BANC OF CALIFORNIA, INC.
Form 10-Q
August 09, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2013

or

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

For the transition period from ______ to ______

Commission file number 001-35522

BANC OF CALIFORNIA, INC.

(Exact name of registrant as specified in its charter)

Maryland

(State or other jurisdiction of

incorporation or organization)

04-3639825

(IRS Employer Identification No.)

18500 Von Karman Ave, Suite 1100, Irvine, California

(Address of principal executive offices)

92612

(Zip Code)

(949) 236-5211

(Registrant s telephone number, including area code)

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

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

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

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

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

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

As of July 31, 2013 the registrant had outstanding 17,437,784 shares of voting common stock and 579,490 shares of Class B non-voting common stock.

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BANC OF CALIFORNIA, INC.

Form 10-Q Quarterly Report

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

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

Factors that could cause actual results to differ materially from the results anticipated or projected include, but are not limited to, the following: (i) the occurrence of any event, change or other circumstances that could give rise to the termination of the agreement for the pending sale of certain branches to American West Bank (AWB); (ii) the inability to complete the pending sale of certain branches to AWB due to the failure to satisfy the conditions to completion; (iii) risks that the pending sale of certain branches to AWB, or the Company s recently completed acquisitions of Beach Business Bank, Gateway Bancorp and the Private Bank of California (PBOC), may disrupt current plans and operations, the potential difficulties in customer and employee retention as a result of the transactions and the amount of the costs, fees, expenses and charges related to the transactions; (iv) continuation or worsening of current recessionary conditions, as well as continued turmoil in the financial markets; (v) the credit risks of lending activities, which may be affected by further deterioration in real estate markets and the financial condition of borrowers, may lead to increased loan and lease delinquencies, losses and nonperforming assets in our loan portfolio, and may result in our allowance for loan and lease losses not being adequate to cover actual losses and require us to materially increase our loan and lease loss reserves; (vi) the quality and composition of our securities portfolio; (vii) changes in general economic conditions, either nationally or in our market areas; (viii) continuation of the historically low short-term interest rate environment, changes in the levels of general interest rates, and the relative differences between short- and long-term interest rates, deposit interest rates, our net interest margin and funding sources; (ix) fluctuations in the demand for loans and leases, the number of unsold homes and other properties and fluctuations in commercial and residential real estate values in our market area; (x) results of examinations of us by regulatory authorities and the possibility that any such regulatory authority may, among other things, require us to increase our allowance for loan and lease losses, write-down asset values, increase our capital levels, or affect our ability to borrow funds or maintain or increase deposits, which could adversely affect our liquidity and earnings; (xi) legislative or regulatory changes that adversely affect our business, including changes in regulatory capital or other rules; (xii) our ability to control operating costs and expenses; (xiii) staffing fluctuations in response to product demand or the implementation of corporate strategies that affect our work force and potential associated charges; (xiv) errors in our estimates in determining fair value of certain of our assets, which may result in significant declines in valuation; (xv) the network and computer systems on which we depend could fail or experience a security breach; (xvi) our ability to attract and retain key members of our senior management team; (xvii) costs and effects of litigation, including settlements and judgments; (xviii) increased competitive pressures among financial services companies; (xix) changes in consumer spending, borrowing and saving habits; (xx) adverse changes in the securities markets; (xxi) earthquake, fire or other natural disasters affecting the condition of real estate collateral; (xxii) the availability of resources to address changes in laws, rules or regulations or to respond to regulatory actions; (xxiii) inability of key third-party providers to perform their obligations to us; (xxiv) changes in accounting policies and practices, as may be adopted by the financial institution regulatory agencies or the Financial Accounting Standards Board or their application to our business, including additional guidance and interpretation on accounting issues and details of the implementation of new accounting methods; (xxv) war or terrorist activities; and (xxvi) other economic, competitive, governmental, regulatory, and technological factors affecting our operations, pricing, products and services and the other risks described in this report and from time to time in other documents that we file with or furnish to the SEC, including, without limitation, the risks described under Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2012. You should not place undue reliance on forward-looking statements, and we undertake no obligation to update any such statements to reflect circumstances or events that occur after the date on which the forward-looking statement is made.

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PART I FINANCIAL INFORMATION

ITEM 1 FINANCIAL STATEMENTS

Banc of California, Inc.

Consolidated Statements of Financial Condition

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

(Unaudited)

	June 30, 2013	December 31, 2012
ASSETS		
Cash and due from banks	$ 8,153	$ 8,254
Interest-bearing deposits	454,182	100,389
Total cash and cash equivalents	462,335	108,643
Time deposits in financial institutions	2,589	5,027
Securities available for sale, at fair value	106,751	121,419
Loans held for sale, carried at fair value	257,949	113,158
Loans and leases receivable, net of allowance of $16,979 at June 30, 2013 and $14,448 at December 31, 2012	1,597,367	1,234,023
Federal Home Loan Bank and other bank stock, at cost	10,838	8,842
Servicing rights, net ($4,620 measured at fair value at June 30, 2013 and $1,739 at December 31, 2012)	5,040	2,278
Accrued interest receivable	7,887	5,002
Other real estate owned (OREO), net	1,537	4,527
Premises, equipment, and capital leases, net	15,533	16,147
Premises and equipment held-for-sale	3,139	
Bank-owned life insurance	18,792	18,704
Deferred income tax, net	7,199	7,572
Goodwill	7,048	7,048
Income tax receivable	738	5,545
Other intangible assets, net	4,740	5,474
Other assets	25,632	19,293
Total assets	$ 2,535,114	$ 1,682,702
LIABILITIES AND STOCKHOLDERS EQUITY		
Deposits:		
Noninterest-bearing deposits	132,855	194,662
Interest-bearing deposits	1,519,948	1,111,680
Deposits held for sale	457,028	
Total deposits	2,109,831	1,306,342
Advances from Federal Home Loan Bank	45,000	75,000
Notes payable, net	82,127	81,935
Reserve for loss on repurchased loans	3,974	3,485
Accrued expenses and other liabilities	25,697	27,183
Total liabilities	2,266,629	1,493,945
Commitments and contingent liabilities		
SHAREHOLDERS EQUITY		
	31,934	31,934

Preferred stock, $.01 par value per share, $1,000 per share liquidation preference for a total of $32,000; 50,000,000 shares authorized, 32,000 shares issued and outstanding at June 30, 2013 and December 31, 2012		
Perpetual preferred stock, $.01 par value per share; Series C, 8% non-cumulative, $1,000 per share liquidation preference, 1,610,000 shares authorized and 1,400,000 and 0 shares outstanding at June 30, 2013 at December 31, 2012	33,734	
Common stock, $.01 par value per share, 196,863,844 shares authorized; 16,134,900 shares issued and 14,976,979 shares outstanding at June 30, 2013; 12,013,717 shares issued and 10,780,427 shares outstanding at December 31, 2012	162	120
Class B non-voting non-convertible Common stock, $.01 par value per share, 3,136,156 shares authorized; 574,258 shares issued and outstanding at June 30, 2013 and 1,112,188 shares issued and outstanding at December 31, 2012	5	11
Additional paid-in capital	197,272	154,563
Retained earnings	28,678	26,550
Treasury stock, at cost (1,157,921 shares at June 30, 2013 and 1,233,290 shares at December 31, 2012)	(24,088)	(25,818)
Accumulated other comprehensive income, net	788	1,397
Total shareholders equity	268,485	188,757
Total liabilities and shareholders equity	$ 2,535,114	$ 1,682,702

See accompanying notes to consolidated financial statements (Unaudited)

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Banc of California, Inc.

Consolidated Statements of Operations

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

(Unaudited)

	Three months ended June 30, 2013	Three months ended June 30, 2012	Six months ended June 30, 2013	Six months ended June 30, 2012
Interest and dividend income				
Loans, including fees	$ 26,153	$ 9,604	$ 44,690	$ 19,132
Securities	369	694	867	1,431
Dividends and other interest-earning assets	219	80	352	140
Total interest and dividend income	26,741	10,378	45,909	20,703
Interest expense				
Deposits	3,303	1,358	5,302	2,707
Federal Home Loan Bank advances	58	92	121	192
Capital leases	20	2	32	2
Notes payable	1,735	495	3,470	495
Total interest expense	5,116	1,947	8,925	3,396
Net interest income	21,625	8,431	36,984	17,307
Provision for loan and lease losses	1,918	279	4,086	970
Net interest income after provision for loan and lease losses	19,707	8,152	32,898	16,337
Noninterest income				
Customer service fees	509	378	1,055	739
Loan servicing income	458		646	
Income from bank owned life insurance	50	60	88	129
Net gain (loss) on sales of securities available for sale	1	(32)	309	(71)
Net gain on sale of loans	3,724	145	4,036	145
Net gain on mortgage banking activities	20,261		36,631	
Other income	1,069	88	1,235	200
Total noninterest income	26,072	639	44,000	1,142
Noninterest expense				
Salaries and employee benefits	25,311	5,177	44,391	10,044
Occupancy and equipment	3,630	1,321	6,823	2,320
Professional fees	2,947	987	5,244	1,530
Data processing	1,365	502	2,275	909
Advertising	890	214	1,412	453
Regulatory assessments	211	362	592	680
Loan servicing and foreclosure expense	148	367	352	705
Operating loss on equity investment	131	77	290	153
Valuation allowance for OREO		155	79	169
Net gain on sales of other real estate owned	(37)	(192)	(151)	(508)
Provision for loan repurchases	732		988	
Amortization of intangible assets	367		734	
All other expense	3,899	973	6,123	1,706

Total noninterest expense	39,594	9,943	69,152	18,161
Income (loss) before income taxes	6,185	(1,152)	7,746	(682)
Income tax expense (benefit)	1,822	(413)	2,454	(320)
Net income (loss)	**$ 4,363**	**$ (739)**	**$ 5,292**	**$ (362)**
Preferred stock dividends and discount accretion		314	288	714
Net income (loss) available to common shareholders	**$ 4,363**	**$ (1,053)**	**$ 5,004**	**$ (1,076)**
Basic earnings (loss) per common share	$ 0.36	$ (0.09)	$ 0.41	$ (0.09)
Diluted earnings (loss) per common share	$ 0.36	$ (0.09)	$ 0.41	$ (0.09)
Basic earnings (loss) per class B common share	$ 0.36	$ (0.09)	$ 0.41	$ (0.09)
Diluted earnings (loss) per class B common share	$ 0.36	$ (0.09)	$ 0.41	$ (0.09)

See accompanying notes to consolidated financial statements (Unaudited)

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Banc of California, Inc.

Consolidated Statements of Comprehensive Income/(loss)

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

(Unaudited)

	Three months ended June 30, 2013	Three months ended June 30, 2012	Six months ended June 30, 2013	Six months ended June 30, 2012
Net income (loss)	$ 4,363	$ (739)	$ 5,292	$ (362)
Other comprehensive income (loss), before tax:				
Change in net unrealized gains (losses) on securities:				
Unrealized holding gains (losses) arising during the period, net of tax (expense) benefit of $0 and $210 for the three months ended $0 and $551 for the six months ended June 30, 2013 and 2012, respectively	(400)	299	(300)	787
Less: reclassification adjustment for (gains) losses included in net income, net of tax (expense) benefit of $0 and $13 for the three months ended and $0 and $29 for the six months ended June 30, 2013 and 2012, respectively	(1)	19	(309)	42
Total other comprehensive (loss) income, net of tax	$ (401)	$ 318	$ (609)	$ 829
Comprehensive income (loss)	**$ 3,962**	**$ (421)**	**$ 4,683**	**$ 467**

See accompanying notes to consolidated financial statements (Unaudited)

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Banc of California, Inc.

