First California Financial Group, Inc.
Form 10-Q
November 14, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2011

OR

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

For the transition period from to

Commission file number 000-52498

FIRST CALIFORNIA FINANCIAL GROUP, INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	38-3737811
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

3027 Townsgate Road, Suite 300 Westlake Village, California	91361
(Address of Principal Executive Offices)	(Zip Code)

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

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 o

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the 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.

29,220,079 shares of Common Stock, $0.01 par value, as of November 10, 2011

FIRST CALIFORNIA FINANCIAL GROUP, INC.
QUARTERLY REPORT ON
FORM 10-Q

For the Quarterly Period Ended September 30, 2011

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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

FIRST CALIFORNIA FINANCIAL GROUP, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets (unaudited)

(in thousands, except share and per share data)	September 30, 2011	December 31, 2010
Cash and due from banks	$ 41,582	$ 25,487
Interest bearing deposits with other banks	128,270	62,516
Securities available-for-sale, at fair value	332,285	272,439
Non-covered loans, net	902,268	930,712
Covered loans	147,150	53,870
Premises and equipment, net	18,719	19,710
Goodwill	60,720	60,720
Other intangibles, net	14,511	9,915
Deferred tax assets, net	—	4,563
Cash surrender value of life insurance	12,562	12,232
Non-covered foreclosed property	18,406	26,011
Covered foreclosed property	12,361	977
FDIC shared-loss asset	77,755	16,725
Accrued interest receivable and other assets	38,312	25,457
Total assets	$ 1,804,901	$ 1,521,334
Non-interest checking	$ 473,059	$ 331,648
Interest checking	102,901	88,638
Money market and savings	485,289	388,289
Certificates of deposit, under $100,000	79,747	84,296
Certificates of deposit, $100,000 and over	273,606	263,417
Total deposits	1,414,602	1,156,288
Securities sold under agreements to repurchase	30,000	45,000
Federal Home Loan Bank advances	87,774	86,500
Junior subordinated debentures	26,805	26,805
Deferred tax liabilities, net	12,259	—
FDIC shared-loss liability	3,700	988
Accrued interest payable and other liabilities	9,176	7,712
Total liabilities	1,584,316	1,323,293
Perpetual preferred stock; authorized 2,500,000 shares		
Series A - $0.01 par value, 1,000 shares issued and outstanding as of September 30, 2011 and December 31, 2010	1,000	1,000
Series B - $0.01 par value, 0 shares issued and outstanding as of September 30, 2011 and 25,000 shares at December 31, 2010	—	23,627
Series C - $0.01 par value, 25,000 shares issued and outstanding as of September 30, 2011 and 0 shares at December 31, 2010	25,000	—
	292	282

Common stock, $0.01 par value; authorized 100,000,000 shares; 29,220,079 shares issued at September 30, 2011 and 28,517,161 shares issued at December 31, 2010; 29,220,079 and 28,170,760 shares outstanding at September 30, 2011 and December 31, 2010				
Additional paid-in capital		172,265		175,102
Treasury stock, 0 shares at cost at September 30, 2011 and 346,401 at December 31, 2010		—		(3,061)
Retained earnings		22,878		4,827
Accumulated other comprehensive loss		(850)		(3,736)
Total shareholders' equity		220,585		198,041
Total liabilities and shareholders' equity	$	1,804,901	$	1,521,334

See accompanying notes to consolidated financial statements.

FIRST CALIFORNIA FINANCIAL GROUP, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Operations (unaudited)

	Three months ended September 30,		Nine months ended September 30,	
(in thousands, except per share data)	2011	2010	2011	2010
Interest and fees on loans	$16,896	$13,075	$49,264	$38,881
Interest on securities	1,720	1,529	4,712	4,626
Interest on federal funds sold and interest bearing deposits	90	70	270	149
Total interest income	18,706	14,674	54,246	43,656
Interest on deposits	1,836	1,897	6,494	5,953
Interest on borrowings	916	1,231	2,853	3,801
Interest on junior subordinated debentures	336	439	1,001	1,316
Total interest expense	3,088	3,567	10,348	11,070
Net interest income before provision for loan losses	15,618	11,107	43,898	32,586
Provision for loan losses	1,550	3,618	4,550	7,138
Net interest income after provision for loan losses	14,068	7,489	39,348	25,448
Service charges on deposit accounts	878	776	2,633	2,375
Net gain on sale of securities	209	1,204	699	1,466
Impairment loss on securities	—	(23)	(1,066)	(41)
Gain on transfer of foreclosed property	—	—	—	691
Gain on acquisitions	—	—	35,202	—
Other income	1,213	340	2,931	953
Total noninterest income	2,300	2,297	40,399	5,444
Salaries and employee benefits	6,675	4,420	19,315	14,279
Premises and equipment	1,567	1,576	4,708	4,630
Data processing	810	607	2,685	1,800
Legal, audit and other professional services	1,071	445	4,299	1,216
Printing, stationery and supplies	79	69	288	194
Telephone	218	193	592	630
Directors' expense	135	101	342	335
Advertising, marketing and business development	272	194	1,069	706
Postage	50	55	171	158
Insurance and regulatory assessments	364	797	1,777	2,377
(Gain)/loss on and expense of foreclosed property	(672)	185	5,066	731
Amortization of intangible assets	624	416	1,665	1,249
Other expenses	840	626	2,387	2,046
Total noninterest expense	12,033	9,684	44,364	30,351

Income before provision for income taxes	4,335	102	35,383	541
Provision for income taxes	1,819	38	14,862	213
Net income	2,516	64	20,521	328
Preferred stock dividends	(1,616)	(313)	(2,241)	(938)
Net income (loss) available to common shareholders	$900	$(249)	$18,280	$(610)
Earnings (loss) available to common shareholders per common share:				
Basic	$0.03	$(0.01)	$0.64	$(0.03)
Diluted	$0.03	$(0.01)	$0.64	$(0.03)

See accompanying notes to consolidated financial statements.

