FIRST PACTRUST BANCORP INC
Form 10-K
March 28, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2012

or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission file number 001-35522

FIRST PACTRUST BANCORP, INC.

(Exact name of registrant as specified in its charter)

Maryland	**04-3639825**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
18500 Von Karman Ave, Suite 1100, Irvine, California	**92612**
(Address of Principal Executive Offices)	**(Zip Code)**

Registrant s telephone number, including area code: (949) 236-5211

Securities Registered Pursuant to Section 12(b) of the Act:

Common Stock, par value $0.01 per share

7.50% Senior Notes Due April 15, 2020

(Title of class)

The NASDAQ Stock Market LLC

(Name of each exchange on which registered)

Securities Registered Pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ¨. NO x.

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES ¨. NO x.

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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 definition of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨ Smaller reporting company ¨

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

The aggregate market value of the voting stock held by non-affiliates of the registrant, computed by reference to the closing price of such stock on the NASDAQ Stock Market LLC as of June 29, 2012, was $123.8 million. (The exclusion from such amount of the market value of the shares owned by any person shall not be deemed an admission by the registrant that such person is an affiliate of the registrant.) As of March 3, 2013, the registrant had outstanding 10,806,368 shares of voting common stock and 1,112,188 shares of Class B non-voting common stock.

DOCUMENTS INCORPORATED BY REFERENCE

PART III of Form 10-K Portions of the Proxy Statement for the Annual Meeting of Shareholders to be held in 2013.

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FIRST PACTRUST BANCORP, INC. AND SUBSIDIARIES

FORM 10-K

December 31, 2012

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PART I

Item 1. Business

General

First PacTrust Bancorp, Inc. is a multi-bank holding company of Pacific Trust Bank, a federal savings bank (PacTrust Bank), and Beach Business Bank, a California-chartered bank (Beach and collectively with PacTrust Bank, the Banks). First PacTrust was incorporated under Maryland law in March 2002 to hold all of the stock of PacTrust Bank upon completion in August 2002 of PacTrust Bank s conversion from the mutual to the stock form of ownership and the concurrent initial public offering of First PacTrust s common stock. Beach became a wholly owned subsidiary of First PacTrust through an acquisition we completed in July 2012. See Recent Acquisitions. Unless the context otherwise requires, all references to First PacTrust refer to First PacTrust Bancorp, Inc. excluding its consolidated subsidiaries and all references to the Company, we, us or our refer to First PacTrust Bancorp, Inc. including its consolidated subsidiaries.

As a bank holding company, First PacTrust generally is prohibited from acquiring direct or indirect ownership or control of more than 5% of the voting shares of any company which is not a bank or bank holding company, or from engaging directly or indirectly in activities other than those of banking, managing or controlling banks, or providing services for its subsidiaries. The principal exceptions to these prohibitions involve certain non-bank activities which, by statute or by regulation or order of the Board of Governors of the Federal Reserve System (the Federal Reserve Board), have been identified as activities closely related to the business of banking or managing or controlling banks. First PacTrust is not an operating company and its assets primarily consist of the outstanding stock of the Banks, a non-banking subsidiary formed to hold real estate, cash and fixed income investments. From time to time, First PacTrust has purchased impaired loans and leases, investments and other real estate owned (OREO) from the Banks to assure the Banks safety and soundness. First PacTrust has no significant liabilities at the holding company level other than $82.7 million in Senior Notes and related interest payments, compensation of its executive employees and directors, as well as expenses related to strategic initiatives. First PacTrust also utilizes the support staff and offices of the Banks and pays the Banks for these services. If First PacTrust expands or changes its business in the future, it may hire additional employees of its own.

The Banks offer a variety of financial services to meet the banking and financial needs of the communities we serve. PacTrust Bank is headquartered in Orange County, California, and Beach is headquartered in Los Angeles County, California, and as of December 31, 2012 the Banks operated 19 banking offices in San Diego, Riverside, Orange, and Los Angeles Counties in California and 24 single family mortgage loan production offices in California, Arizona, Oregon and Washington.

The principal business of PacTrust Bank consists of attracting retail deposits from the general public and investing these funds primarily in loans secured by first mortgages on owner-occupied, one- to four-family residences, a variety of consumer loans, multi-family and commercial real estate and commercial business loans. PacTrust Bank solicits deposits in PacTrust Bank s market area and, to a lesser extent, from institutional depositors nationwide and may accept brokered deposits.