Consolidated Statements of Shareholders Equity

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

(Unaudited)

	Preferred Stock	Perpetual Preferred Stock	Common Stock	Class B Non-voting Non-convertible Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 1, 2012	$ 31,934	$	$ 117	$ 11	$ 150,786	$ 27,623	$ (25,037)	$ (939)	$ 184,495
Comprehensive income (loss):									
Net loss						(362)			(362)
Other comprehensive income, net								829	829
Forfeiture and retirement of 200 shares of common stock					3		(3)		
Stock option compensation expense					427				427
Restricted stock compensation expense					104				104
Issuance of 5,000 stock awards					(106)		106		
Purchase of 228 shares of treasury stock							(73)		(73)
Dividends declared ($0.24 per common share)			1		421	(2,801)			(2,379)
Preferred stock issuance cost	(9)								(9)
Preferred stock dividends						(714)			(714)
Tax loss of restricted share awards vesting					(17)				(17)
Capital raising expenses					(6)				(6)
Balance at June 30, 2012	$ 31,925	$	$ 118	$ 11	$ 151,612	$ 23,746	$ (25,007)	$ (110)	$ 182,295
Balance at January 1, 2013	$ 31,934	$	$ 120	$ 11	$ 154,563	$ 26,550	$ (25,818)	$ 1,397	$ 188,757
Net income						5,292			5,292
Other comprehensive income, net								(609)	(609)
Issuance of common stock			42	(6)	43,450				43,486
Issuance of preferred stock		33,734							33,734
Purchase of 6,216 shares of treasury stock							(69)		(69)
Issuance of stock awards from treasury stock					(1,799)		1,799		
Shares purchased under the Dividend Reinvestment Plan					186	(186)			
Stock option compensation expense					215				215
Restricted stock compensation expense					657				657
Dividends declared ($0.24 per common share)						(2,690)			(2,690)
Preferred stock dividends						(288)			(288)
Balance at June 30, 2013	$ 31,934	$ 33,734	$ 162	$ 5	$ 197,272	$ 28,678	$ (24,088)	$ 788	$ 268,485

See accompanying notes to consolidated financial statements (Unaudited)

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Banc of California, Inc.

Consolidated Statements of Cash Flows

(In thousands of dollars)

(Unaudited)

	Six months ended June 30, 2013	Six months ended June 30, 2012
Cash flows from operating activities:		
Net income (loss)	$ 5,292	$ (362)
Adjustments to reconcile net income (loss) to net cash from operating activities		
Provision for loan losses	4,086	970
Provision for loan repurchases	988	
Net gain on mortgage banking activities	(36,631)	
Gain on sale of loans	(4,036)	
Net amortization (accretion) of securities	576	433
Depreciation	1,510	535
Amortization of intangibles	734	
Amortization of debt	192	34
Stock option compensation expense	215	427
Restricted stock compensation expense	657	104
Stock appreciation right expense	298	
Bank owned life insurance income	(88)	(129)
Operating loss on equity investment	290	153
Net (gain) loss on sale of securities available for sale	(309)	71
Gain on sale of other real estate owned	(151)	(508)
Gain on sale of property and equipment	(2)	
Deferred income tax expense		517
Increase in valuation allowances on other real estate owned	79	169
Originations of loans held for sale	(867,640)	
Proceeds from sales of loans held for sale	752,478	
Deferred loan (costs) fees	(399)	355
Premiums and discounts on purchased loans	(8,001)	(425)
Accrued interest receivable	(2,885)	(146)
Other assets	8,710	8,074
Accrued interest payable and other liabilities	863	(1,023)
Net cash from operating activities	(143,174)	9,249
Cash flows from investing activities:		
Proceeds from sales of securities available-for-sale	8,539	5,682
Proceeds from maturities, calls, principal repayments of securities available-for-sale	53,897	21,932
Purchases of securities available-for-sale	(48,626)	(42,229)
Purchases of equity investment		(375)
Loan originations and principal collections, net	(144,707)	(65,714)
Purchase of loans	(374,878)	(22,385)
Redemption of Federal Home Loan Bank stock	25	661
Purchase of Federal Home Loan Bank and Other Bank Stocks	(2,021)	
Net change in other interest-bearing deposits	2,438	
Proceeds from sale of loans held for investment	155,209	22,947
Proceeds from sale of other real estate owned	3,474	7,015
Additions to premises and equipment	(4,033)	(3,092)

Payment of capital lease obligations	(113)	(10)
Net cash from investing activities	(350,796)	(75,568)
Cash flows from financing activities:		
Net increase in deposits	803,489	65,997
Repayments of Federal Home Loan Bank advances	(55,000)	(20,000)
Proceeds from Federal Home Loan Bank advances	25,000	35,000
SBLF expense		(7)
Net proceeds from issuance of common stock	43,486	
Net proceeds from issuance of preferred stock	33,734	
Net proceeds from issuance of long term debt		31,680
Purchase of treasury stock	(69)	(82)
Tax benefit (expenses) from restricted stock vesting		(17)
Dividends paid on preferred stock	(288)	(714)
Dividends paid on common stock	(2,690)	(1,186)
Net cash from financing activities	847,662	110,671
Net change in cash and cash equivalents	353,692	44,352
Cash and cash equivalents at beginning of year	108,643	44,475
Cash and cash equivalents at end of year	**$ 462,335**	**$ 88,827**
Supplemental cash flow information		
Interest paid on deposits and borrowed funds	$ 8,893	$ 3,380
Income taxes paid		
Income tax refunds received	2,305	
Supplemental disclosure of noncash activities		
Transfer from loans to other real estate owned, net		3,614
Equipment acquired under capital leases	714	179
Transfer of loans receivable to loans held for sale	10,358	

See accompanying notes to consolidated financial statements (Unaudited)

BANC OF CALIFORNIA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(UNAUDITED)*

June 30, 2013

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation: The accompanying unaudited consolidated financial statements include the accounts of Banc of California, Inc. (the Company) and its wholly owned subsidiaries, Pacific Trust Bank (PacTrust Bank), Beach Business Bank (Beach, and together with PacTrust Bank, the Banks) and PTB Property Holdings, LLC, as of June 30, 2013 and December 31, 2012 and for the six months ended June 30, 2013 and 2012, except that the accounts of Beach Business Bank were not included for amounts prior to July 1, 2012. Significant intercompany accounts and transactions have been eliminated in consolidation. Unless the context requires otherwise, all references to the Company include its wholly owned subsidiaries. As discussed in Note 19, on July 1, 2013, the Company completed its acquisition of The Private Bank of California, a California-chartered bank (PBOC), through the merger of PBOC with and into Beach, with Beach surviving the merger and changing its name to The Private Bank of California .

Nature of Operations: The principal business of the Company is the ownership of the Banks. PacTrust Bank is a federally chartered stock savings bank and Beach is a California state chartered commercial bank. The Banks are members of the Federal Home Loan Bank (FHLB) system, and maintain insurance on deposit accounts with the Federal Deposit Insurance Corporation (FDIC). PTB Property Holdings, LLC manages and disposes of other real estate owned properties.

The Banks are engaged in the business of retail banking, with operations conducted through 19 banking offices serving San Diego, Los Angeles, Orange and Riverside counties, California and forth-two loan production offices in California, Arizona, Oregon, , Washington and Montana. As of June 30, 2013, single family residential (SFR) loans and Green loans, SFR mortgage lines of credit, accounted for approximately 51.1 percent and 10.9 percent, respectively, of the Company s loan and lease portfolio, with a high percentage of such loans concentrated in Southern California. The customer s ability to repay their loans or leases is dependent on the real estate market and general economic conditions in the area.

The accounting and reporting polices of the Company are based upon U.S. generally accepted accounting principles (GAAP) and conform to predominant practices within the banking industry. The Company has not made any significant changes in its critical accounting policies or in its estimates and assumptions from those disclosed in its 2012 Annual Report on Form 10-K other than the adoption of new accounting pronouncements and other authoritative guidance that became effective for the Company on or after January 1, 2013. Refer to *Accounting Pronouncements* for discussion of accounting pronouncements adopted in 2013.

Basis of Presentation: The accompanying unaudited interim consolidated financial statements have been prepared pursuant to the rules and regulations for reporting on Form 10-Q. Accordingly, certain disclosures required by GAAP are not included herein. These interim statements should be read in conjunction with the consolidated financial statements and notes included in the Annual Report on Form 10-K for the year ended December 31, 2012 filed by the Company with the Securities and Exchange Commission. The December 31, 2012 balance sheet presented herein has been derived from the audited financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2012 filed with the Securities and Exchange Commission, but does not include all of the disclosures required by GAAP.

In the opinion of management of the Company, the accompanying unaudited interim consolidated financial statements reflect all of the adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the consolidated financial position and consolidated results of operations for the periods presented. Certain reclassifications have been made in the prior period financial statements to conform to the current period presentation.

The results of operations for the three and six months ended June 30, 2013 are not necessarily indicative of the results to be expected for the full year.

Use of Estimates in the Preparation of Financial Statements: The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and disclosures provided, and actual results could differ. The allowance for loan and lease losses, reserve for loss on repurchased loans, servicing rights, other real estate owned, realization of deferred tax assets, goodwill, other intangible assets, mortgage banking derivatives, fair value of assets and liabilities acquired in business combinations, fair value estimate of private label residential mortgage-backed securities, and the fair value of financial instruments are particularly subject to change and such change could have a material effect on the consolidated financial statements.

Income Taxes: Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized. The Company had $8.0 million and $8.4 million of valuation allowance related to its deferred tax assets at June 30, 2013 and December 31, 2012 (See further discussion in Note 11, Income Taxes).

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Accounting Pronouncements: During the six months ended June 30, 2013, the following pronouncements applicable to the company were issued or became effective:

In January 2013, the FASB issued ASU 2013-01, *Balance Sheet (Topic 210), Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities* (ASU 2013-01). ASU 2013-01 clarifies that ordinary trade receivables and other receivables are not in the scope of ASU 2011-11, *Balance Sheet (Topic 210), Disclosures about Offsetting Assets and Liabilities (2011- 11).* Specifically, ASU 2011-11 applies only to derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with specific criteria contained in the ASC or subject to a master netting arrangement or similar agreement. The amendments in ASU 2013-01 are effective for fiscal years beginning on or after January 1, 2013, and interim periods within those annual periods. Adoption of the new guidance is not expected to have a significant impact on the Company s consolidated financial statements.

In February 2013, the FASB issued ASU 2013-02, *Other Comprehensive Income (Topic 220), Reporting of Amounts Reclassified out of Other Comprehensive Income* (ASU 2013-02). The provisions in the ASU supersede and replace the presentation requirements for reclassifications out of accumulated other comprehensive income (AOCI) in ASUs 2011-05 and 2011-12. ASU 2013-02 requires entities to disclose additional information about reclassification adjustments, including (1) changes in AOCI balances by component and (2) significant items reclassified out of AOCI. The new disclosure requirements are effective for fiscal years, and interim periods within those years, beginning after December 15, 2012. Adoption of the new guidance did not have a significant impact on the Company s consolidated financial statements.

NOTE 2 BUSINESS COMBINATIONS AND BRANCH SALES

Beach Business Bank Merger

Effective July 1, 2012, the Company acquired Beach Business Bank pursuant to the terms of the Agreement and Plan of Merger (the Merger Agreement) dated August 30, 2011, as amended October 31, 2011. At the effective time of the transaction, a newly formed and wholly owned subsidiary of the Company (Merger Sub) merged with and into Beach (the Merger), with Beach continuing as the surviving entity in the Merger and a wholly owned subsidiary of the Company. Pursuant and subject to the terms of the Merger Agreement, each outstanding share of Beach common stock (other than specified shares owned by the Company, Merger Sub or Beach, and other than in the case of shares in respect of, or underlying, certain Beach options and other equity awards, which were treated as set forth in the Merger Agreement) was converted into the right to receive $9.21415 in cash and one warrant. Each warrant entitled the holder to purchase 0.33 of a share of Company common stock at an exercise price of $14.00 per share for a period of one year. All of the warrants expired on June 30, 2013 without being exercised. The aggregate cash consideration paid to Beach shareholders in the Merger was approximately $39.1 million. In addition, Beach shareholders received in aggregate warrants to purchase the equivalent of 1,401,959 shares of the Company s common stock with an estimated fair value of $1.0 million.