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FIRST CALIFORNIA FINANCIAL GROUP, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows (unaudited)

(in thousands)	Nine Months Ended September 30, 2011	2010
Net income	$ 20,521	$ 328
Adjustments to reconcile net income to net cash from operating activities:		
Provision for loan losses	4,550	7,138
Stock-based compensation costs	832	467
Gain on acquisitions	(35,202)	—
Gain on sales of securities	(699)	(1,466)
(Gain) loss on sale and transfer of foreclosed property	4,371	(695)
Impairment loss on securities	1,066	41
Amortization of net premiums on securities available-for-sale	2,672	2,569
Depreciation and amortization of premises and equipment	1,526	1,421
Amortization of intangible assets	1,665	1,249
Change in FDIC shared-loss asset	(1,799)	—
(Gain) loss on disposal of premises and equipment	(149)	50
Increase in cash surrender value of life insurance	(330)	(331)
Decrease in deferred tax assets, net of acquisitions	2,298	2,526
(Increase) decrease in accrued interest receivable and other assets, net of effects of acquisitions	(12,123)	1,145
Decrease in accrued interest payable and other liabilities, net of effects of acquisitions	(1,356)	(1,137)
Net cash (used) provided by operating activities	(12,157)	13,305
Purchases of securities available-for-sale, net of effects of acquisitions	(146,184)	(222,933)
Proceeds from repayments and maturities of securities available-for-sale	102,943	118,437
Proceeds from sales of securities available-for-sale	26,344	184,892
Purchases of Federal Home Loan Bank and other stock	(5)	(55)
Redemption of Federal Home Loan Bank stock	1,459	624
Net change in federal funds sold and interest bearing deposits, net of effects from acquisitions	(3,664)	(73,137)
Loan originations and principal collections, net of effects of acquisitions	71,542	(12,994)
Purchases of premises and equipment, net of effects of acquisitions	(1,828)	(1,206)
Proceeds from FDIC shared-loss asset	11,061	—
Proceeds from sale of premises and equipment	1,267	—
Proceeds from sale of non-covered foreclosed property	2,587	2,170
Proceeds from sale of covered foreclosed property	15,562	—
Net cash acquired in acquisitions	122,119	—
Net cash provided (used) by investing activities	203,203	(4,202)

Net (decrease) increase in noninterest-bearing deposits, net of effects of acquisitions		40,160		(8,645)
Net decrease in interest-bearing deposits, net of effects of acquisitions		(139,013)		(26,704)
Net (decrease) increase in FHLB advances and other borrowings, net of effects of acquisitions		(75,267)		34,539
Dividends paid on preferred stock		(831)		(938)
Proceeds from issuance of common stock		—		38,916
Net cash (used) provided by financing activities		(174,951)		37,168
Change in cash and due from banks		16,095		46,271
Cash and due from banks, beginning of period		25,487		26,757
Cash and due from banks, end of period	$	41,582	$	73,028
Supplemental cash flow information:				
Cash paid for interest	$	10,222	$	10,803
Cash paid for income taxes	$	7,520	$	1,000
Supplemental disclosure of noncash items:				
Net change in fair value of securities available-for-sale, net of tax	$	3,575	$	3,233
Net change in fair value of cash flow hedges, net of tax	$	(177)	$	(123)
Non-covered loans transferred to foreclosed property	$	328	$	25,414
Covered loans transferred to foreclosed property	$	15,657	$	—
Acquisitions:				
Assets acquired	$	456,922	$	—
Liabilities assumed	$	436,498	$	—

See accompanying notes to consolidated financial statements.

NOTE 1 – NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Organization and nature of operations – First California Financial Group, Inc., or First California, or the Company, is a bank holding company incorporated under the laws of the State of Delaware and headquartered in Westlake Village, California. The principal asset of the Company is the capital stock of First California Bank, or the Bank. The Bank is a full-service commercial bank headquartered in Westlake Village, California, chartered under the laws of the State of California and subject to supervision by the California Department of Financial Institutions and the Federal Deposit Insurance Corporation, or the FDIC. The FDIC insures the Bank's deposits up to the maximum legal limit.

On November 5, 2010, the Bank assumed certain liabilities and acquired certain assetsand substantially all of the operations of Western Commercial Bank, or WCB, located in Woodland Hills, California, from the FDIC. The Bank acquired, received and recognized certain assets with an estimated fair value of approximately $109 million, including $55 million of loans, $32 million of cash, $17 million of a FDIC shared-loss asset, $2 million of securities and $3 million of other assets. Liabilities with an estimated fair value of approximately $107 million were also assumed and recognized, including $105 million of deposits and $2 million of other liabilities. The Bank recorded a pre-tax bargain purchase gain of $2.3 million in connection with this transaction. This transaction increased the number of the Bank's full-service branch locations to 18 and the Bank fully integrated the former WCB branch into its full-service branch network prior to December 31, 2010.

On February 18, 2011, the Bank assumed certain liabilities and acquired certain assets and substantially all of the operations of San Luis Trust Bank, or SLTB, located in San Luis Obispo, California, from the FDIC. The Bank acquired, received and recognized certain assets with an estimated fair value of approximately $365 million, including $139 million of loans, $99 million of cash and federal funds sold, $70 million of a FDIC shared-loss asset, $41 million of securities, $11 million of foreclosed property and $5 million of other assets. Liabilities with an estimated fair value of approximately $345 million were also assumed and recognized, including $266 million of deposits, $62 million of Federal Home Loan Bank advances, $15 million in a deferred tax liability, $3 million of a FDIC shared-loss liability and $0.4 million of other liabilities. Based upon preliminary estimates of fair values assigned to acquired assets and liabilities as compared to the acquisition price, the Bank recorded a pre-tax bargain purchase gain of $34.7 million in connection with this transaction. This transaction increased the number of the Bank's full-service branch locations to 19 and the Bank fully integrated the former SLTB branch into its full-service branch network in June 2011.

On April 8, 2011, the Bank completed the acquisition of the Electronic Banking Solutions division of Palm Desert National Bank. The transaction included the division's customer base, core deposits, and employees. The Electronic Payment Services Division, or the EPS division, its new name under the Bank, issues prepaid cards and sponsors merchant acquiring services for all national and regional networks, including Visa, MasterCard, and Discover throughout all 50 states and U.S. territories. The Bank acquired cash of $85.5 million, recognized intangible assets of $6.0 million, assumed $91 million of deposits and recognized a pre-tax bargain purchase gain of $0.5 million in connection with this transaction.

The Bank serves the comprehensive financial needs of businesses and consumers in Los Angeles, Orange, Riverside, San Diego, San Bernardino, San Luis Obispo and Ventura counties through 19 full-service branch locations.

Consolidation – The accompanying condensed consolidated financial statements include, in conformity with generally accepted accounting principles in the United States of America, the accounts of the Company, the Bank, Wendy Road Office Development LLC, a subsidiary of the Bank which manages and disposes of real estate, and SC Financial, an inactive subsidiary of First California. The Company does not consolidate the accounts of FCB Statutory Trust I and First California Statutory Trust I, or the Trusts, in the consolidated financial statements. The Company does include, however, the junior subordinated debentures issued by the Company to the Trusts on the consolidated balance sheets. Results of operations for the nine months ended September 30, 2011 include the effects of the FDIC-assisted San Luis

Trust Bank and the Electronic Payment Services division transactions from the date of the acquisition. All material intercompany transactions have been eliminated.