PacTrust Bank consumer product and service offerings include checking, savings, money market, certificates of deposit, retirement accounts as well as mobile, online & telephone banking, automated bill payment, electronic statements, safe deposit boxes, direct deposit and wire transfers. Bank customers also have the ability to access their accounts through a nationwide network of over 30,000 surcharge-free ATMs.

PacTrust Bank offers its business customers services including commercial and industrial lending, Small Business Administration (SBA) lending, equipment leasing & financing, cash & treasury management, card payment services, remote deposit, ACH origination and employer/employee retirement planning.

Beach is a community bank engaged in the general commercial banking business. Beach offers a variety of deposit and loan products to individuals and small to mid-sized businesses. Beach s business plan emphasizes providing highly specialized financial services in a personalized manner to individuals and businesses in its service area. Through a division called The Doctors Bank®, Beach also serves physicians and dentists nationwide. In addition, Beach specializes in providing SBA loans, as member of the SBA s Preferred Lender Program.

As a bank holding company, First PacTrust is subject to regulation by the Federal Reserve Board. As a federal savings bank, PacTrust Bank is subject to regulation primarily by the Office of the Comptroller of the Currency (the OCC). As a California-chartered bank that is not a member of the Federal Reserve System, Beach is subject to regulation primarily by the California Department of Financial Institutions (the DFI) and the Federal Deposit Insurance Corporation (the FDIC). See Regulation and Supervision.

The principal executive offices of the Company are located at 18500 Von Karman Avenue, Suite 1100, California, and its telephone number is (949) 236-5211. First PacTrust s voting common stock is listed on the NASDAQ Stock Market under the symbol BANC and its 7.50% Senior Notes Due April 15, 2020 are listed on the NASDAQ Stock Market under the symbol BANC.L.

The reports, proxy statements and other information that First PacTrust files with the SEC, as well as news releases, are available free of charge through the Company s Internet site at http://www.firstpactrustbancorp.com. This information can be found on the First PacTrust Bancorp, Inc. News or SEC Filings pages of our Internet site. The annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed and furnished pursuant to Section 13(a) of the Exchange Act are available as soon as reasonably practicable after they have been filed or furnished to the SEC. Reference to the Company s Internet address is not intended to incorporate any of the information contained on our Internet site into this document.

Strategy

First PacTrust strives to be a quality high performing community bank holding company for the long-term benefit of our shareholders, customers and employees. Our overall strategy is comprised of specific growth and operating objectives. The key elements of that strategy are:

Growth Strategies

Expand our franchise through acquisitions or the establishment of new branches or banks in markets that offer regional continuity, such as the greater Southern California market.

Continue as a public company with a common stock that is quoted and traded on a national stock market. In addition to providing access to growth capital, we believe a public currency provides flexibility in structuring acquisitions and will allow us to attract and retain qualified management through equity-based compensation.

Diversify the residential lending platform through additional lending channels such as correspondent lending, warehouse lending and wholesale lending, which will result in expanding production sources and broadening our own product mix and geographic concentration.

Enhance the residential lending product mix and loan sale alternatives by seeking Ginnie Mae approval to originate qualified loans that are subsequently sold as mortgage backed securities with a full government credit guaranty.

Expand and enhance our mortgage banking operations. As a result of our 2012 Gateway Bancorp (Gateway) acquisition, we acquired a well established mortgage banking platform (Mission Hills Mortgage Banking). The platform provided us with 24 loan production offices in California, Arizona, Oregon and Washington.

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Increase our SBA production. SBA loans provide us an option to portfolio or to sell the guaranteed portion of loans in the secondary market. The 2012 acquisitions of Beach and Gateway provided us with a well established SBA platform from which to grow. With centralized underwriting in Southern California and strong marketing personnel, we anticipate both interest income and non-interest income will continue to increase in the near term.

Purchases of credit impaired loan pools. We completed three bulk acquisitions of credit impaired loans during 2012 (subsequent to the Beach and Gateway acquisitions), at a significant discount to both the current property value of the collateral and the note balance. We intend to continue the purchase of such loans where we believe we can obtain an attractive risk adjusted return as part of our portfolio diversification.

Expand our commercial lending portfolios to diversify both our customer base and maturities of the loan portfolio and to benefit from the low cost deposits associated with individual accounts and the professional, general business and service industries that are common commercial borrowers. During 2012, we successfully completed two acquisitions that included a team of local commercial lending officers which has given us a greater network and far greater capacity to attract commercial relationships.

Continue to grow our commercial real estate lending by leveraging the backgrounds and contacts of our experienced lending officers to expand market share.

Operating Strategies

Sustained focus on residential lending profit margins by building a scalable platform and continuously driving efficiency and productivity gains through implementation of technology and process enhancements.

