance sheet date. The Company has implemented and adheres to an internal asset review system and loss allowance methodology designed to provide for the detection of problem assets and an adequate allowance to cover loan losses. Management's determination of the adequacy of the loan loss allowance is based on an evaluation of the composition of the portfolio, actual loss experience, industry charge-off experience on income property loans, current economic conditions, and other relevant factors in the area in which the Company's lending and real estate activities are based. These factors may affect the borrowers' ability to pay and the value of the underlying collateral. The allowance is calculated by applying loss factors to loans held for investment according to loan program type and loan classification. The loss factors are established based primarily upon the Bank's historical loss experience and the industry charge-off experience and are evaluated on a quarterly basis. Various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses. Such agencies may require the Bank to recognize additions to the allowance based on judgments different from those of management. In the opinion of management, and in accordance with the credit loss allowance methodology, the present allowance is considered adequate to absorb estimable and probable credit losses. Additions and reductions to the allowance are reflected in current operations. Charge-offs to the allowance are made when specific assets are considered uncollectible or are transferred to other real estate owned and the fair value of the property is less than the loan's recorded investment. Recoveries are credited to the allowance.

Although management uses the best information available to make these estimates, future adjustments to the allowance may be necessary due to economic, operating, regulatory and other conditions that may be beyond the Company's control.

Other Real Estate Owned—The Company obtains an appraisal and/or market valuation on all other real estate owned at the time of possession. Real estate properties acquired through, or in lieu of, loan foreclosure are recorded at fair value less cost to sell with any excess loan balance charged against the allowance for estimated loan losses. After foreclosure, valuations are periodically performed by management. Any subsequent fair value losses are recorded to other real estate owned operations with a corresponding write-down to the asset. All legal fees and direct costs, including foreclosure and other related costs are expensed as incurred. Revenue and expenses from continued operations are included in other real estate owned operations in the consolidated statement of operations.

Premises and Equipment—Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets, which range from 40 years for buildings, seven years for furniture, fixtures and equipment, and three years for computer and telecommunication equipment. The cost of leasehold improvements is amortized using the straight-line method over the shorter of the estimated useful life of the asset or the term of the related leases.

The Company periodically evaluates the recoverability of long-lived assets, such as premises and equipment, to ensure the carrying value has not been impaired. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

Securities Sold Under Agreements to Repurchase—The Company enters into sales of securities under agreement to repurchase. These agreements are treated as financing arrangements and, accordingly, the obligations to repurchase the securities sold are reflected as liabilities in the Company's consolidated financial statements. The securities collateralizing these agreements are delivered to several major national brokerage firms who arranged the transactions. The securities are reflected as assets in the Company's consolidated financial statements. The brokerage firms may loan such securities to other parties in the normal course of their operations and agree to return the identical security to the Company at the maturity of the agreements.

Subordinated Debentures—Long-term borrowings are carried at cost, adjusted for amortization of premiums and accretion of discounts which are recognized in interest expense using the interest method. Debt issuance costs are recognized in interest expense using the interest method over the life of the instrument.

Income Taxes—Deferred tax assets and liabilities are recorded for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns using the asset liability method. In estimating future tax consequences, all expected future events other than enactments of changes in the tax law or rates are considered. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred tax assets are to be recognized for temporary differences that will result in deductible amounts in future years and for tax carryforwards if, in the opinion of management, it is more likely than not that the deferred tax assets will be realized. As of December 31, 2011, there was no valuation allowance deemed necessary against the Company's deferred tax asset.

Bank Owned Life Insurance—Bank owned life insurance is accounted for using the cash surrender value method and is recorded at its realizable value. The change in the net asset value is included in other assets and other noninterest income.

Comprehensive Income—The Company classifies items of other comprehensive income by their nature in the financial statements and displays the accumulated other comprehensive income as a separate component of stockholders' equity on the Balance Sheet. Changes in unrealized gain (loss) on available-for-sale securities net of income taxes is the only component of accumulated other comprehensive income for the Company.

Share-Based Compensation—The Company recognizes in the income statement the grant-date fair value of stock options and other equity-based forms of compensation issued to employees over the employees' requisite service period (generally the vesting period).

Recent Accounting Pronouncements

During 2011, the following accounting guidance relevant to the Company has been issued by the Financial Accounting Standards Board (the "FASB"), and/or became effective.

In January 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-06, Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements. ASU 2010-06 revised two disclosure requirements concerning fair value measurements and clarifies two others. It requires separate presentation of significant transfers into and out of Levels 1 and 2 of the fair value hierarchy and disclosure of the reasons for such transfers. It will also require the presentation of purchases, sales, issuances, and settlements within Level 3 on a gross basis rather than a net basis. The amendments also clarify that disclosures should be disaggregated by class of asset or liability and that disclosures about inputs and valuation techniques should be provided for both recurring and non-recurring fair value measurements. The Company's disclosures about fair value measurements are presented in Note 16 to the Consolidated Financial Statements included in Item 8 hereof. These new disclosure requirements were effective for the period ended June 30, 2011, except for the requirement concerning gross presentation of Level 3 activity, which is effective for fiscal years beginning after December 15, 2010. There was no significant effect to the Company's financial statement disclosure upon adoption of this ASU.