Basis of presentation – The unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and Article 8-03 of Regulation S-X as promulgated by the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnote disclosures normally required by generally accepted accounting principles for complete financial statements. In our opinion, all normal recurring adjustments necessary for a fair presentation are reflected in the unaudited condensed consolidated financial statements. Operating results for the period ended September 30, 2011 are not necessarily indicative of the results of operations that may be expected for any other interim period or for the year ending December 31, 2011. In preparing these financial statements, the Company has evaluated events and transactions subsequent to September 30, 2011 for potential recognition or disclosure. The unaudited condensed consolidated financial statements should be read in conjunction with the audited condensed consolidated financial statements and notes thereto included in the Company's 2010 Annual Report on Form 10-K.

Reclassifications – Certain reclassifications have been made to the 2010 consolidated financial statements to conform to the current year presentation.

Management's estimates and assumptions – The preparation of the condensed consolidated financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported revenues and expenses for the reporting periods. Actual results could differ significantly from those estimates. Significant estimations made by management primarily involve the calculation of the allowance for loan losses, the carrying amount of deferred tax assets, the carrying amount of covered loans, the carrying amount of foreclosed property, the carrying amount of the FDIC shared-loss asset and liability, the assessments for impairment related to goodwill and securities, the estimated fair value of financial instruments and the effectiveness of derivative instruments in offsetting changes in fair value or cash flows of hedged items.

Allowance for loan losses – The allowance for loan losses is established through a provision charged to expense. Loans are charged against the allowance when management believes that the collectability of principal is unlikely. The allowance is an amount that management believes will be adequate to absorb estimated probable losses on existing loans that may become uncollectable, based on evaluations of the collectability of loans and prior loan loss experience. The evaluation includes an assessment of the following factors: any external loan review and any regulatory examination, estimated probable loss exposure on each pool of loans, concentrations of credit, value of collateral, the level of delinquent and nonaccrual loans, trends in the portfolio volume, effects of any changes in the lending policies and procedures, changes in lending personnel, present economic conditions at the local, state and national levels, the amount of undisbursed off-balance sheet commitments, and a migration analysis of historical losses and recoveries for the prior twenty-one quarters. Individual loans are also evaluated for impairment and if a portion of a loan is impaired, the impaired amount is charged-off or a specific reserve is allocated for that loan. Various regulatory agencies, as a regular part of their examination process, periodically review the Company's allowance for loan losses. Such agencies may require the Company to recognize additions to the allowance based on their judgment of information available to them at the time of their examinations. The allowance for loan losses was $17.8 million at September 30, 2011 and $17.0 million at December 31, 2010.

Foreclosed property – The Company acquires, through foreclosure or through full or partial satisfaction of a loan, real or personal property. At the time of foreclosure, the Company obtains an appraisal of the property and records the property at its estimated fair value less costs to sell. We charge the allowance for loan losses for the loan amount in excess of the fair value of the foreclosed property received; we credit earnings for the fair value amount of the foreclosed property in excess of the loan due. Subsequent to foreclosure, the Company periodically assesses our disposition efforts and the estimated fair value less costs to sell of the foreclosed property. The Company establishes a valuation allowance through a charge to earnings for estimated declines in fair value subsequent to foreclosure. Operating income and operating expense related to foreclosed property is included in earnings as are any ultimate gains or losses on the sale of the foreclosed property. Our recognition of gain is, however, dependent on the buyer's initial investment in the purchase of the foreclosed property meeting certain criteria. The estimated fair value of covered and non-covered foreclosed property was $30.8 million at September 30, 2011 and $27.0 million at December 31, 2010.

Deferred income taxes – The Company recognizes deferred tax assets subject to our judgment that realization of such assets are more-likely-than-not. A valuation allowance is established when the Company determines that the realization of income tax benefits may not occur in future years. There was no valuation allowance at September 30, 2011 or December 31, 2010. There were net deferred tax liabilities of $12.3 million at September 30, 2011 and net deferred tax assets of $4.6 million at December 31, 2010. The significant change in the balance since year-end 2010 was due to the $14.6 million of deferred tax liabilities recorded in connection with the FDIC-assisted San Luis Trust Bank acquisition on February 18, 2011.

FDIC shared-loss asset – The FDIC shared-loss asset is initially recorded at fair value, based on the discounted value of expected future cash flows under the shared-loss agreements. The difference between the present value and the undiscounted cash flows the Company expects to collect from the FDIC will be accreted or amortized into non-interest income over the life of the FDIC shared-loss asset. Subsequent to initial recognition, the FDIC shared-loss asset is reviewed quarterly and adjusted for any changes in expected cash flows based on recent performance and expectations for future performance of the covered portfolio. These adjustments are measured on the same basis as the related covered loans, at a pool level, and covered foreclosed property. Generally, any increases in cash flow of the covered assets over those previously expected will result in prospective increases in the loan pool yield and amortization of the FDIC shared-loss asset. Any decreases in cash flow of the covered assets under those previously expected will trigger impairments on the underlying loan pools and will result in a corresponding gain on the FDIC shared-loss asset. Increases and decreases to the FDIC shared-loss asset are recorded as adjustments to non-interest income.

FDIC shared-loss liability– Forty-five days following the tenth anniversary of the WCB and SLTB acquisition dates, the Company will be required to perform a calculation and determine if a payment to the FDIC is necessary. The payment amount will be 50 percent of the excess, if any, of (i) 20 percent of the intrinsic loss estimate minus (ii) the sum of (a) 20 percent of the net loss amount, plus (b) 25 percent of the asset discount bid, plus (c) 3.5 percent of total loss share assets at acquisition. The Company’s estimate for the present value of this liability was $3.7 million and $1.0 million at September 30, 2011 and December 31, 2010.

Derivative instruments and hedging – For derivative instruments designated in cash flow hedging relationships, we assess the effectiveness of the instruments in offsetting changes in the overall cash flows of designated hedged transactions on a quarterly basis. The Company recognizes the unrealized gains or losses ofderivative instruments directly in current period earnings to the extent these instruments are not effective. At September 30, 2011 the Company had $37.1 million notional interest rate caps to limit the variable interest rate payments on our $26.8 million junior subordinated debentures. Our 2011 third quarter effectiveness assessment indicated that these instruments were effective.

At September 30, 2011, the Bank also had $60 million notional interest rate caps that do not meet the criteria for hedge accounting to manage the interest rate risk associated with its fixed rate securities and loans. The Company may enter into derivative contracts that are intended to economically hedge certain of its risks, even though hedge accounting does not apply or the Company elects not to apply hedge accounting. Derivatives not designated as hedges are marked-to-market each period through earnings.