Beach (re-named The Private Bank of California effective July 1, 2013) operates branches in Manhattan Beach, Long Beach, and Costa Mesa, California. Beach also has a division named The Doctors Bank®, which serves physicians and dentists nationwide. Additionally, Beach provides loans to small businesses based on Small Business Administration (SBA) lending programs. Beach s consolidated assets and equity (unaudited) as of June 30, 2012 totaled $311.9 million and $33.3 million, respectively. The acquired assets and liabilities were recorded at fair value at the date of acquisition and were reflected in the Company s consolidated June 30, 2013 and December 31, 2012 financial statements as such.

In accordance with GAAP guidance for business combinations, the Company recorded $7.0 million of goodwill and $4.5 million of other intangible assets during the year ended December 31, 2012. The other intangible assets are primarily related to core deposits and are being amortized on an accelerated basis over 2 7 years. For tax purposes purchase accounting adjustments, including goodwill are all non-taxable and/or non-deductible.

The unique market opportunity that was created with the acquisition is that it creates for our Company the opportunity to leverage Beach s branch network, SBA lending platform, the Doctors Bank product offerings and other programs that can be deployed throughout our market which we expect will help augment our customer base. This acquisition was consistent with the Company s strategy to build a regional presence in Southern California. The acquisition offers the Company the opportunity to increase profitability by introducing existing products and services to the acquired customer base as well as acquire new customers in the expanded region.

Gateway Bancorp Acquisition

Effective August 18, 2012, the Company acquired Gateway Bancorp, the holding company of Gateway Business Bank (Gateway) pursuant to the terms of the Stock Purchase Agreement (the Purchase Agreement) dated June 3, 2011, as amended on November 28, 2011, February 24, 2012, June 30, 2012, and July 31, 2012. The acquisition was accomplished by the Company s purchase of all of the outstanding stock of Gateway Bancorp, followed by the merger of Gateway into PacTrust Bank. Under the terms of the Purchase Agreement, the Company purchased all of the issued and outstanding shares of Gateway Bancorp for $15.4 million in cash.

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Gateway operated branches in Lakewood and Laguna Hills, California. As part of the acquisition, Mission Hills Mortgage Bankers (MHMB, a division of Gateway), including its 22 loan production offices in California, Arizona, Oregon and Washington, became a division of PacTrust Bank. Gateway s consolidated assets and equity (unaudited) as of August 17, 2012 totaled $175.5 million and $25.8 million, respectively. The acquired assets and liabilities were recorded at fair value at the date of acquisition and were reflected in the June 30, 2013 and December 31, 2012 consolidated financial statements as such.

In accordance with GAAP guidance for business combinations, the Company recorded $11.6 million of bargain purchase gain and $1.7 million of other intangible assets during the year ended December 31, 2012. The other intangible assets are related to $720 thousand of core deposits, which are being amortized on an accelerated basis over 4 6 years, and $955 thousand of trade name intangible which is being amortized over 20 years. For tax purposes the purchase accounting adjustments and bargain purchase gain are non-taxable and/or non-deductible. Due to circumstances that Gateway faced at the time the acquisition was negotiated, which include regulatory orders and operating losses, the terms negotiated included a purchase price that was $5 million lower than Gateway Bancorp s equity book value. The discount was further increased to $6.5 million in exchange for the elimination of any contingent liability to the shareholder of Gateway Bancorp related to mortgage repurchase risk. Due to delays in obtaining regulatory approval, the deal closed nine months later than originally planned. This passage of time allowed Gateway to eliminate all regulatory orders, return to profitability, improve asset quality, and increase the book value of equity by reducing the expected discount on assets. As a result, a bargain purchase gain of $11.6 million resulted at the time of purchase.

This acquisition was consistent with the Company s strategy to build a regional presence in Southern California. The acquisition offers the Company the opportunity to increase profitability by introducing existing products and services to the acquired customer base as well as add new customers in the expanded region.

Pro Forma Information

The following table presents unaudited pro forma information as if the acquisitions had occurred on January 1, 2012 after giving effect to certain adjustments. The unaudited pro forma information for the three and six months ended June 30, 2013 and 2012 includes adjustments for interest income on loans and securities acquired, amortization of intangibles arising from the transaction, interest expense on deposits and borrowings acquired, and the related income tax effects. The unaudited pro forma financial information is not necessarily indicative of the results of operations that would have occurred had the transaction been effected on the assumed date.

	Pro Forma			
	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2013	**2012**	**2013**	**2012**
	(In thousands, except per share data)			
SUMMARIZED INCOME STATEMENT DATA (unaudited):				
Net interest income	$ 21,625	$ 13,343	$ 36,984	$ 27,173
Provision for loan and lease losses	1,918	929	4,086	1,820
Non-interest income	26,072	12,369	44,000	22,229
Non-interest expense	39,594	24,143	69,152	45,706
Income before income taxes	6,185	640	7,746	1,876
Income tax expense	1,822	340	2,454	754
Net income	$ 4,363	$ 300	$ 5,292	$ 1,122
Basic earning per share	$ 0.36	$ 0.03	$ 0.41	$ 0.10
Diluted earnings per share	$ 0.36	$ 0.03	$ 0.41	$ 0.10

Excluded from the above pro forma financials is a gain of $11.6 million related to the bargain purchase gain for the Gateway acquisition.

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Private Bank of California Acquisition

On August 21, 2012, the Company and Beach entered into a definitive agreement to acquire all the outstanding stock of PBOC and to merge PBOC with and into Beach. At June 30, 2013, PBOC had total assets of $655.5 million, total loans, net of allowance for loan losses, of $388.7 million and total deposits of $561.5 million (unaudited). PBOC provides a range of financial services, including credit and deposit products as well as cash management services, from its headquarters located in the Century City area of Los Angeles, California as well as a full-service branch in Hollywood and loan production offices in downtown Los Angeles and Irvine. PBOC s target clients include high-net worth and high income individuals, business professionals and their professional service firms, business owners, entertainment service businesses and non-profit organizations.

The Company completed the acquisition of PBOC on July 1, 2013 (See further discussion in Note 19, Subsequent Events). The acquisition will be accounted for under the acquisition method of accounting.

Branch Sales

On May 31, 2013, PacTrust Bank entered into a definitive agreement with AmericanWest Bank, a Washington state chartered bank (AWB), pursuant to which PacTrust Bank has agreed to sell eight branches and related assets and deposit liabilities to AWB. The transaction will result in the transfer of deposits to AWB in exchange for a deposit premium of 2.3% applied to certain deposit balances transferred at closing. The deposits to be transferred totaled approximately $457.0 million as of June 30, 2013. Certain other assets related to the branches will be acquired as a part of the transaction including the sale of the real estate for three of the branch locations and certain overdraft and other credit facilities related to the deposit accounts. These deposits and retail branch assets have been classified as held-for-sale in the Consolidated Statements of Financial Condition as of June 30, 2013.

NOTE 3 FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

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

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

Securities Available for Sale. The fair values of securities available for sale are generally determined by quoted market prices, if available (Level 1), or by matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities relationship to other benchmark quoted securities (Level 2). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3). The fair values of the Company s Level 3 securities are determined by the Company and an independent third-party provider using a discounted cash flow methodology. The methodology uses discount rates that are based upon observed market yields for similar securities. Prepayment speeds are estimated based upon the prepayment history of each bond and a detailed analysis of the underlying collateral. Gross weighted average coupon, geographic concentrations, loan to value, FICO and seasoning are among the different loan attributes that are factored into our prepayment curve. Default rates and severity are estimated based upon geography of the collateral, delinquency, modifications, loan to value ratios, FICO scores, and past performance.

Impaired Loans and Leases. The fair value of impaired loans and leases with specific allocations of the allowance for loan and lease losses based on collateral values is generally based on recent real estate appraisals (Level 2). These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are typically significant and result in a Level 3 classification of the inputs for determining fair value. The impaired loans categorized as Level 3 also include unsecured and other secured loans whose fair value based on significantly unobservable inputs such as strength of guarantees, cash flows discounted at the effective loan rate, and management s judgement.

Loans Held for Sale. The fair value of loans held for sale is based on commitments outstanding from investors as well as what secondary markets are currently offering for portfolios with similar characteristics. Therefore, loans held for sale subjected to recurring fair value adjustments are classified as Level 2.

Derivative Assets and Liabilities. The Company s derivative assets and liabilities are carried at fair value as required by GAAP and are accounted for as freestanding derivatives. The derivative assets are interest rate lock commitments (IRLCs) with prospective residential mortgage borrowers whereby the interest rate on the loan is locked by borrower prior to funding. These IRLCs are determined to be derivative instruments in accordance with GAAP. The derivative liabilities are hedging instruments typically mortgage-backed to-be-announced (TBA securities) used to hedge the risk of fair value changes affected by interest rates changes relating to the Company s mortgage banking operations. The Company hedges the period from the interest rate lock (assuming a fall-out factor) to the date of the loan sale. The estimated fair value is based on current market prices for similar instruments. Given the meaningful level of secondary market activity for derivative contracts, active pricing is available for similar assets and accordingly, the Company classifies its derivative assets and liabilities as Level 2.

Servicing Rights Mortgage. The Company retains servicing on some of its mortgage loans sold and has elected the fair value option for valuation of these mortgage servicing rights. The value is based on a third party model that calculates the present value of the expected net servicing income from the portfolio based on key factors that include interest rates, prepayment assumptions, discount rate and estimated cash flows. Because of the significance of unobservable inputs, these servicing rights are classified as Level 3.

I/O Strips Receivable. The fair value is determined by discounting future cash flows using discount rates and prepayment assumptions that market participants would use for similar financial instruments. Because of the significance of unobservable inputs, the I/O strips receivable are classified as Level 3.

Other Real Estate Owned Assets (OREO). OREO are recorded at the fair value less estimated costs to sell at the time of foreclosure. The fair value of other real estate owned assets is generally based on recent real estate appraisals adjusted for estimated selling costs. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are typically significant and result in a Level 3 classification of the inputs for determining fair value. Only OREO with a valuation allowance are considered to be carried at fair value. For the six months ended June 30, 2013 and 2012, the Company experienced $79 thousand and $169 thousand in valuation allowance expense for those assets, respectively.

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Assets and Liabilities Measured on a Recurring and Non-Recurring Basis

Available-for-sale securities, loans held for sale, derivative assets and liabilities, and mortgage servicing rights are measured at fair value on a recurring basis, whereas impaired loans and leases and other real estate owned are measured at fair value on a non-recurring basis.