In January 2011, the FASB issued Accounting Standards Update ("ASU") No. 2011-01, "Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20." The provisions of ASU No. 2010-20, "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses" include the required disclosure of qualitative information about how financing receivables were modified and quantitative information about the extent and financial effects of modifications made during the period. The Company is also required to disclose qualitative information about how such modifications are factored into the determination of the ALLL. Furthermore, the Company is also required to disclose information about troubled debt restructurings that meet the definition of a troubled debt restructuring within the previous 12 months for which there was a payment default in the current period. The provisions of ASU No. 2010-20 were originally to be effective for the Company's reporting period ended March 31, 2011. However, the amendments in ASU No. 2011-01 deferred the effective date related to these disclosures, enabling creditors to provide such disclosures after the FASB completed their project clarifying the guidance for determining what constitutes a troubled debt restructuring.

In April 2011, the FASB issued ASU No. 2011-02, “Receivables (Topic 310) A Creditor’s Determination of Whether a Restructuring is a Troubled Debt Restructuring.” The provisions of ASU No. 2011-02 provide additional guidance related to determining whether a creditor has granted a concession, include factors and examples for creditors to consider in evaluating whether a restructuring results in a delay in payment that is insignificant, prohibit creditors from using the borrower’s effective rate test to evaluate whether a concession has been granted to the borrower, and adds factors for creditors to use in determining whether a borrower is experiencing financial difficulties. A provision in ASU No. 2011-02 also ends the FASB’s deferral of the additional disclosures related to troubled debt restructurings as required by ASU No. 2010-20. There was no significant effect to the Company’s financial statement disclosure upon adoption of this ASU.

In April 2011, the FASB issued ASU No. 2011-03, “Transfers and Servicing (Topic 860): Reconsideration of Effective Control for Repurchase Agreements.” ASU No. 2011-03 modifies the criteria for determining when repurchase agreements would be accounted for as a secured borrowing rather than as a sale. Currently, an entity that maintains effective control over transferred financial assets must account for the transfer as a secured borrowing rather than as a sale. The provisions of ASU No. 2011-03 removes from the assessment of effective control the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee. The FASB believes that contractual rights and obligations determine effective control and that there does not need to be a requirement to assess the ability to exercise those rights. ASU No. 2011-03 does not change the other existing criteria used in the assessment of effective control. The provisions of ASU No. 2011-03 are effective prospectively for transactions, or modifications of existing transactions, that occur on or after January 1, 2012. As the Company accounts for all of its repurchase agreements as collateralized financing arrangements, the adoption of this ASU is not expected to have a material impact on the Company’s statements of income and condition.

In May 2011, the FASB issued ASU No. 2011-04, “Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs.” ASU No. 2011-04 results in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between U.S. GAAP and International Financial Reporting Standards (“IFRS”). The changes to U.S. GAAP as a result of ASU No. 2011-04 are as follows: (1) The concepts of highest and best use and valuation premise are only relevant when measuring the fair value of nonfinancial assets (that is, it does not apply to financial assets or any liabilities); (2) U.S. GAAP currently prohibits application of a blockage factor in valuing financial instruments with quoted prices in active markets. ASU No. 2011-04 extends that prohibition to all fair value measurements; (3) An exception is provided to the basic fair value measurement principles for an entity that holds a group of financial assets and financial liabilities with offsetting positions in market risks or counterparty credit risk that are managed on the basis of the entity’s net exposure to either of those risks. This exception allows the entity, if certain criteria are met, to measure the fair value of the net asset or liability position in a manner consistent with how market participants would price the net risk position; (4) Aligns the fair value measurement of instruments classified within an entity’s shareholders’ equity with the guidance for liabilities; and (5) Disclosure requirements have been enhanced for recurring Level 3 fair value measurements to disclose quantitative information about unobservable inputs and assumptions used, to describe the valuation processes used by the entity, and to describe the sensitivity of fair value measurements to changes in unobservable inputs and interrelationships between those inputs. In addition, entities must report the level in the fair value hierarchy of items that are not measured at fair value in the statement of condition but whose fair value must be disclosed. The provisions of ASU No. 2011-04 are effective for the Company’s interim reporting period beginning on or after December 15, 2011. The adoption of ASU No. 2011-04 is not expected to have a material impact on the Company’s statements of income and condition.