Assessments of impairment – Goodwill is assessed for impairment on an annual basis or at interim periods if an event occurs or circumstances change which may indicate a change in the implied fair value of the goodwill. The implied fair value of goodwill is estimated by comparing the estimated fair value of the Company to the estimated fair value of the Company's individual assets, liabilities, and identifiable intangible assets. Impairment exists when the carrying amount of goodwill exceeds this implied fair value.

First California uses independent data where possible in determining the fair value of the Company and in determining appropriate market factors used in the fair value calculations. At December 31, 2010, the annual assessment resulted in the conclusion that goodwill was not impaired. At September 30, 2011, an interim assessment was not performed as 2011 year-to-date results were not materially different than the estimates used in the year-end assessment and the September 30, 2011 stock price (and market capitalization) increased by 8 percent from year-end.

An impairment assessment is performed quarterly on the securities available-for-sale portfolio in accordance with Financial Accounting Standards Board, or FASB, accounting standards codification guidance related to the consideration of impairment related to certain debt and equity securities. All of the securities classified as available-for-sale are debt securities.

If the Company does not intend to sell, and it is more likely than not that the Company is not required to sell a debt security before recovery of its cost basis, other-than-temporary impairment is separated into (a) the amount representing credit loss and (b) the amount related to other factors. The amount of the other-than-temporary impairment related to credit loss is recognized in earnings and other-than-temporary impairment related to other factors is recognized in other comprehensive income (loss). Other-than-temporary declines in fair value are assessed based on the duration the security has been in a continuous unrealized loss position, the severity of the decline in value, the rating of the security, the long-term financial outlook of the issuer, the expected future cash flows from the security and the Company's ability and intent to hold the security until the fair value recovers. Please see the "Securities" section of Management's Discussion and Analysis in this document for a detailed explanation of the impairment analysis process. The Company will continue to evaluate the securities portfolio for other-than-temporary impairment at each reporting date and can provide no assurance there will not be an other-than-temporary impairment in future periods.

For the nine months ended September 30, 2011, other-than-temporary impairment related to the credit loss on three debt securities and recognized in earnings was $1.1 million. For the same period in 2010, we recognized an impairment lossof $41,000 on a $1.0 million community development-related equity investment.

NOTE 2 – RECENTLY ISSUED AND ADOPTED ACCOUNTING PRONOUNCEMENTS

In December 2010, the FASB issued ASU No. 2010-29, Business Combinations (Topic 805): Disclosure of Supplementary Pro Forma Information for Business Combinations. This update clarifies that if comparative financial statements are presented in disclosure of supplementary pro forma information for a business combination, revenue and earnings of the combined entity should be disclosed as though the business combination occurred as of the beginning of the comparable annual prior annual reporting period only. Additionally, supplemental pro forma disclosures should include a description of the nature and amount of material, nonrecurring pro forma adjustments included in the reported pro forma revenue and earnings. This update is effective prospectively for business

combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. The adoption of the ASU did not have a material impact on the Company's condensed consolidated financial statements.

In April 2011, the FASB issued ASU No. 2011-02, A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring.This update provides additional guidance relating to when creditors should classify loan modifications as troubled debt restructurings. The ASU also ends the deferral issued in January 2011 of the disclosures about troubled debt restructurings required by ASU No. 2010-20. The Company adopted the provisions of ASU No. 2011-02 and the disclosure requirements of ASU No. 2010-20 in the interim reporting period ending September 30, 2011, and applied its provisions retrospectively to any restructurings that occurred since the beginning of 2011. The adoption of this ASU did not have a material impact on the Company's condensed consolidated financial statements.

In May 2011, the FASB issued ASU No. 2011-04, Fair Value Measurements (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. ASU 2011-04 was issued concurrently with IFRS 13, Fair Value Measurements, to provide mainly identical guidance about fair value measurement and disclosure requirements. For U.S. GAAP, most of the changes are clarifications of existing guidance or wording changes to align with IFRS 13. ASU 2011-04 is effective during interim and annual periods beginning after December 15, 2011. Early adoption is not permitted. The Company does not expect the adoption of this ASU to have a material effect on its condensed consolidated financial statements.

In June 2011, the FASB issued ASU No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income. ASU 2011-05 will require companies to present the components of net income and other comprehensive income either as one continuous statement or as two consecutive statements. This standard eliminates the option to present components of comprehensive income as part of the statement of changes in stockholders' equity. This standard does not change the items which must be reported in other comprehensive income, how such items are measured, or when they must be reclassified to net income. This standard is effective for interim and annual periods beginning after December 15, 2011. Early adoption is permitted. The Company does not expect the adoption of ASU 2011-05 to have a material effect on its condensed consolidated financial statements.

In September 2011, the FASB issued ASU 2011-08, Intangibles – Goodwill and Other – Testing Goodwill for Impairment.ASU 2011-08 provides guidance on the application of a qualitative assessment of impairment indicators in the review of goodwill impairment. The ASU provides that in the event that the qualitative review indicates that it is more likely than not that no impairment has occurred,the Company would not be required to perform a quantitative review. The provisions of ASU 2011-08 will be effective for years beginning after December 15, 2011 for both public and nonpublic entities, although earlier adoption is allowed. The Company does not expect that adoption of this standard will have a significant impact on the Company's consolidated financial statements.

NOTE 3 – ACQUISITIONS

On April 8, 2011, or the EPS Transaction Date, the Bank completed the acquisition of the Electronic Banking Solutions division of Palm Desert National Bank. The transaction included the division's customer base, core deposits, and employees. The Bank paid cash consideration of $5.5 million to purchase the EPS division. The Bank acquired cash of $85.5 million, recognized intangible assets of $6.0 million, assumed $91 million of deposits and recognized a pre-tax bargain purchase gain of $0.5 million in connection with this transaction. The Bank desired this transaction to expand its product and service offerings and diversify its sources of revenue.

Under the acquisition method of accounting, the Bank recorded the assets acquired and liabilities assumed based on their estimated fair values as of the EPS Transaction Date. Results of operations for the three and nine months ended September 30, 2011 include the effects of the EPS acquisition from the EPS Transaction Date.

The following table summarizes the estimated fair values of the assets acquired, received and recognized and the liabilities assumed and recognized as of the EPS Transaction Date.