The following table sets forth the Company s financial assets and liabilities measured at fair value on a recurring basis as of the dates indicated:

		Fair Value Measurements Level		
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level One)	Significant Other Observable Inputs (Level Two)	Significant Unobservable Inputs (Level Three)
		(In thousands)		
June 30, 2013:				
Assets				
Available-for-sale securities:				
U.S. government-sponsored entities and agency securities	$ 1,000	$	$ 1,000	$
Private label residential mortgage-backed securities	29,764		28,058	1,706
Agency mortgage-backed securities	75,987		75,987	
Loans held for sale	257,949		257,949	
Derivative assets (1)	13,879		13,879	
Mortgage servicing rights (2)	4,620			4,620
Liabilities				
Derivative liabilities (3)	477		477	
December 31, 2012:				
Assets				
Available-for-sale securities:				
U.S. government-sponsored entities and agency securities	$ 2,710	$	$ 2,710	$
State and Municipal securities	9,944		9,944	
Private label residential mortgage-backed securities	41,846		39,632	2,214
Agency mortgage-backed securities	66,919		66,919	
Loans held for sale	113,158		113,158	
Derivative assets (1)	2,890		2,890	
Mortgage servicing rights (2)	1,739			1,739
Liabilities				
Derivative liabilities (3)	988		988	

(1) *Included in other assets on the consolidated statements of financial condition*
(2) *Included in servicing rights, net on the consolidated statements of financial condition*
(3) *Included in accrued expenses and other liabilities on the consolidated statements of financial condition*

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The following table sets forth the Company s financial assets and liabilities measured at fair value on a non recurring basis as of the dates indicated:

		Fair Value Measurements Level		
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level One)	Significant Other Observable Inputs (Level Two)	Significant Unobservable Inputs (Level Three)
		(In thousands)		
June 30, 2013:				
Assets				
Impaired loans:				
Real estate 1-4 family first mortgage	11,248		4,290	6,958
Multi-family	2,048			2,048
HELOC s, home equity loans, and other consumer installment credit	1,055		635	420
Real estate mortgage	725			725
SBA	13			13
Other real estate owned assets:				
Real estate 1-4 family first mortgage	109			109
Land	1,428			1,428
December 31, 2012:				
Assets				
Impaired loans:				
Real estate 1-4 family first mortgage	$ 21,778	$	$ 3,041	$ 18,737
Multi-family	5,442			5,442
Real estate mortgage	2,531		829	1,702
HELOC s, home equity loans, and other consumer installment credit	3			3
Other real estate owned assets:				
Real estate 1-4 family first mortgage	118			118
Land	3,889			3,889

There were $4.0 million and no impaired loans and leases with specific allowances tested for impairment using the fair value of the collateral for collateral dependent loans at June 30, 2013 and December 31, 2012, respectively.

Other real estate owned measured at fair value less costs to sell, had a net carrying value of $1.5 million, which was comprised of the outstanding balance of $1.6 million, net of a valuation allowance of $42 thousand at June 30, 2013. At December 31, 2012, real estate owned had a net carrying value of $4.5 million, which is made up of the outstanding balance of $6.6 million, net of a valuation allowance of $2.1 million.

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The tables below present a reconciliation of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the six months ended June 30, 2013:

	Private label residential mortgage-backed securities	Mortgage Servicing Rights	Total
		(In thousands)	
Balance of recurring Level 3 securities at January 1, 2013	$ 2,214	$ 1,739	$ 3,953
Transfers out of Level 3			
Total gains or losses (realized/unrealized):			
Included in earnings realized			
Included in earnings fair value adjustment		330	330
Included in other comprehensive income	3		3
Amortization of premium (discount)			
Additions		2,762	2,762
Sales, issuances and settlements	(511)	(211)	(722)
Balance of recurring Level 3 securities at June 30, 2013	$ 1,706	$ 4,620	$ 6,326

The table below presents a reconciliation of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the six months ended June 30, 2012:

	Private label residential mortgage-backed securities
	(In thousands)
Balance of recurring Level 3 securities at January 1, 2012	$ 91,862
Transfers out of Level 3	
Total gains or losses (realized/unrealized):	
Included in earnings realized	(71)
Included in earnings unrealized	
Included in other comprehensive income	1,373
Amortization of premium (discount)	(438)
Purchases	41,031
Sales, issuances and settlements	(23,615)
Balance of recurring Level 3 securities at June 30, 2012	$ 110,142

The following table presents quantitative information about Level 3 fair value measurements on a recurring basis as of the dates indicated:

	Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range (Weighted Average)
			($ in thousands)	
June 30, 2013:				
Private label residential mortgage backed securities	$ 1,706	Discounted cash flow	Voluntary prepayment rate	1.37% to 4.92% (3.15%)
			Collateral default rate	6.23% to 6.26% (6.25%)
			Loss severity at default	55%
Mortage servicing rights	4,620	Discounted cash flow	Discount rate	10.5% to 17.9% (10.6%)
			Prepayment rate	6.1% to 36.1% (9.0%)

December 31, 2012:

Private label residential mortgage backed securities	$ 2,214	Discounted cash flow	Voluntary prepayment rate	3.15% to 8.00% (5.80%)
			Collateral default rate	8.46% to 8.56% (8.5%)
			Loss severity at default	55%
Mortage servicing rights	1,739	Discounted cash flow	Discount rate	10.5% to 11.5% (10.5%)
			Prepayment rate	4.3% to 35.3% (13.8%)

The significant unobservable inputs used in the fair value measurement of the Company s private label and agency residential mortgage backed securities are prepayment rates, collateral default rates, and loss severity in the event of default. Significant increases

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(decreases) in any of those inputs in isolation would result in a significantly lower (higher) fair value measurement. Generally, a change in the assumption used for the collateral default rates is accompanied by a directionally similar change in the assumption used for the loss severity and a directionally opposite change in the assumption used for prepayment rates.

The significant unobservable inputs used in the fair value measurement of the Company s mortgage servicing rights include the discount rate and estimated cash flows. There may be inherent weaknesses in any calculation technique, and changes in the underlying assumptions used, including discount rates and estimates of future cash flows, could significantly affect the results.

The carrying amounts and estimated fair values of financial instruments as of June 30, 2013 and December 31, 2012 were as follows:

	Carrying Amount	Fair Value Measurements Level			
		Level 1	Level 2	Level 3	Total
			(In thousands)		
June 30, 2013:					
Financial assets					
Cash and cash equivalents	$ 462,335	$ 462,335	$	$	$ 462,335
Time deposits in financial institutions	2,589	2,589			2,589
Securities available-for-sale	106,751		105,045	1,706	106,751
FHLB stock	10,838		10,838		10,838
Loans and leases receivable, net, excluding loans held for sale	1,597,367			1,622,130	1,622,130
Loans held for sale	257,949		257,949		257,949
Accrued interest receivable	7,887	31	5	7,851	7,887
Derivative assets	13,879		13,879		13,879
Mortgage servicing rights	5,040			5,040	5,040
Financial liabilities					
Deposits	2,109,831		2,092,223		2,092,223
Advances from the FHLB	45,000		45,093		45,093
Notes payable	82,127	85,631			85,631
Derivative liabilities	477		477		477
Accrued interest payable	1,671	1,338	333		1,671
December 31, 2012:					
Financial assets					
Cash and cash equivalents	$ 108,643	$ 108,643	$	$	$ 108,643
Time deposits in financial institutions	5,027	5,027			5,027
Securities available-for-sale	121,419		119,205	2,214	121,419
FHLB stock	8,842		8,842		8,842
Loans and leases receivable, net, excluding loans held for sale	1,234,023			1,267,292	1,267,292
Loans held for sale	113,158		113,158		113,158
Accrued interest receivable	5,002	7	50	4,945	5,002
Derivative assets	2,890		2,890		2,890
Mortgage servicing rights	2,278			2,278	2,278
Financial liabilities					
Deposits	1,306,342		1,305,884		1,305,884
Advances from the FHLB	75,000		75,166		75,166
Notes payable	81,935	86,106			86,106
Derivative liabilities	988		988		988
Accrued interest payable	1,639	1,335	304		1,639

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

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

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NOTE 4 SECURITIES AVAILABLE FOR SALE

The following tables summarize the amortized cost and fair value of the available-for-sale investment securities portfolio at June 30, 2013 and December 31, 2012, respectively, and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income (loss):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In thousands)		
June 30, 2013:				
Available-for-sale				
U.S. government-sponsored entities and agency securities	$ 1,000	$	$	$ 1,000
Private label residential mortgage-backed securities	29,563	300	(99)	29,764
Agency mortgage-backed securities	76,042	192	(247)	75,987
Total securities available for sale	$ 106,605	$ 492	$ (346)	$ 106,751
December 31, 2012:				
Available-for-sale				
U.S. government-sponsored entities and agency securities	$ 2,706	$ 4	$	$ 2,710
State and Municipal securities	9,660	284		9,944
Private label residential mortgage-backed securities	41,499	475	(128)	41,846
Agency mortgage-backed securities	66,818	335	(234)	66,919
Total securities available for sale	$ 120,683	$ 1,098	$ (362)	$ 121,419

The Company recorded no other-than-temporary impairment (OTTI) for securities available for sale at June 30, 2013 or December 31, 2012.

The amortized cost and fair value of the available-for-sale securities portfolio are shown below by expected maturity. In the case of residential mortgage-backed securities, expected maturities may differ from contractual maturities because borrowers generally have the right to call or prepay obligations with or without call or prepayment penalties. For that reason, mortgage-backed securities are not included in the maturity categories.

	June 30, 2013	
	Amortized Cost	Fair Value
	(In thousands)	
Maturity		
Available-for-sale		
Within one year	$ 1,000	$ 1,000
One to five years		
Five to ten years		
Greater than ten years		
Private label residential mortgage backed and FNMA mortgage-backed securities	105,605	105,751
	$ 106,605	$ 106,751

At June 30, 2013 and December 31, 2012, there were no holdings of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10 percent of shareholders equity.

The following table summarizes the investment securities with unrealized losses at June 30, 2013 and December 31, 2012, respectively, by aggregated major security type and length of time in a continuous unrealized loss position:

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(In thousands)			
June 30, 2013:						
Available-for-sale						
Private label residential mortgage-backed securities	$ 7,318	$ (42)	$ 6,281	$ (57)	$ 13,599	$ (99)
Agency residential mortgage-backed securities	28,645	(209)	2,201	(38)	30,846	(247)
Total available-for-sale	$ 35,963	$ (251)	$ 8,482	$ (95)	$ 44,445	$ (346)
December 31, 2012:						
Available-for-sale						
Private label residential mortgage-backed securities	$ 2,194	$ (13)	$ 10,061	$ (115)	$ 12,255	$ (128)
Agency residential mortgage-backed securities	37,388	(234)			37,388	(234)
Total available-for-sale	$ 39,582	$ (247)	$ 10,061	$ (115)	$ 49,643	$ (362)

As of June 30, 2013, the Company s securities available for sale portfolio consisted of 77 securities, 42 of which were in an unrealized loss position. The unrealized losses are related to an increase in prepayment speeds of the agency mortgage-backed securities as discussed below.

The Company s private label residential mortgage-backed securities that are in an unrealized loss position had a fair value of $13.6 million with unrealized losses of $99 thousand at June 30, 2013. The Company s agency residential mortgage-backed securities that are in an unrealized loss position had a fair value of $30.8 million with unrealized losses of $247 thousand at June 30, 2013.

The Company monitors its securities portfolio to ensure it has adequate credit support and as of June 30, 2013, the Company believes there is no OTTI and it does not have the intent to sell these securities and it is not likely that it will be required to sell the securities before their anticipated recovery. Of the Company s $106.8 million securities portfolio, $101.7 million were rated AAA, AA or A and $5.1 million were rated BBB based on the most recent credit rating as of June 30, 2013. The Company considers the lowest credit rating for identification of potential OTTI.