In June 2011, the FASB issued ASU No. 2011-05, "Comprehensive Income (Topic 220): Presentation of Comprehensive Income." The provisions of ASU No. 2011-05 allow an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. The statement(s) are required to be presented with equal prominence as the other primary financial statements. ASU No. 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of changes in shareholders' equity but does not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. The provisions of ASU No. 2011-05 are effective for the Company's interim reporting period beginning on or after December 15, 2011, with retrospective application required. The adoption of ASU No. 2011-05 is expected to result in presentation changes to the Company's statements of income and the addition of a statement of comprehensive income. The adoption of ASU No. 2011-05 will have no impact on the Company's statements of condition.

In September 2011, the FASB issued ASU No. 2011-08, "Intangibles-Goodwill and Other (Topic 350): Testing Goodwill for Impairment." The provisions of ASU No. 2011-08 permits an entity an option to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If an entity believes, as a result of its qualitative assessment, that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, the quantitative impairment test is required. Otherwise, no further impairment testing is required. ASU No. 2011-08 includes examples of events and circumstances that may indicate that a reporting unit's fair value is less than its carrying amount. The provisions of ASU No. 2011-08 are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted provided that the entity has not yet performed its annual impairment test for goodwill. The adoption of ASU No. 2011-08 is not expected to have a material impact on the Company's statements of income and condition.

In December 2011, the FASB issued ASU 2011-11, "Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities". ASU 2011-11 affects all entities that have financial instruments and derivative instruments that are either (1) offset in accordance with either Section 210-20-45 or Section 815-10-45 or (2) subject to an enforceable master netting arrangement or similar agreement. The requirements amend the disclosure requirements on offsetting in Section 210-20-50. This information is intended to enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements on an entity's financial position, including the effect or potential effect of rights of setoff associated with certain financial instruments and derivative instruments in the scope of this ASU. The amended guidance is effective for interim and annual periods beginning after January 1, 2013 and should be applied retrospectively to all periods presented. The Company does not expect the adoption of the disclosure requirements to have a material effect on its condensed consolidated financial statements.

Reclassifications –Certain amounts reflected in the 2010 and 2009 consolidated financial statements have been reclassified where practicable, to conform to the presentation for 2011. These classifications are of a normal recurring nature.

2. Regulatory Capital Requirements and Other Regulatory Matters

The Company and the Bank are subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Company's and the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of the Company's and the Bank's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Company's and the Bank's 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 capital in order to meet certain capital ratios to be considered adequately capitalized or well capitalized under the regulatory framework for prompt corrective action. As of the most recent formal notification from the Federal Reserve, the Bank was categorized as "well capitalized". There are no conditions or events since that notification that management believes have changed the Bank's categorization. As defined in applicable regulations and set forth in the table below, at December 31, 2011, the Bank continues to exceed the "well capitalized" standards for Tier I capital to adjusted tangible assets of 5.00%, Tier I risk-based capital to risk-weighted assets of 6.00% and total capital to risk-weighted assets of 10.00%.

The Company's and Bank's actual capital amounts and ratios are presented in the table below:

	Actual		Minimum Required for Capital Adequacy Purposes		Required to be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(dollars in thousands)			
At December 31, 2011						
Tier 1 Capital (to adjusted tangible assets)						
Bank	$ 88,793	9.44 %	$ 37,640	4.00 %	$ 47,050	5.00 %
Consolidated	89,396	9.50 %	37,630	4.00 %	N/A	N/A
Tier 1 Risk-Based Capital (to risk-weighted assets)						
Bank	88,793	11.68 %	30,408	4.00 %	45,611	6.00 %
Consolidated	89,396	11.69 %	30,590	4.00 %	N/A	N/A
Total Capital (to risk-weighted assets)						
Bank	97,378	12.81 %	60,815	8.00 %	76,019	10.00 %
Consolidated	97,918	12.80 %	61,180	8.00 %	N/A	N/A
At December 31, 2010						
Tier 1 Capital (to adjusted tangible assets)						
Bank	$ 82,784	10.29 %	$ 32,183	4.00 %	$ 40,229	5.00 %
Consolidated	83,712	10.41 %	32,176	4.00 %	N/A	N/A
Tier 1 Risk-Based Capital (to risk-weighted assets)						
Bank	82,784	14.12 %	23,450	4.00 %	35,174	6.00 %

Consolidated	83,712	14.16	%	23,643	4.00	%	N/A	N/A	
Total Capital (to risk-weighted assets)									
Bank	90,132	15.38	%	46,899	8.00	%	58,624	10.00	%
Consolidated	91,119	15.42	%	47,287	8.00	%	N/A	N/A	

3. Investment Securities

The amortized cost and estimated fair value of securities were as follows:

	December 31, 2011			
	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value
	(in thousands)			
Investment securities available for sale:				
U.S. Treasury	$ 147	$ 15	$ -	$ 162
Municipal bonds	23,354	788	(3)	24,139
Mortgage-backed securities	91,605			