	(Dollars in thousands)	
Assets Acquired:		
Cash	$	85,389
Intangible assets		6,005
Other assets		89
Total assets acquired	$	91,483
Liabilities Assumed:		
Deposits	$	91,018
Deferred taxes		195
Total liabilities assumed		91,213
Net assets acquired (after-tax bargain purchase gain)		270
Total liabilities and net assets acquired	$	91,483

The Bank based the allocation of the purchase price above on the fair values of the assets acquired and the liabilities assumed. The net gain represents the excess of the estimated fair value of the assets acquired over the estimated fair value of the liabilities assumed. The gain was recognized as noninterest income in the Company's Condensed

Consolidated Statements of Operations. Noninterest expense for the second quarter of 2011 included integration and conversion expenses related to the EPS division acquisition of approximately $350,000.The “Salaries and employee benefits”, “Data processing” and “Legal, audit, and other professional services” categories were affected on the Company’s Condensed Consolidated Statements of Operations.

On February 18, 2011, or the SLTB Transaction Date, the Bank assumed certain liabilities and acquired certain assets and substantially all of the operations of SLTB from the FDIC, acting in its capacity as receiver of SLTB, pursuant to the terms of a purchase and assumption agreement entered into by the Bank and the FDIC, or the Purchase Agreement. The Bank acquired, received, and recognized certain assets with a fair value of approximately $365 million, including $139 million in loans, $99 million of cash and cash equivalents, $41 million of securities and $11 million of foreclosed property related to the transaction. These acquired assets represented approximately 20 percent of consolidated total assets at March 31, 2011. The Bank also assumed approximately $266 million of deposits and $62 million of FHLB advances related to the transaction. The Bank also recorded a FDIC shared-loss asset of $70 million, a core deposit intangible of $0.3 million, deferred tax liabilities of $15 million, a FDIC shared-loss liability of $2.6 million and a premium on time deposits acquired of $0.8 million related to the transaction. The Bank continues to operate the one former SLTB branch location as part of the Bank’s 19 branch locations. The Bank desired this transaction to expand its footprint into the California central coast region.

As part of the Purchase Agreement, the Bank and the FDIC entered into shared-loss agreements, whereby the FDIC will cover a substantial portion of any future losses on loans (and related unfunded loan commitments), foreclosed property and accrued interest on loans for up to 90 days. We refer to the acquired assets subject to the shared-loss agreements collectively as covered assets. Under the terms of the shared-loss agreements, the FDIC will absorb 80 percent of losses and share in 80 percent of loss recoveries. The shared-loss agreements for commercial and residential mortgage loans are in effect for 5 years and 10 years, respectively, from the SLTB Transaction Date and the loss recovery provisions are in effect for 8 years and 10 years, respectively, from the SLTB Transaction Date.

In March 2021, approximately ten years following the SLTB Transaction Date, the Bank is required to perform a calculation and determine if a payment to the FDIC is necessary. The payment amount will be 50 percent of the excess, if any, of (i) 20 percent of the intrinsic loss estimate ($99.0 million) minus (ii) the sum of (a) 20 percent of the net loss amount, plus (b) 25 percent of the asset discount bid ($58.0 million), plus (c) 3.5 percent of total loss share assets at acquisition. At the SLTB Transaction Date, the Bank estimated a liability, on a present value basis, of $2.6 million under this provision.

Under the acquisition method of accounting, the Bank recorded the assets acquired and liabilities assumed based on their estimated fair values as of the SLTB Transaction Date. Results of operations for the three and ninemonths ended September 30, 2011 include the effects of the SLTB acquisition from the SLTB Transaction Date.

The following table summarizes the estimated fair values of the assets acquired, received and recognized and the liabilities assumed and recognized as of the SLTB Transaction Date.

	(Dollars in thousands)	
Assets Acquired:		
Cash and cash equivalents	$	98,820
Securities		40,972
Covered loans		138,792
Covered foreclosed property		11,052
FDIC shared-loss asset		70,293
Other assets		5,510
Total assets acquired	$	365,439
Liabilities Assumed:		
Deposits	$	266,149
FHLB advances		61,541
FDIC shared-loss liability		2,564
Deferred taxes		14,594
Other liabilities		437
Total liabilities assumed		345,285
Net assets acquired (after-tax bargain purchase gain)		20,154
Total liabilities and net assets acquired	$	365,439

The Bank based the allocation of the purchase price above on the fair values of the assets acquired and the liabilities assumed. The net gain represents the excess of the estimated fair value of the assets acquired over the estimated fair value of the liabilities assumed and is influenced significantly by the FDIC-assisted transaction process. Under the FDIC-assisted transaction process, only certain assets and liabilities are transferred to the acquirer and, depending on the nature and amount of the acquirer's bid, the FDIC may be required to make a cash payment to the acquirer. The Bank received a cash payment from the FDIC for $34.4 million. The book value of net assets transferred to the Bank was $23.6 million (i.e., the cost basis). The pre-tax gain of $34.7 million or the after-tax gain of $20.2 million recognized by the Company is considered a bargain purchase transaction under ASC 805 "Business Combinations"

since the total acquisition-date fair value of the identifiable net assets acquired exceeded the fair value of the consideration transferred. The gain was recognized as noninterest income in the Company's Condensed Consolidated Statements of Operations. Noninterest expense for the first quarter of 2011 included integration and conversion expenses related to the SLTB acquisition of approximately $515,000. The "Salaries and employee benefits", "Data processing" and "Legal, audit, and other professional services" categories were affected on the Company's Condensed Consolidated Statements of Operations.

In August 2011, the Bank exercised its option to purchase at fair value approximately $100,000 of furniture, fixtures and equipment related to the one SLTB branch location from the FDIC. The Bank also negotiated and executed a new five-year lease approximating current market rent for the one branch location. Certain acquisition date fair value estimates are still under review and adjustments could effect amounts shown above, including bargain purchase gain.

On November 5, 2010, or the WCB Acquisition Date, the Bank acquired certain assets and assumed certain liabilities and substantially all of the operations of WCB from the FDIC, acting in its capacity as receiver of WCB, pursuant to the terms of a purchase and assumption agreement entered into by the Bank and the FDIC, or the Purchase Agreement. The Bank acquired, received and recognized certain assets with an estimated fair value of approximately $109 million, including $55 million of loans, $32 million of cash, $17 million of a FDIC shared-loss asset, $2 million of securities and $3 million of other assets. Liabilities with an estimated fair value of approximately $107 million were also assumed and recognized, including $105 million of deposits and $2 million of other liabilities. As part of the purchase and assumption agreement, the Bank and the FDIC entered into shared-loss agreements, whereby the FDIC will cover a substantial portion of any future losses on loans (and related unfunded loan commitments), foreclosed property and accrued interest on loans for up to 90 days. Under the terms of the shared-loss agreements, the FDIC will absorb 80 percent of losses and share in 80 percent of loss recoveries. The shared-loss agreements for commercial and residential mortgage loans are in effect for 5 years and 10 years, respectively, from November 5, 2010 and the loss recovery provisions are in effect for 8 years and 10 years, respectively, from November 5, 2010. The Bank operates the one former WCB branch location as part of the Bank's 19 branch locations. The Bank desired this transaction to increase its penetration and market share in its existing markets.