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NOTE 5 LOANS AND LEASES AND ALLOWANCE FOR LOAN AND LEASE LOSSES

As of June 30, 2013 and December 31, 2012 the Company had the following balances in its loan and lease portfolio:

	Non-Traditional Mortgages (NTM)	Traditional Loans	Total NTM and Traditional Loans	Purchased Credit Impaired	Total Loans and Leases Receivable
			($ in thousands)		
June 30, 2013:					
Commercial					
Commercial and industrial	$	$ 90,767	$ 90,767	$ 1,938	$ 92,705
Real estate mortgage		311,262	311,262	15,835	327,097
Multi-family		120,026	120,026	838	120,864
SBA		28,483	28,483	5,117	33,600
Construction		5,980	5,980		5,980
Lease financing		18,615	18,615		18,615
Consumer:					
Real estate 1-4 family first mortgage	235,352	474,208	709,560	114,175	823,735
Green Loans (HELOC) First Liens	169,439		169,439		169,439
Green Loans (HELOC) Second Liens	6,528		6,528		6,528
Other HELOC s, home equity loans, and other consumer installment credit	113	13,476	13,589	55	13,644
Total Gross Loans	**$ 411,432**	**$ 1,062,817**	**$ 1,474,249**	**$ 137,958**	**$ 1,612,207**
Percentage to total gross loans	25.5%	65.9%	91.4%	8.6%	100.0%
Net deferred loan costs					$ 828
Unamortized purchase premium					1,311
Allowance for loan losses					(16,979)
Loans and leases receivable, net					**$ 1,597,367**
December 31, 2012:					
Commercial					
Commercial and industrial	$	$ 73,585	$ 73,585	$ 6,808	$ 80,393
Real estate mortgage		318,051	318,051	21,837	339,888
Multi-family		112,829	112,829	845	113,674
SBA		30,512	30,512	5,608	36,120
Construction		6,648	6,648		6,648
Lease financing		11,203	11,203		11,203
Consumer:					
Real estate 1-4 family first mortgage	162,127	211,527	373,654	65,066	438,833
Green Loans (HELOC) First Liens	198,351		198,351		198,351
Green Loans (HELOC) Second Liens	7,653		7,653		7,653
Other HELOC s, home equity loans, and other consumer installment credit	113	13,740	13,853	56	13,796
Total Gross Loans	**$ 368,244**	**$ 778,095**	**$ 1,146,339**	**$ 100,220**	**$ 1,246,559**
Percentage to total gross loans	29.5%	62.5%	92.0%	8.0%	100.0%
Net deferred loan costs					$ 447
Unamortized purchase premium					1,465
Allowance for loan losses					(14,448)

Loans and leases receivable, net	**$**	**1,234,023**

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Non Traditional Mortgage Loans

The Company s non-traditional mortgage (NTM) portfolio is comprised of three interest only products: the Green Account Loans (Green Loans), the hybrid interest only fixed or adjustable rate mortgage (Interest Only) and a small number of loans with the potential for negative amortization. As of June 30, 2013 and December 31, 2012, the non-traditional mortgages totaled $411.4 million or 25.5 percent of the total gross loan portfolio and $368.2 million or 29.5 percent of the total gross loan portfolio, respectively, which is an increase of $43.2 million or 11.7 percent. The following table represents the composition of the NTM portfolio at the dates indicated:

	June 30, 2013			December 31, 2012		
	Count	Amount	Percent	Count	Amount	Percent
			($ in thousands)			
Green	215	$ 175,967	42.8%	239	$ 206,004	56.0%
Interest-only	301	217,815	52.9	191	142,978	38.8
Negative amortization	39	17,650	4.3	40	19,262	5.2
Total NTM loans	555	$ 411,432	100.0%	470	$ 368,244	100.0%
Total gross loan portfolio		$ 1,612,207			$ 1,246,559	
% of NTM to total gross loan portfolio		25.5%			29.5%	

Green Loans

Green Loans are single family residence first and second mortgage lines of credit with a linked checking account that allows all types of deposits and withdrawals to be performed. The loans are generally interest only with a 15 year balloon payment due at maturity. At June 30, 2013, Green Loans totaled $176.0 million, a decrease of $30.0 million or 14.6 percent from $206.0 million at December 31, 2012, primarily due to reductions in principal balance and payoffs of $8.2 million and $27.8 million, respectively, partially offset by advances of $5.9 million. As of June 30, 2013 and December 31, 2012, $3.5 million and $5.7 million, respectively, of the Company s Green Loans were non-performing. As a result of their unique payment feature, Green Loans possess higher credit risk due to the potential of negative amortization; however, management believes the risk is mitigated through the Company s loan terms and underwriting standards, including its policies on loan-to-value ratios. The Company discontinued the Green Loan products in 2011.

Interest Only Loans

Interest only loans are primarily single family residence first mortgage loans with payment features that allow interest only payment in initial periods before converting to fully amortizing payments. As of June 30, 2013, our interest only loans increased by $74.8 million or 52.3 percent to $217.8 million from $143.0 million at December 31, 2012, primarily due to purchases of $42.6 million and originations of $97.2 million, partially offset by sales of $20.8 million, payoffs and principal reductions of $20.8 million, and reclassification of $23.3 million from NTM interest only to traditional loans due to the expiration of the initial interest only period and conversion to a fully amortizing basis. As of June 30, 2013 and December 31, 2012, $150 thousand and $6.2 million, respectively, of the Company s interest only loans were non-performing.

Loans with the Potential for Negative Amortization

The negative amortization loan balance decreased to $17.7 million as of June 30, 2013 from $19.3 million as of December 31, 2012. The Company discontinued origination of negative amortization loans in 2007. As of June 30, 2013 and December 31, 2012, none of the Company s loans that had the potential for negative amortization were non-performing. These loans pose a potentially higher credit risk because of the lack of principal amortization and potential for negative amortization; however, management believes the risk is mitigated through the Company s loan terms and underwriting standards, including its policies on loan-to-value ratios. The Company discontinued origination of negative amortization loans in 2007.

Risk Management of Non-Traditional Mortgages

The Company has assessed that the most significant performance indicators for non-traditional mortgages (NTMs) are loan-to-value (LTV) and FICO scores. Accordingly, the Company manages credit risk in the NTM portfolio through semi-annual review of the loan portfolio that includes refreshing FICO scores on the Green Loans and home equity lines of credit and ordering third party automated valuation models. The loan review is designed to provide an effective method of identifying borrowers who may be experiencing financial difficulty before they actually fail to make a loan payment. Upon receipt of the updated FICO scores, an exception report is run to identify loans with a decrease in FICO of 10 percent or more and a resulting FICO of 620 or less. The loans are then further analyzed to determine if the risk rating should be downgraded which will increase the reserves the Company will establish for potential losses. A report of the semi-annual loan review is published and regularly monitored.

As these loans are revolving lines of credit, the Company, based on the loan agreement and loan covenants of the particular loan, as well as applicable rules and regulations, could suspend the borrowing privileges or reduce the credit limit at any time the Company reasonably believes that the borrower will be unable to fulfill their repayment obligations under the agreement or certain other conditions are met. In many cases, the decrease in FICO is the first red flag that the borrower may have difficulty in making their future payment obligations.

As a result, the Company proactively manages the portfolio by performing detailed analysis on its portfolio with emphasis on the non-traditional mortgage portfolio. The Company s Internal Asset Review Committee (IARC) conducts monthly meetings to review the loans classified as special mention, substandard, or doubtful and determines whether suspension or reduction in credit limit is warranted. If the line has been suspended and the borrower would like to have their credit privileges reinstated, they would need to provide updated financials showing their ability to meet their payment obligations.

On the interest only loans, the Company projects future payment changes to determine if there will be an increase in payment of 3.50 percent or greater and then monitor the loans for possible delinquency. The individual loans are monitored for possible downgrading of risk rating, and trends within the portfolio are identified that could affect other interest only loans scheduled for payment changes in the near future.

Non Traditional Mortgage Performance Indicators

In addition to monitoring of credit grades, for NTMs, the Company manages the loan portfolio with attention to borrower credit scores and LTV. The tables below represent the Company s non-traditional one-to-four SFR mortgage Green Loans first lien portfolio at June 30, 2013 by FICO scores that were obtained during the three months ended June 30, 2013, comparing to the FICO scores that were obtained three months ended December 31, 2012:

	June 30, 2013			December 31, 2012			Changes in count and amounts		
	Count	Amount	Percent	Count	Amount	Percent	Count change	Amount change	Percent change
					($ in thousands)				
800+	13	$ 3,913	2.3%	8	$ 6,985	4.1%	5	$ (3,072)	(1.8)%
700-799	103	93,342	55.2	109	86,999	51.4	(6)	6,343	3.8
600-699	49	43,100	25.4	48	48,145	28.4	1	(5,045)	(3.0)
<600	14	13,967	8.2	14	12,193	7.2		1,774	1.0
No FICO	10	15,117	8.9	10	15,117	8.9			
Totals	189	$ 169,439	100.0%	189	$ 169,439	100.0%		$	%

The Company updates FICO scores on a semi-annual basis, typically in November and April or as needed in conjunction with proactive portfolio management. The 700-799 FICO score category, obtained during the three months ended June 30, 2013, increased by 3.8 percent to 55.2 percent of total non-traditional one-to-four SFR mortgage Green Loans first lien at June 30, 2013 from 51.4 percent at December 31, 2012 from FICO scores obtained during the months ended December 31, 2012.

Loan to Value

The table below represents the Company s one-to-four SFR non-traditional mortgage first lien portfolio by LTV as of the dates indicated:

	Green			I/O			Neg Am			Total		
	Count	Amount	Percentage	Count	Amount	Percentage	Count	Amount	Percentage	Count	Amount	Percentage
						($ in thousands)						
June 30, 2013:												
LTV s (1)												
< 61	64	$ 62,226	36.7%	84	$ 82,302	37.8%	13	$ 5,167	29.3%	161	$ 149,695	37.0%
61-80	62	60,684	35.8	100	89,001	40.9	6	4,090	23.2	168	153,775	38.0
81-100	35	28,219	16.7	48	23,080	10.6	14	6,767	38.3	97	58,066	14.3
> 100	28	18,310	10.8	68	23,319	10.7	6	1,626	9.2	102	43,255	10.7

Totals	189	$ 169,439	100.0%	300	$ 217,702	100.0%	39	$ 17,650	100.0%	528	$ 404,791	100.0%
December 31, 2012:												
LTV s (1)												
< 61	51	$ 59,546	30.0%	60	$ 47,295	33.1%	11	$ 2,442	12.6%	122	$ 109,283	30.3%
61-80	63	51,934	26.2	72	59,025	41.3	4	1,225	6.4	139	112,184	31.1
81-100	61	62,518	31.5	27	17,578	12.3	11	8,120	42.2	99	88,216	24.5
> 100	37	24,353	12.3	31	18,967	13.3	14	7,475	38.8	82	50,795	14.1
Totals	212	$ 198,351	100.0%	190	$ 142,865	100.0%	40	$ 19,262	100.0%	442	$ 360,478	100.0%

(1) LTV represents estimated current loan to value ratio, determined by dividing current unpaid principal balance by latest estimated property value received per the Company s policy

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At June 30, 2013, the increase in interest only loans primarily related to purchases of 124 loans with a carrying value of $42.6 million and originations of $97.2 million, partially offset by sales, payoffs, principal reductions, and conversions to traditional loans of $64.9 million.

Allowance for Loan and Lease Losses

The Company has an established credit risk management process that includes regular management review of the loan and lease portfolio to identify any problem loans and leases. During the ordinary course of business, management becomes aware of borrowers that may not be able to meet the contractual requirements of the loan agreements. Such loans are subject to increased monitoring. Consideration is given to placing the loan on non-accrual status, assessing the need for additional allowance for loan and lease losses, and partial or full charge-off. The Company maintains the allowance for loan and lease losses at a level that is considered adequate to cover the estimated and known inherent risks in the loan portfolio and off-balance sheet unfunded credit commitments. The allowance for loan and lease losses includes allowances for loan, lease, and off-balance sheet unfunded credit commitment losses.

The credit risk monitoring system is designed to identify impaired and potential problem loans, and to permit periodic evaluation of impairment and the adequacy level of the allowance for credit losses in a timely manner. In addition, the Board of Directors of the Company has adopted a credit policy that includes a credit review and control system which it believes should be effective in ensuring that the Company maintains an adequate allowance for credit losses. The Board of Directors provides oversight and guidance for management s allowance evaluation process, including quarterly valuations, and ratification for the management s determination of whether the allowance is adequate to absorb losses in the loan and lease portfolio. The determination of the amount of the allowance for loan and lease losses and the provision for loan and lease losses is based on management s current judgment about the credit quality of the loan and lease portfolio and takes into consideration known relevant internal and external factors that affect collectability when determining the appropriate level for the allowance for loan and lease losses. The nature of the process by which the Company determines the appropriate allowance for loan and lease losses requires the exercise of considerable judgment. Additions to the allowance for loan and lease losses are made by charges to the provision for loan and lease losses. Identified credit exposures that are determined to be uncollectible are charged against the allowance for loan and lease losses. Recoveries of previously charged off amounts, if any, are credited to the allowance for loan and lease losses.