The Bank received a cash payment from the FDIC for $2.4 million. The book value of assets transferred to the Bank was $111.1 million. The pre-tax gain of $2.3 million or the after-tax gain of $1.4 million recognized by the Company is considered a bargain purchase gain and was recognized as noninterest income in the Company's Consolidated Statements of Operations for the year ended December 31, 2010.

NOTE 4 – SECURITIES

The amortized cost, gross unrealized gains, gross unrealized losses and estimated fair values of securities available-for-sale at September 30, 2011 and December 31, 2010 are summarized as follows:

	September 30, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(in thousands)			
U.S. Treasury notes/bills	$ 45,203	$ 30	$ (1)	$ 45,232
U.S. government agency notes	61,341	717	(3)	62,055
U.S. government agency mortgage-backed securities	60,367	1,622	(45)	61,944
U.S. government agency collateralized mortgage obligations	124,893	497	(96)	125,294
Private label collateralized mortgage obligations	16,825	—	(2,543)	14,282
Municipal securities	17,557	669	—	18,226
Other domestic debt securities	7,176	—	(1,924)	5,252
Securities available-for-sale	$ 333,362	$ 3,535	$ (4,612)	$ 332,285

	December 31, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(in thousands)			

U.S. Treasury notes/bills	$	51,118	$	44	$	(8)	$	51,154
U.S. government agency notes		59,426		13		(522)		58,917
U.S. government agency mortgage-backed securities		47,505		348		(528)		47,325
U.S. government agency collateralized mortgage obligations		90,120		130		(370)		89,880
Private label collateralized mortgage obligations		20,409		—		(3,515)		16,894
Municipal securities		3,159		—		(157)		3,002
Other domestic debt securities		7,244		—		(1,977)		5,267
Securities available-for-sale	$	278,981	$	535	$	(7,077)	$	272,439

As of September 30, 2011, securities available-for-sale with a fair value of $50.9 million were pledged as collateral for borrowings, public deposits and other purposes as required by various statutes and agreements. In the third quarter of 2011, we sold $5.3 million of securities and realized gross gains of $212,00 and gross losses of $3,000. In the third quarter of 2010, we sold $105.0 million of securities and realized gross gains of $1.2 million. For the first nine months of 2011, we sold $26.3 million of securities and realized gross gains of $766,000 and gross losses of $67,000. For the first nine months of 2010, we sold $184.9 million of securities and realized gross gains of $1.5 and gross losses of $24,000.

The following table shows the gross unrealized losses and amortized cost of the Company's securities with unrealized losses aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at September 30, 2011 and December 31, 2010.

	At September 30, 2011					
	Less Than 12 Months		Greater Than 12 Months		Total	
	Amortized Cost	Unrealized Losses	Amortized Cost	Unrealized Losses	Amortized Cost	Unrealized Losses
	(in thousands)					
U.S. Treasury notes/bills	$ 5,022	$ (1)	$ —	$ —	$ 5,022	$ (1)
U.S. government agency notes	6,188	(3)	—	—	6,188	(3)
U.S. government agency mortgage-backed securities	5,184	(45)	—	—	5,184	(45)
U.S. government agency collateralized mortgage obligations	26,751	(96)	—	—	26,751	(96)
Private-label collateralized mortgage obligations	—	—	16,825	(2,543)	16,825	(2,543)
Municipal securities	—	—	—	—	—	—
Other domestic debt securities	—	—	7,176	(1,924)	7,176	(1,924)
	$ 43,145	$ (145)	$ 24,001	$ (4,467)	$ 67,146	$ (4,612)

	At December 31, 2010					
	Less Than 12 Months		Greater Than 12 Months		Total	
	Amortized Cost	Unrealized Losses	Amortized Cost	Unrealized Losses	Amortized Cost	Unrealized Losses
	(in thousands)					
U.S. Treasury notes/bills	$ 20,107	$ (8)	$ —	$ —	$ 20,107	$ (8)
U.S. government agency notes	41,401	(522)	—	—	41,401	(522)
U.S. government agency mortgage-backed securities	33,584	(528)	—	—	33,584	(528)
U.S. government agency collateralized mortgage obligations	55,869	(370)	—	—	55,869	(370)
Private-label collateralized mortgage obligations	—	—	20,409	(3,515)	20,409	(3,515)
Municipal securities	3,069	(157)	—	—	3,069	(157)
Other domestic debt securities	2,500	(28)	4,744	(1,949)	7,244	(1,977)
	$ 156,530	$ (1,613)	$ 25,153	$ (5,464)	$ 181,683	$ (7,077)

Net unrealized holding losses were $1.1 million at September 30, 2011 and $6.5 million at December 31, 2010. As a percentage of securities, at amortized cost, net unrealized holding losses were 0.32 percent and 2.35 percent at the end

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

The Company will continue to evaluate the securities portfolio for other-than-temporary impairment at each reporting date and can provide no assurance there will not be further other-than-temporary impairments in future periods.

The following table presents the other-than-temporary impairment activity related to credit loss, which is recognized in earnings, and the other-than-temporary impairment activity related to all other factors, which are recognized in other comprehensive income.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(Dollars in thousands)			
Beginning balance	$3,322	$1,133	$2,256	$1,115
Additional increases to the amount related to the credit loss for which an other-than-temporary impairment was previously recognized	—	23	1,066	41
Ending balance	$3,322	$1,156	$3,322	$1,156

The amortized cost and estimated fair value of securities by contractual maturities are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	At September 30, 2011	
	Amortized Cost	Fair Value
	(in thousands)	
Due in one year or less	$ 66,563	$ 66,603
Due after one year through five years	38,614	39,023
Due after five years through ten years	42,192	42,960
Due after ten years	185,993	183,699
Total	$ 333,362	$ 332,285

NOTE 5 – NON-COVERED LOANS AND ALLOWANCE FOR NON-COVERED LOAN LOSSES

The loans not acquired in the SLTB and WCB acquisitions and which are not covered by the related shared-loss agreements with the FDIC are referred to as non-covered loans. The non-covered loan portfolio by type consists of the following:

(in thousands)	At September 30, 2011	At December 31, 2010
Commercial mortgage	$396,232	$ 399,642
Commercial loans and lines of credit	189,119	213,576
Home mortgage	110,118	108,076
Multifamily	141,954	135,639
Construction and land loans	47,931	55,260
Home equity loans and lines of credit	29,489	29,828
Installment and credit card	5,203	5,724
Total loans	920,046	947,745
Allowance for loan losses	(17,778)	(17,033)

Loans, net	$902,268	$ 930,712

At September 30, 2011, loans with a balance of $661.9 million were pledged as security for Federal Home Loan Bank of San Francisco, or FHLB, advances. Loan balances include net deferred loan costs of $1.1 million and $0.4 million at September 30, 2011 and December 31, 2010, respectively.