The following is a summary of activity in the allowance for loan and lease losses and ending balances of loans evaluated for impairment for the three and six months ended June 30, 2013 and 2012, respectively:

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
	(In thousands)			
Balance at beginning of period	$ 16,015	$ 11,173	$ 14,448	$ 12,780
Loans and leases charged off	(1,027)	(22)	(1,932)	(2,321)
Recoveries of loans and leases previously charged off	73	18	377	19
Provision for loan and lease losses	1,918	279	4,086	970
Balance at end of period	$ 16,979	$ 11,448	$ 16,979	$ 11,448

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The following table presents the activity and balance in the allowance for loan and lease losses and the recorded investment in loans and leases by portfolio segment and is based on the impairment method as of and for the three and six months ended June 30, 2013:

	Commercial and Industrial	Commercial Real Estate Mortgage	Multi-Family	SBA	Construction	Lease Financing	Real Estate 1-4 family First Mortgage	HELOC s, Home Equity Loans, and Other Consumer Credit	Unallocated	TOTAL
					(In thousands)					
Allowance for loan and lease losses:										
Balance as of March 31, 2013	$ 481	$ 3,698	$ 1,544	$ 133	$ 294	$ 263	$ 9,212	$ 197	$ 193	$ 16,015
Charge-offs		(260)	(169)	(262)			(329)	(7)		(1,027)
Recoveries		19		42		4	1	7		73
Provision	335	1,051	74	266	209	(23)	(133)	28	111	1,918
Balance as of June 30, 2013	$ 816	$ 4,508	$ 1,449	$ 179	$ 503	$ 244	$ 8,751	$ 225	$ 304	$ 16,979
Balance as of December 31, 2012	$ 263	$ 3,178	$ 1,478	$ 118	$ 21	$ 261	$ 8,855	$ 274	$	$ 14,448
Charge-offs		(360)	(553)	(392)		(23)	(590)	(14)		(1,932)
Recoveries		19	88	166		6	91	7		377
Provision	553	1,671	436	287	482		395	(42)	304	4,086
Balance as of June 30, 2013	$ 816	$ 4,508	$ 1,449	$ 179	$ 503	$ 244	$ 8,751	$ 225	$ 304	$ 16,979
Individually evaluated for impairment	$	$	$ 280	$	$	$	$ 256	$ 35	$	$ 571
Collectively evaluated for impairment	816	4,508	1,169	179	503	244	8,183	190	304	16,096
Acquired with deteriorated credit quality							312			312
Total ending allowance balance	$ 816	$ 4,508	$ 1,449	$ 179	$ 503	$ 244	$ 8,751	$ 225	$ 304	$ 16,979
Loans:										
Individually evaluated for impairment	$	$ 725	$ 2,048	$ 13	$	$	$ 11,248	$ 1,055	$	$ 15,089
Collectively evaluated for impairment	90,716	309,561	119,281	28,398	5,957	18,631	869,709	19,046		1,461,299
Acquired with deteriorated credit quality	1,938	15,835	838	5,117			114,175	55		137,958
Total ending loan balances	$ 92,654	$ 326,121	$ 122,167	$ 33,528	$ 5,957	$ 18,631	$ 995,132	$ 20,156	$	$ 1,614,346

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The following table presents the activity and balance in the allowance for loan and lease losses and the recorded investment in loans and leases by portfolio segment and is based on the impairment method as of and for the three and six months ended June 30, 2012:

	Commercial and Industrial	Commercial Real Estate Mortgage	Multi-Family	SBA	Construction	Lease Financing	Real Estate 1-4 family First Mortgage	HELOC s, Home Equity Loans, and Other Consumer Credit	Unallocated	TOTAL
					(In thousands)					
Allowance for loan and lease losses:										
Balance as of March 31, 2012	$ 129	$ 2,928	$ 1,601	$	$	$	$ 6,317	$ 198	$	$ 11,173
Charge-offs							(18)	(4)		(22)
Recoveries							17	1		18
Provision	(1)	385	(309)				212	(8)		279
Balance as of June 30, 2012	$ 128	$ 3,313	$ 1,292	$	$	$	$ 6,528	$ 187	$	$ 11,448
Balance as of December 31, 2011	$ 128	$ 2,234	$ 1,541	$	$	$	$ 8,635	$ 242	$	$ 12,780
Charge-offs		(236)					(2,078)	(7)		(2,321)
Recoveries							17	2		19
Provision		1,315	(249)				(46)	(50)		970
Balance as of June 30, 2012	$ 128	$ 3,313	$ 1,292	$	$	$	$ 6,528	$ 187	$	$ 11,448
Individually evaluated for impairment	$	$ 362	$ 658	$	$	$	$ 537	$	$	$ 1,557
Collectively evaluated for impairment	128	2,951	634				5,991	187		9,891
Acquired with deteriorated credit quality										
Total ending allowance balance	$ 128	$ 3,313	$ 1,292	$	$	$	$ 6,528	$ 187	$	$ 11,448
Loans:										
Individually evaluated for impairment	$	$ 3,487	$ 5,443	$	$	$	$ 14,349	$ 41	$	$ 23,320
Collectively evaluated for impairment	8,929	182,979	76,230				508,762	16,883		793,783
Acquired with deteriorated credit quality							22,728			22,728
Total ending loan balances	$ 8,929	$ 186,466	$ 81,673	$	$	$	$ 545,839	$ 16,924	$	$ 839,831

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The following table presents loans and leases individually evaluated for impairment by class of loans and leases as of June 30, 2013 and December 31, 2012. The recorded investment represents customer balances net of any partial charge-offs recognized on the loans and leases and net of any deferred fees and costs.

	June 30, 2013			December 31, 2012		
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
	(In thousands)					
With no related allowance recorded:						
Commercial						
Commercial and industrial	$	$	$	$ 2,168	$ 1,879	$
Real estate mortgage	1,636	725		5,748	3,988	
Multi-family	494	289				
SBA	14	13		457	30	
Construction						
Lease financing						
Consumer:						
Real estate 1-4 family first mortgage	1,664	1,303		8,681	8,156	
HELOC s, home equity loans, and other consumer installment credit				3	3	
With an allowance recorded:						
Commercial						
Commercial and industrial						
Real estate mortgage						
Multi-family	1,826	1,759	280	5,441	5,442	590
SBA				439	408	53
Construction						
Lease financing						
Consumer:						
Real estate 1-4 family first mortgage	9,948	9,945	256	13,567	13,622	597
HELOC s, home equity loans, and other consumer installment credit	1,050	1,055	35			
Total	$ 16,632	$ 15,089	$ 571	$ 36,504	$ 33,528	$ 1,240

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The following table provides information on impaired loans, disaggregated by class of loans, for the three and six months ended June 30, 2013 and 2012:

	Three months ended			Six months ended		
	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
	(In thousands)					
June 30, 2013:						
Commercial						
Commercial and industrial	$	$	$	$	$	$
Real estate mortgage	761	23	23	1,640	26	26
Multi-family	2,212	16	18	2,277	16	18
SBA	13			7		
Construction						
Lease financing						
Consumer:						
Real estate 1-4 family first mortgage	11,312	92	93	14,168	198	189
HELOC s, home equity loans, and other consumer installment credit	635			318		
Total	$ 14,933	$ 131	$ 134	$ 18,410	$ 240	$ 233
June 30, 2012:						
Commercial						
Commercial and industrial	$	$	$	$	$	$
Real estate mortgage	3,433	34	34	2,753	57	57
Multi-family	5,466	81	82	5,312	158	140
SBA						
Construction						
Lease financing						
Consumer:						
Real estate 1-4 family first mortgage	15,616	172	97	17,118	327	180
HELOC s, home equity loans, and other consumer installment credit	29	1		15	1	
Total	$ 24,544	$ 288	$ 213	$ 25,198	$ 543	$ 377

The following table presents information for impaired loans and leases for the three and six months ended June 30, 2013 and 2012:

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
	(In thousands)			
Average of individually impaired loans during the period	$ 14,933	$ 24,544	$ 18,410	$ 25,198
Interest income recognized during impairment	131	288	240	543
Cash-basis interest income recognized	134	213	233	377

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Nonaccrual loans and leases and loans past due 90 days still on accrual were as follows as of the dates indicated:

	June 30, 2013			December 31, 2012		
	Traditional Loans	NTM Loans	Total	Traditional Loans	NTM Loans	Total
			(In thousands)			
Loans past due over 90 days or more still on accrual	$	$	$	$	$	$
Nonaccrual loans						
The Company maintains specific allowance allocations for these loans of $433 in 2013 and $1,267 in 2012	$ 5,557	$ 3,607	$ 9,164	$ 11,166	$ 11,827	$ 22,993

Nonaccrual loans and leases consisted of the following as of the dates indicated:

	June 30, 2013			December 31, 2012		
	Traditional Loans	NTM Loans	Total	Traditional Loans	NTM Loans	Total
			(In thousands)			
Commercial:						
Commercial and industrial	$ 183	$	$ 183	$	$	$
Real estate mortgage	1,100		1,100	2,906		2,906
Multi-Family	2,048		2,048	5,442		5,442
SBA	10		10	141		141
Consumer:						
Real estate 1-4 family first mortgage	2,216	150	2,366	2,676	6,169	8,845
Green Loan (HELOC) First Liens		2,822	2,822		5,658	5,658
Green Loan (HELOC) Second Liens		635	635			
HELOC s, home equity loans, and other consumer installment credit				1		1
Total	$ 5,557	$ 3,607	$ 9,164	$ 11,166	$ 11,827	$ 22,993

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Past Due Loans and Leases

The following tables present the aging of the recorded investment in past due loans and leases as of June 30, 2013, excluding accrued interest receivable which is not considered to be material by class of loans and leases:

	June 30, 2013						
	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 89 Days Past Due	Total Past Due	Current	Total Gross Financing Receivables	Considered Current That Have been Modified in Previous Year
	(In thousands)						
NTM and Traditional Loans							
Commercial:							
Commercial and industrial	$	$	$ 183	$ 183	$ 90,533	$ 90,716	$
Real estate mortgage	149		375	524	309,762	310,286	
Multi-family	289			289	121,040	121,329	
SBA					28,411	28,411	
Construction					5,957	5,957	
Lease financing					18,631	18,631	
Consumer:							
Real estate 1-4 family first mortgage	23,112	11,756	9,548	44,416	836,541	880,957	
HELOC s, home equity loans, and other consumer installment credit	105		635	740	19,361	20,101	
Total	$ 23,655	$ 11,756	$ 10,741	$ 46,152	$ 1,430,236	$ 1,476,388	$
PCI loans:							
Commercial:							
Commercial and industrial	$	$	$	$	$ 1,938	$ 1,938	
Real estate mortgage			459	459	15,376	15,835	
Multi-family					838	838	
SBA	113	11	122	246	4,871	5,117	
Consumer:							
Real estate 1-4 family first mortgage	16,469	8,462	6,954	31,885	82,290	114,175	
HELOC s, home equity loans, and other consumer installment credit					55	55	
Total	$ 16,582	$ 8,473	$ 7,535	$ 32,590	$ 105,368	$ 137,958	
Total	**$ 40,237**	**$ 20,229**	**$ 18,276**	**$ 78,742**	**$ 1,535,604**	**$ 1,614,346**	
NTM Loans:							
Green Loans	$	$ 360	$ 3,096	$ 3,456	$ 172,511	$ 175,967	
Interest-Only	1,513	1,703	250	3,466	214,349	217,815	
Negative Amortization	158			158	17,492	17,650	
Total	$ 1,671	$ 2,063	$ 3,346	$ 7,080	$ 404,352	$ 411,432	

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The following tables presents the aging of the recorded investment in past due loans and leases as of June 30, 2012, excluding accrued interest receivable which is not considered to be material by class of loans and leases:

	December 31, 2012						
	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 89 Days Past Due	Total Past Due (In thousands)	Current	Total Gross Financing Receivables	Considered Current That Have been Modified in Previous Year
NTM and Traditional Loans							
Commercial:							
Commercial and industrial	$ 248	$ 7	$	$ 255	$ 73,324	$ 73,579	$ 2,297
Real estate mortgage	257	518	375	1,150	315,913	317,063	2,318
Multi-family					114,237	114,237	
SBA	26	110		136	30,332	30,468	
Construction					6,623	6,623	
Lease financing	118			118	11,085	11,203	
Consumer:							
Real estate 1-4 family first mortgage	3,356	4,441	8,747	16,544	557,057	573,601	
HELOC s, home equity loans, and other consumer installment credit	27		1	28	21,449	21,477	
Total	$ 4,032	$ 5,076	$ 9,123	$ 18,231	$ 1,130,020	$ 1,148,251	$ 4,615
PCI loans:							
Commercial:							
Commercial and industrial	$	$	$ 178	$ 178	$ 6,630	$ 6,808	
Real estate mortgage	1,080	377	445	1,902	19,935	21,837	
Multi-family					845	845	
SBA	317	63	687	1,067	4,541	5,608	
Consumer:							
Real estate 1-4 family first mortgage	1,008	1,082	2,080	4,170	60,896	65,066	
HELOC s, home equity loans, and other consumer installment credit					56	56	
Total	$ 2,405	$ 1,522	$ 3,390	$ 7,317	$ 92,903	$ 100,220	
Total	$ 6,437	$ 6,598	$ 12,513	$ 25,548	$ 1,222,923	$ 1,248,471	
NTM Loans:							
Green Loans	$ 1,411	$ 2,495	$ 5,658	$ 9,564	$ 196,440	$ 206,004	
Interest-Only	794	58	908	1,760	141,218	142,978	
Negative Amortization		421		421	18,841	19,262	
Total	$ 2,205	$ 2,974	$ 6,566	$ 11,745	$ 356,499	$ 368,244	

Troubled Debt Restructurings:

Troubled Debt Restructurings (TDRs) of loans are defined by ASC 310-40, Troubled Debt Restructurings by Creditors and ASC 470-60, Troubled Debt Restructurings by Debtors and evaluated for impairment in accordance with ASC 310-10-35. The concessions may be granted in various forms, including reduction in the stated interest rate, reduction in the amount of principal amortization, forgiveness of a portion of a loan balance or accrued interest, or extension of the maturity date. In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the Company s internal underwriting policy.

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For the three months ended June 30, 2013 and 2012, there were two and no modifications, respectively, through extension of maturity.

	Three months ended June 30, 2013			2012		
	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
	($ in thousands)					
Troubled Debt Restructurings:						
PCI Loans						
Commercial						
SBA	2	$ 434	$ 422	0		
Total	2	$ 434	$ 422	0	$	$

For the six months ended June 30, 2013 and 2012, there were three and no modifications, respectively, through extension of maturity.

	Six months ended June 30, 2013			2012		
	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
	($ in thousands)					
Troubled Debt Restructurings:						
NTM and Traditional loans						
Consumer						
Real estate 1-4 family first mortgage	1	$ 367	$ 360	0	$	$
PCI loans						
Commercial						
SBA	2	434	422	0		
Total	3	$ 801	$ 782	0	$	$

The following table presents loans and leases by class modified as troubled debt restructurings for which there was a payment default within twelve months following the modification for the three and six months ended June 30, 2013 and 2012, respectively:

	Three months ended June 30, 2013		2012		Six months ended June 30, 2013		2012	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
	($ in thousands)							
TDRs that subsequently defaulted:								
Real estate 1-4 family first mortgage	1	$ 360	0	$	1	$ 360	0	$
Total	1	$ 360	0	$	1	$ 360	0	$

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Troubled debt restructured loans and leases consist of the following as of the dates indicated:

	June 30, 2013		December 31, 2012	
	NTM and Traditional Loans	PCI loans	NTM and Traditional Loans	PCI loans
	(In thousands)			
Commercial				
Commercial and industrial	$	$	$	$ 1,236
Real estate mortgage	210	1,225	530	1,355
Multi-family			3,090	
SBA		411		423
Consumer				
Real estate 1-4 family first mortgage	7,957		12,047	
HELOC s, home equity loans, and other consumer installment credit			1	
Total	$ 8,167	$ 1,636	$ 15,668	$ 3,014

Troubled debt restructured loans, excluding purchased credit impaired (PCI) loans, were $8.2 million and $15.7 million at June 30, 2013 and December 31, 2012, respectively. The Company did not have any commitments to lend to customers with outstanding loans or leases that are classified as troubled debt restructurings as of June 30, 2013 and December 31, 2012.

Credit Quality Indicators:

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

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

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

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

Loans and leases not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans and leases. ASC 310-30 PCI loans not rated are evaluated based on payment history.

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The following table displays the Company s risk categories for loans and leases as of June 30, 2013:

	June 30, 2013					
	Pass	Special Mention	Substandard	Doubtful	ASC 310-30 PCI Pools	TOTAL
	(In thousands)					
NTM and Traditional Loans:						
Commercial						
Commercial and industrial	$ 87,588	$	$ 3,128	$	$	$ 90,716
Real estate mortgage	302,191	6,216	1,879			310,286
Multi-family	118,389		2,940			121,329
SBA	28,381		30			28,411
Construction	5,957					5,957
Lease financing	18,631					18,631
Consumer						
Real estate 1-4 family first mortgage	847,380	16,062	17,515			880,957
HELOC s, home equity loans, and other consumer installment credit	18,840	34	1,227			20,101
Total	$ 1,427,357	$ 22,312	$ 26,719	$	$	$ 1,476,388
PCI loans:						
Commercial						
Commercial and industrial	$	$ 169	$ 1,769	$		$ 1,938
Real estate mortgage	11,034		4,801			15,835
Multi-family	838					838
SBA	1,047	793	3,277			5,117
Construction						
Lease financing						
Consumer						
Real estate 1-4 family first mortgage			143		114,032	114,175
HELOC s, home equity loans, and other consumer installment credit			55			55
Total	$ 12,919	$ 962	$ 10,045	$	$ 114,032	$ 137,958
Total	**$ 1,440,276**	**$ 23,274**	**$ 36,764**	**$**	**$ 114,032**	**$ 1,614,346**
NTM Loans:						
Green Loans	$ 167,070	$ 4,402	$ 4,495	$	$	$ 175,967
Interest-Only	216,296	1,047	472			217,815
Negative Amortization	17,237	413				17,650
Total	$ 400,603	$ 5,862	$ 4,967	$	$	$ 411,432

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The following table displays the Company s risk categories for loans and leases as of December 31, 2012:

	December 31, 2012					
	Pass	Special Mention	Substandard	Doubtful	ASC 310-30 PCI Pools	TOTAL
	(In thousands)					
NTM and Traditional Loans:						
Commercial						
Commercial and industrial	$ 73,579	$	$	$	$	$ 73,579
Real estate mortgage	310,976	1,618	4,469			317,063
Multi-family	109,059		5,178			114,237
SBA	30,296	18	154			30,468
Construction	6,623					6,623
Lease financing	11,203					11,203
Consumer						
Real estate 1-4 family first mortgage	543,928	11,222	18,451			573,601
HELOC s, home equity loans, and other consumer installment credit	21,071	193	213			21,477
Total	$ 1,106,735	$ 13,051	$ 28,465	$	$	$ 1,148,251
PCI loans:						
Commercial						
Commercial and industrial	$	$ 189	$ 6,619	$	$	$ 6,808
Real estate mortgage	15,108	1,080	5,649			21,837
Multi-family	845					845
SBA	1,148	1,085	3,375			5,608
Construction						
Lease financing						
Consumer						
Real estate 1-4 family first mortgage			137		64,929	65,066
HELOC s, home equity loans, and other consumer installment credit			56			56
Total	$ 17,101	$ 2,354	$ 15,836	$	$ 64,929	$ 100,220
Total	**$ 1,123,836**	**$ 15,405**	**$ 44,301**	**$**	**$ 64,929**	**$ 1,248,471**
NTM Loans:						
Green Loans	$ 192,188	$ 7,119	$ 6,697			$ 206,004
Interest-Only	135,679	230	7,069			142,978
Negative Amortization	18,841	421				19,262
Total	$ 346,708	$ 7,770	$ 13,766	$	$	$ 368,244

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Purchased Credit Impaired Loans and Leases

For the six months ended June 30, 2013 and year ended December 31, 2012, the Company purchased loans and leases for which there was, at acquisition, evidence of deterioration of credit quality subsequent to origination and it was probable, at acquisition, that all contractually required payments would not be collected. The outstanding balance and carrying amount of those loans and leases at June 30, 2013 and December 31, 2012 is as follows:

	June 30, 2013		December 31, 2012	
	Outstanding Balance	Carrying Amount	Outstanding Balance	Carrying Amount
		(In thousands)		
Commercial				
Commercial and industrial	$ 2,715	$ 1,938	$ 11,350	$ 6,808
Real estate mortgage	24,155	15,835	22,698	21,837
Multi-family	1,195	838	1,208	845
SBA	20,672	5,117	7,967	5,608
Consumer:				
Real estate 1-4 family first mortgage	206,026	114,175	108,428	65,066
HELOC s, home equity loans, and other consumer installment credit	110	55	110	56
Outstanding balance	$ 254,873	$ 137,958	$ 151,761	$ 100,220

Accretable yield, or income expected to be collected for the three and six months ended June 30, 2013 and 2012 is as follows:

	Three months ended June 30,		Six months ended June 30	
	2013	2012	2013	2012
		(In thousands)		
Balance at beginning of period	$ 123,952	$ 6,270	$ 32,207	$
New loans or leases purchased	2,465	593	95,618	7,040
Accretion of income	(4,842)	(255)	(7,511)	(432)
Reclassifications from (to) nonaccretable difference	(6,618)		(5,188)	
Disposals	(16,718)		(16,887)	
Balance at end of period	$ 98,239	$ 6,608	$ 98,239	$ 6,608

During the six months ended June 30, 2013, the Company completed four seasoned SFR mortgage loan pool acquisitions with unpaid principal balances and fair values of $497.2 million and $368.6 million (excluding accrued interest paid and acquisition costs at settlement), respectively, at the respective acquisition dates. The Company determined that certain loans in these seasoned SFR mortgage acquisitions reflected evidence of credit quality deterioration since origination and it was probable, at acquisition, that all contractually required payments would not be collected (2013 PCI Loans). During the three months ended June 30, 2013, the Company sold a portion of 2013 PCI loans with unpaid principal balances and carrying values of $125.0 million and $71.1 million, respectively. The total unpaid principal balances and carrying values of the 2013 PCI loans as of June 30, 2013 were $89.9 million and $56.9 million, respectively. Cash flows expected to be collected as of June 30, 2013 were $97.3 million.

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NOTE 6 SERVICING RIGHTS

The Company retains mortgage servicing rights (MSRs) from its sales of certain residential mortgage loans. MSRs on residential mortgage loans are reported at fair value. Income earned by the Company on its MSRs is derived primarily from contractually specified mortgage servicing fees and late fees, net of curtailment costs and third party subservicing costs. The Company retains servicing rights in connection with its SBA loan operations, which are measured using the amortization method. Prior to the acquisition of Gateway, the Company did not have any MSRs and prior to the acquisitions of Beach and Gateway, the Company did not have any SBA servicing rights. Income earned from servicing rights for the six months ended June 30, 2013 and 2012 was $646 thousand and none, respectively, and $458 thousand and none for the three months ended June 30, 2013 and 2012, respectively. This amount is reported in loan servicing income in the consolidated statements of operations. At June 30, 2013 and December 31, 2012, servicing rights are comprised of the following:

	June 30, 2013	December 31, 2012
	(In thousands)	
Mortgage servicing rights, at fair value	$ 4,620	$ 1,739
SBA servicing rights, at cost	420	539
Total	$ 5,040	$ 2,278

Servicing retained sold mortgage loans are not reported as assets and are subserviced by a third party vendor. The unpaid principal balance of these loans at June 30, 2013 and December 31, 2012 was $475.2 million and $211.4 million, respectively. Custodial escrow balances maintained in connection with serviced loans were $2.3 million and $1.1 million at June 30, 2013 and December 31, 2012 respectively.

Mortgage Servicing Rights

Following is a summary of the key characteristics, inputs and economic assumptions used to estimate the fair value of the Company s MSRs as of June 30, 2013 and December 31, 2012:

	June 30, 2013	December 31, 2012
	(In thousands)	
Fair value of retained MSRs	$ 4,620	$ 1,739
Decay (prepayment/default)	14.58%	25.19%
Discount rate	10.59%	10.50%
Constant prepayment rate	9.04	13.86
Weighted-average life (in years)	7.78	5.85

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
	(In thousands)			
Balance at beginning of period	$ 2,579	$	$ 1,739	$
Additions	1,852		2,762	
Prepayments	(94)		(162)	
Changes in fair value resulting from valuation inputs or assumptions	305		330	
Other loans paid off	(22)		(49)	
Balance at end of period	$ 4,620	$	$ 4,620	$

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SBA Servicing Rights

The Company used a discount rate of 7.25% to calculate the present value of cash flows and an estimated prepayment speed based on prepayment data available. Discount rates and prepayment speeds are reviewed quarterly and adjusted as appropriate.

	Three months ended June 30, 2013	2012	Six months ended June 30, 2013	2012
	(In thousands)			
Balance at beginning of period	$ 498	$	$ 539	$
Additions	27		32	
Amortization, including prepayments	(105)		(151)	
Balance at end of period	$ 420	$	$ 420	$

NOTE 7 OTHER REAL ESTATE OWNED

Activity in other real estate owned was as follows for the three and six months ended June 30, 2013 and 2012:

	Three months ended June 30, 2013	2012	Six months ended June 30, 2013	2012
	(In thousands)			
Balance, beginning of period	$ 1,764	$ 12,843	$ 4,527	$ 14,692
Additions			486	3,614
Sales and net direct write-downs	(227)	(3,720)	(5,476)	(9,954)
Net change in valuation allowance		116	2,000	887
Balance, end of period	$ 1,537	$ 9,239	$ 1,537	$ 9,239

Activity in the other real estate owned valuation allowance for the three and six months ended June 30, 2013 and 2012 was as follows:

	Three months ended June 30, 2013	2012	Six months ended June 30, 2013	2012
	(In thousands)			
Balance, beginning of period	$ 69	$ 3,309	$ 2,069	$ 4,081
Additions charged to expense		155	79	169
Net direct write-downs and removals upon sale	(27)	(270)	(2,106)	(1,056)
Balance, end of period	$ 42	$ 3,194	$ 42	$ 3,194

Expenses related to foreclosed assets included in loan servicing and foreclosure expenses on the consolidated statements of operations were as follows for the three and six months ended June 30, 2013 and 2012:

	Three months ended June 30, 2013	2012	Six months ended June 30, 2013	2012
	(In thousands)			
Net gain (loss) on sales	$ 37	$ (824)	$ 151	$ (508)
Operating expenses, net of rental income	(60)	727	(300)	477

	$ (23)	$ (97)	$ (149)	$ (31)

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Loans provided for sales of other real estate owned, included in other assets on the consolidated statements of financial condition, and deferred gain on real estate sold on contract, included in accrued expenses and other liabilities on the consolidated statements of financial condition for the three and six months ended June 30, 2013 and 2012 were as follows:

	Three months ended June 30, 2013	Three months ended June 30, 2012	Six months ended June 30, 2013	Six months ended June 30, 2012
		(In thousands)		
Loans provided for sales of other real estate other real estate owned sold on contract	$	$	$	$ 918
Deferred gain on other real estate sold on contract	$	$	$	$ 10

NOTE 8 GOODWILL AND OTHER INTANGIBLE ASSETS, NET

The Company recorded goodwill and other intangible assets during 2012 as a result of the Beach merger and Gateway acquisition discussed above in Note 2, Business Combinations. At June 30, 2013, the Company had goodwill of $7.0 million related to the Beach acquisition.

Other intangible assets are amortized over their useful lives ranging from 1 to 20 years for trade name and 4 to 7 years for core deposit intangibles. The weighted average remaining amortization period for trade name is approximately 19.1 years, and for core deposit intangibles is approximately 5.6 years. Based on the balances of identifiable intangible assets as of June 30, 2013, the Company estimates that intangible asset amortization will be $1.4 million in 2013, $1.1 million in 2014, $894 thousand in 2015, $671 thousand in 2016, and $458 thousand in 2017. Other intangible assets were as follows at June 30, 2013 and December 31, 2012:

	Gross Carrying Value	Accumulated Amortization	Intangible Assets, net
		(In thousands)	
June 30, 2013:			
Amortized intangible assets:			
Trade name	$ 980	$ 62	$ 918
Core deposit intangibles	5,190	1,368	3,822
	$ 6,170	$ 1,430	$ 4,740
December 31, 2012:			
Amortized intangible assets:			
Trade name	$ 980	$ 28	$ 952
Core deposit intangibles	5,190	668	4,522
	$ 6,170	$ 696	$ 5,474

Aggregate amortization expense was $734 thousand and none for the six months ended June 30, 2013 and 2012, respectively.

NOTE 9 FEDERAL HOME LOAN BANK ADVANCES

At June 30, 2013, all $45.0 million of the Banks advances from the FHLB were fixed rate and had interest rates ranging from 0.27 percent to 0.82 percent with a weighted average rate of 0.52 percent. At December 31, 2012, $63.0 million of the Banks advances from the FHLB were fixed rate and had interest rates ranging from 0.28 percent to 0.82 percent with a weighted average rate of 0.47 percent. At December 31, 2012, $12.0 million of the Company s advances from the FHLB were variable rate and had a weighted average interest rate of 0.28 percent as of that date.

Each advance is payable at its maturity date. Advances paid early are subject to a prepayment penalty. At June 30, 2013 and December 31, 2012, the Banks advances from the FHLB were collateralized by certain real estate loans with an aggregate unpaid principal balance of $759.8 million and $458.9 million, respectively, and the Banks investment of capital stock of the FHLB of San Francisco of $10.4 million and $8.4 million, respectively. Based on this collateral and the Banks holdings of FHLB stock, the Banks were eligible to borrow an additional $425.5 million at

June 30, 2013. In addition, the Banks had available lines of credit with the Federal Reserve Bank totaling $119.1 million at June 30, 2013.

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NOTE 10 LONG TERM DEBT

On April 23, 2012, the Company completed the public offering of $33.0 million aggregate principal amount of its 7.50 percent Senior Notes due April 15, 2020 (the Notes) at a price to the public of $25.00 per Note. Net proceeds after discounts were approximately $31.7 million. The Notes were issued under the Senior Debt Securities Indenture, dated as of April 23, 2012 (the Base Indenture), as supplemented by the First Supplemental Indenture, dated as of April 23, 2012 (the Supplemental Indenture, and together with the Base Indenture, the Indenture), between the Company and U.S. Bank National Association, as trustee.

On December 6, 2012, the Company completed the issuance and sale of an additional $45.0 million aggregate principal amount of the Notes at a price to the public of $25.00 per Note, plus accrued interest from October 15, 2012. Net proceeds after discounts, including a full exercise of the $6.8 million underwriters overallotment option on December 7, 2012, were approximately $50.1 million.

The Notes are the Company s senior unsecured debt obligations and rank equally with all of the Company s other present and future unsecured unsubordinated obligations. The Notes bear interest at a per-annum rate of 7.50 percent. The Company makes interest payments on the Notes quarterly in arrears.

The Notes will mature on April 15, 2020. However, the Company may, at the Company s option, on April 15, 2015, or on any scheduled interest payment date thereafter, redeem the Notes in whole or in part on not less than 30 nor more than 60 days prior notice. The Notes will be redeemable at a redemption price equal to 100 percent of the principal amount of the Notes to be redeemed plus accrued and unpaid interest to the date of redemption.

The Indenture contains several covenants which, among other things, restrict the Company s ability and the ability of the Company s subsidiaries to dispose of or incur liens on the voting stock of certain subsidiaries and also contains customary events of default.

NOTE 11 INCOME TAXES

For three months ended June 30, 2013 and 2012, income tax expense (benefit) was $1.8 million and $(413) thousand, respectively, and effective tax rate was 29.5 percent and 35.9 percent, respectively. For six months ended June 30, 2013 and 2012, income tax expense (benefit) was $2.5 million and $(320) thousand, respectively, and effective tax rate was 31.7 percent and 46.9 percent, respectively. The Company s effective tax rate decreased due to increases in reduction of the valuation allowances and other permanent benefits.

The Company accounts for income taxes by recognizing deferred tax assets and liabilities based upon temporary differences between the financial reporting and tax basis of its assets and liabilities. A valuation allowance is established when necessary to reduce deferred tax assets when it is more-likely-than-not that a portion or all of the net deferred tax assets will not be realized. In assessing the realization of deferred tax assets, management evaluates both positive and negative evidence, including the existence of any cumulative losses in the current year and the prior two years, the amount of taxes paid in available carry-back years, the forecasts of future income, applicable tax planning strategies, and assessments of current and future economic and business conditions. This analysis is updated quarterly and adjusted as necessary. As of June 30, 2013, the Company had a net deferred tax asset of $7.2 million, net of an $8.0 million valuation allowance and as of December 31, 2012, the Company had a net deferred tax asset of $7.6 million, net of an $8.4 million valuation allowance. The net deferred tax asset as of June 30, 2013 and December 31, 2012 is supported by tax planning strategies.

The Company adopted the provisions of ASC 740-10-25 (formally FIN 48), which relates to the accounting for uncertainty in income taxes recognized in an enterprise s financial statements on January 1, 2007. ASC 740-10-25 prescribes a threshold and a measurement process for recognizing in the financial statements a tax position taken or expected to be taken in a tax return and also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. As of June 30, 2013 and December 31, 2012, the Company had no unrecognized tax benefits. In the event we are assessed interest and/or penalties by federal or state tax authorities, such amounts will be classified in the consolidated financial statements as income tax expense. At June 30, 2013 and December 31, 2012, the Company had no accrued interest or penalties. The Company and its subsidiaries are subject to U.S. federal income tax as well as income tax of multiple state jurisdictions. The Company is no longer subject to examination by U.S. Federal taxing authorities for years before 2009 (except for Gateway Bancorp s pre-acquisition federal tax return which is currently under examination by the Internal Revenue Service for the 2008 and 2009 tax years). The statute of limitations for the assessment of California Franchise taxes has expired for tax years before 2008 (other state income and franchise tax statutes of limitations vary by state).

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Assessment of Deferred Tax Asset Valuation Allowances

The evaluation of the recoverability of the deferred tax asset and the need for a valuation allowance requires the Company to weigh all positive and negative evidence to reach a conclusion that is more likely than not that all or some portion of the deferred tax asset will not be realized. The weight given to the evidence is commensurate with the extent to which it can be objectively verified. The more negative evidence that exists, the more positive evidence is necessary and the more difficult it is to support a conclusion that a valuation allowance is not needed.

The Company s framework for assessing the recoverability of deferred tax assets weighs the sustainability of recent operating profitability, various prudent and feasible tax planning strategies, and its emergence from cumulative losses in the second quarter of 2013. The framework requires the Company to consider all available evidence, including:

- the sustainability of recent operating profitability of the Company s subsidiaries in various tax jurisditions;
- the predictability of future operating profitability of the character necessary to realize the deferred tax assets;
- the nature, frequency, and severity of cumulative financial reporting losses in recent years;
- the recognition of the gains and losses on business dispositions;
- prudent and feasible tax planning strategies that would be implemented, if necessary, to protect against the loss of the deferred tax assets; and