Most of the Company's lending activity is with customers located in Los Angeles, Orange, Ventura, Riverside, San Bernardino, San Diego and San Luis Obispo Counties and most loans are secured by or dependent on real estate. Although the Company has no significant exposure to any individual customer, economic conditions, particularly the recent sustained decline in real estate values in Southern California, could adversely affect customers and their ability to satisfy their obligations under their loan agreements.

Changes in the allowance for non-covered loan losses were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(Dollars in thousands)			
Beginning balance	$18,306	$16,452	$17,033	$16,505
Provision for loan losses	1,550	3,618	4,550	7,138
Loans charged-off	(2,292)	(3,891)	(4,319)	(7,735)
Recoveries on loans charged-off	214	321	514	592
Ending balance	$17,778	$16,500	$17,778	$16,500
Allowance to gross non-covered loans	1.93 %	1.80 %	1.93 %	1.80 %

The following table details activity in the allowance for non-covered loan losses by portfolio segment for the three months ended September 30, 2011. Allocation of a portion of the allowance to one segment of the loan portfolio does not preclude its availability to absorb losses in other segments.

	Three Months Ended September 30, 2011							
(in thousands)	Commercial Mortgage	Commercial	Multifamily	Construction and Land	Home Mortgage	Home Equity	Installment	Total
Allowance for credit losses:								
Beginning balance	$7,019	$ 5,469	$ 2,556	$ 874	$1,851	$426	$ 111	$18,306
Charge-offs	—	(2,237)	—	(7)	(3)	(37)	(8)	(2,292)
Recoveries	—	204	—	5	5	—	—	214
Provision	(878)	2,689	(70)	138	(276)	(31)	(22)	1,550
Ending balance	$6,141	$ 6,125	$ 2,486	$ 1,010	$1,577	$358	$ 81	$17,778
Ending balance; individually evaluated for impairment	$—	$ 2,757	$ —	$ 45	$—	$—	$ 2	$2,804
Ending balance; collectively evaluated for impairment	6,141	3,368	2,486	965	1,577	358	79	14,974
Ending balance	$6,141	$ 6,125	$ 2,486	$ 1,010	$1,577	$358	$ 81	$17,778
Non-covered loan balances:								
Ending balance	$396,232	$ 189,119	$ 141,954	$ 47,931	$110,118	$29,489	$ 5,203	$920,046
Ending balance; individually evaluated for	$1,413	$ 10,048	$ 1,532	$ 181	$1,105	$—	$ 4	$14,283

impairment								
Ending balance; collectively evaluated for impairment	$394,819	$ 179,071	$ 140,422	$ 47,750	$109,013	$29,489	$ 5,199	$905,763

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The following table details activity in the allowance for non-covered loan losses by portfolio segment for the nine months ended September 30, 2011. Allocation of a portion of the allowance to one segment of the loan portfolio does not preclude its availability to absorb losses in other segments.

	Nine Months ended September 30, 2011							
(in thousands)	Commercial Mortgage	Commercial	Multifamily	Construction and Land	Home Mortgage	Home Equity	Installment	Total
Allowance for credit losses:								
Beginning balance	$6,134	$ 4,934	$ 2,273	$ 1,698	$1,496	$416	$ 82	$17,033
Charge-offs	(312)	(3,429)	(65)	(10)	(370)	(37)	(96)	(4,319)
Recoveries	—	495	—	9	5	—	5	514
Provision	319	4,125	278	(687)	446	(21)	90	4,550
Ending balance	$6,141	$ 6,125	$ 2,486	$ 1,010	$1,577	$358	$ 81	$17,778
Ending balance; individually evaluated for impairment	$—	$ 2,757	$ —	$ 45	$—	$—	$ 2	$2,804
Ending balance; collectively evaluated for impairment	6,141	3,368	2,486	965	1,577	358	79	14,974
Ending balance	$6,141	$ 6,125	$ 2,486	$ 1,010	$1,577	$358	$ 81	$17,778
Non-covered loan balances:								
Ending balance	$396,232	$ 189,119	$ 141,954	$ 47,931	$110,118	$29,489	$ 5,203	$920,046
Ending balance; individually evaluated for impairment	$1,413	$ 10,048	$ 1,532	$ 181	$1,105	$—	$ 4	$14,283
Ending balance; collectively evaluated for impairment	$394,819	$ 179,071	$ 140,422	$ 47,750	$109,013	$29,489	$ 5,199	$905,763

The following table details activity in the allowance for non-covered loan losses by portfolio segment for the three months ended September 30, 2010. Allocation of a portion of the allowance to one segment of the loan portfolio does not preclude its availability to absorb losses in other segments.

	Three months ended September 30, 2010							
(in 000's)	Commercial Mortgage	Commercial	Multifamily	Construction and Land	Home Mortgage	Home Equity	Installment	Total
Allowance for credit losses:								
Beginning balance	$ 5,318	$ 4,502	$ 1,986	$ 3,193	$ 810	$ 546	$ 97	$ 16,452
Charge-offs	(89)	(3,528)	(16)	(9)	(221)	-	(28)	(3,891)
Recoveries	26	34	-	126	132	-	3	321
Provision	331	4,357	163	(1,521)	360	(71)	(1)	3,618
Ending balance	$ 5,586	$ 5,365	$ 2,133	$ 1,789	$ 1,081	$ 475	$ 71	$ 16,500
Ending balance; individually evaluated for impairment	$ -	$ 1,645	$ -	$ 216	$ -	$ -	$ -	$ 1,861
Ending balance; collectively evaluated for impairment	5,586	3,720	2,133	1,573	1,081	475	71	14,639
Ending balance	$ 5,586	$ 5,365	$ 2,133	$ 1,789	$ 1,081	$ 475	$ 71	$ 16,500
Non-covered loan balances:								
Ending balance	$388,786	$218,108	$135,544	$58,055	$76,190	$36,808	$5,219	$918,708
Ending balance; individually evaluated for impairment	$1,908	$12,324	$668	$4,347	$1,813	$-	$-	$21,060
Ending balance; collectively evaluated for impairment	$386,878	$205,784	$134,876	$53,708	$74,377	$36,808	$5,219	$897,648

The following table details activity in the allowance for non-covered loan losses by portfolio segment for the nine months ended September 30, 2010. Allocation of a portion of the allowance to one segment of the loan portfolio does not prelude its availability to absorb losses in other segments.

	Nine months ended September 30, 2010							
(in 000's)	Commercial Mortgage	Commercial	Multifamily	Construction and Land	Home Mortgage	Home Equity	Installment	Total

Allowance for credit losses:								
Beginning balance	$ 4,850	$ 4,796	$ 3,277	$ 2,460	$ 605	$ 453	$ 64	$ 16,505
Charge-offs	(618)	(4,936)	(1,170)	(376)	(381)	(199)	(55)	(7,735)
Recoveries	66	200	-	144	174	-	8	592
Provision	1,288	5,305	26	(439)	683	221	54	7,138
Ending balance	$ 5,586	$ 5,365	$ 2,133	$ 1,789	$ 1,081	$ 475	$ 71	$ 16,500
Ending balance; individually evaluated for impairment	$ -	$ 1,645	$ -	$ 216	$ -	$ -	$ -	$ 1,861
Ending balance; collectively evaluated for impairment	5,586	3,720	2,133	1,573	1,081	475	71	14,639
Ending balance	$ 5,586	$ 5,365	$ 2,133	$ 1,789	$ 1,081	$ 475	$ 71	$ 16,500
Non-covered loan balances:								
Ending balance	$388,786	$218,108	$135,544	$58,055	$76,190	$36,808	$5,219	$918,708
Ending balance; individually evaluated for impairment	$1,908	$12,324	$668	$4,347	$1,813	$-	$-	$21,060
Ending balance; collectively evaluated for impairment	$386,878	$205,784	$134,876	$53,708	$74,377	$36,808	$5,219	$897,648

Nonaccrual loans are those loans for which management has discontinued accrual of interest because reasonable doubt exists as to the full and timely collection of either principal or interest. Nonaccrual loans are also considered impaired loans. Total non-covered nonaccrual loans totaled $15.8 million at September 30, 2011 as compared to $18.2 million at December 31, 2010. The allowance for loan losses maintained for nonaccrual loans was $2.8 million and $2.0 million at September 30, 2011 and December 31, 2010, respectively. Had these loans performed according to their original terms, additional interest income of $0.1 million would have been recognized in the three months ended September 30, 2011 and 2010, respectively. Had these loans performed according to their original terms, additional interest income of $0.7 million and $1.2 million would have been recognized in the nine months ended September 30, 2011 and 2010, respectively.

The following table sets forth the amounts and categories of our non-covered non-performing loans and the amount of non-covered foreclosed property at the dates indicated.

	At September 30, 2011	At December 31, 2010
Non-accrual loans		
Aggregate loan amounts		
Construction and land	$ 181	$ 698
Commercial mortgage	1,413	1,458
Multifamily	1,532	668
Commercial loans	11,567	13,449
Home mortgage	1,105	1,968
Installment	47	—
Total non-accrual loans	$ 15,845	$ 18,241
Total non-performing loans	$ 15,869	$ 18,241

Included in non-covered non-accrual loans at September 30, 2011 were ten restructured loans totaling $2.3 million. The ten loans consist of one home mortgage loan, one installment loan, one multifamily loan and seven commercial loans. Interest income recognized on these loans was $34,000 for thenine months ended September 30, 2011. We have no commitments to lend additional funds to these borrowers.

Included in non-covered non-accrual loans at December 31, 2010 were eight restructured loans totaling $2.3 million. The eight loans consist of one home mortgage loan and seven commercial loans. Interest income recognized on these loans was $27,000 for the year ended December 31, 2010. We had no commitments to lend additional funds to these borrowers.

Credit Quality Indicators

Loans are risk rated based on analysis of the current state of the borrower's credit quality. This analysis of credit quality includes a review of all sources of repayment, the borrower's current financial and liquidity status and all other relevant information. The Company utilizes a ten grade risk rating system, where a higher grade represents a higher level of credit risk. The ten grade risk rating system can be generally classified by the following categories: Pass, Special Mention, Substandard, Doubtful and Loss. The risk ratings reflect the relative strength of the sources of repayment.

Pass loans are generally considered to have sufficient sources of repayment in order to repay the loan in full in accordance with all terms and conditions. These borrowers may have some credit risk that requires monitoring, but full repayment is expected. Special Mention loans are considered to have potential weaknesses that warrant close

attention by management. Special Mention is considered a transitory grade and generally, the Company does not have a loan stay graded Special Mention for longer than six months. If any potential weaknesses are resolved, the loan is upgraded to a Pass grade. If negative trends in the borrower's financial status or other information is presented that indicates the repayment sources may become inadequate, the loan is downgraded to a Substandard grade. Substandard loans are considered to have well-defined weaknesses that jeopardize the full and timely repayment

of the loan. Substandard loans have a distinct possibility of loss if the deficiencies are not corrected. Additionally, when management has assessed a potential for loss but a distinct possibility of loss is not recognizable, the loan is still classified as Substandard. Doubtful loans have insufficient sources of repayment and a high probability of loss. Loss loans are considered to be uncollectible and of such little value that they are no longer considered bankable assets. These internal risk ratings are reviewed continuously and adjusted due to changes in borrower status and likelihood of loan repayment. The table below presents the non-covered loan portfolio by credit quality indicator as of September 30, 2011.

	As of September 30, 2011					
	Pass	Special Mention	Substandard	Doubtful	Loss	Total
			(in thousands)			
Commercial mortgage	$364,668	$21,195	$10,369	$—	$—	$396,232
Commercial loans and lines	163,453	5,022	11,591	9,053	—	189,119
Multifamily	128,745	4,899	8,310	—	—	141,954
Construction and land	44,188	198	3,545	—	—	47,931
Home mortgage	100,193	8,420	1,505	—	—	110,118
Home equity loans and lines	29,075	406	8	—	—	29,489
Installment	4,845	271	83	4	—	5,203
	$835,167	$40,411	$35,411	$9,057	$—	$920,046

The table below presents the non-covered loan portfolio by credit quality indicator as of December 31, 2010.

	As of December 31, 2010					
	Pass	Special Mention	Substandard	Doubtful	Loss	Total
			(in thousands)			
Commercial mortgage	$372,969	$20,899	$5,774	$—	$—	$399,642
Commercial loans and lines	188,548	4,401	20,449	178	—	213,576
Multifamily	127,549	4,187	3,903	—	—	135,639
Construction and land	46,137	133	8,990	—	—	55,260
Home mortgage	103,669	—	4,407	—	—	108,076
Home equity loans and lines	28,378	1,405	45	—	—	29,828
Installment	5,412					