Enhance our risk management functions by proactively managing sound procedures and committing experienced human resources to this effort. We seek (i) to identify risks in all functions of our business, including credit, operations and asset and liability management, (ii) to evaluate such risks and their trends and (iii) to adopt strategies to manage such risks based upon our evaluations.

Maintain high asset quality by continuing to utilize rigorous loan underwriting standards and credit risk management practices.

Continue to actively manage interest rate and market risks by closely matching the volume and maturity of our interest sensitive assets to our interest sensitive liabilities in order to mitigate adverse effects of rapid changes in interest rates on either side of our balance sheet.

Expand residential, commercial and industrial, as well as small business relationships which commonly are associated with deposits that are a lower cost and more stable funding source.

Recent Acquisitions

Beach. On July 1, 2012, we completed our acquisition of Beach for aggregate cash consideration of approximately $39.1 million plus one-year warrants to purchase up to an aggregate of 1.4 million shares of First PacTrust common stock at an exercise price of $14.00 per share. As of July 1, 2012, Beach had total assets of $312.0 million, total loans of $229.7 million and total deposits of $271.3 million. Upon the completion of the acquisition, Beach became a wholly owned subsidiary of First PacTrust.

Gateway. On August 18, 2012, we completed our acquisition of Gateway, the holding company for Gateway Business Bank, for an aggregate purchase price of $15.4 million in cash. In connection with the acquisition, Gateway Business Bank was merged into PacTrust Bank. As of August 18, 2012, Gateway Business Bank had total assets of $178.0 million, total loans of $131.3 million and total deposits of $143.0 million. The acquisition

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included Mission Hills Mortgage Bankers (MHMB), the mortgage banking division of Gateway Business Bank. From 2006 through the acquisition date, MHMB has originated over $6.3 billion of mostly prime mortgage loans, a majority of which have been sold servicing-released through correspondent relationships with financial institutions including through Government Sponsored Enterprises (GSEs). Prior to merging with PacTrust Bank, Gateway Business Bank independently operated two full service branches in Laguna Hills and Lakewood, California and MHMB operated 24 retail mortgage production offices throughout California, Oregon, Washington and Arizona. MHMB now operates as a division of PacTrust Bank.

Pending Acquisition

Private Bank of California

On August 21, 2012, First PacTrust and Beach entered into a definitive agreement to acquire all the outstanding stock of The Private Bank of California, a California-chartered bank (PBOC). Pursuant to the agreement, if the PBOC merger is completed, PBOC will merge with and into Beach (or at the option of First PacTrust, PacTrust Bank). At December 31, 2012, PBOC had total assets of $712.4 million, total loans, net of allowance for loan losses, of $367.4 million and total deposits of $582.1 million. 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 a loan production office in downtown Los Angeles. 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.

If the PBOC merger is completed, each holder of PBOC common stock will receive a proportional share of 2,083,333 shares of First PacTrust common stock and $24,887,513 in cash, in each case subject to certain adjustments. If the total value of the merger consideration, calculated for this purpose using $12.00 as the value of one share of First PacTrust common stock, would otherwise exceed an amount equal to 1.30 times PBOC s tangible common equity as of the last business day of the month immediately prior to the closing of the merger (after subtracting from tangible common equity certain unaccrued one-time PBOC merger-related costs and expenses) then the cash portion of the merger consideration will be adjusted downward until the total value of the merger consideration is equal to such amount. We plan to finance the cash portion of the merger consideration with cash on hand.

In addition, if the PBOC merger is completed, each share of preferred stock issued by PBOC as part of the Small Business Lending Fund (SBLF) program of the United States Department of Treasury (10,000 shares in the aggregate with a liquidation preference amount of $1,000 per share) will be converted automatically into one substantially identical share of First PacTrust preferred stock. The terms of the preferred stock to be issued by First PacTrust in exchange for the PBOC preferred stock are substantially identical to the preferred stock previously issued by First PacTrust (and currently outstanding) as part of its own participation in the SBLF program (32,000 shares in the aggregate with a liquidation preference amount of $1,000 per share).

Completion of the PBOC merger is subject to certain conditions, including receipt of approval of the shareholders of PBOC and regulatory approvals. The acquisition will be accounted for under the acquisition method of accounting. We expect to complete the transaction in the second quarter of 2013, although we cannot assure you that the transaction will close on that timetable or at all.

The Palisades Group

On November 30, 2012, First PacTrust entered into a Units Purchase Agreement, dated as of November 30, 2012 (the Agreement), by and among First PacTrust, Stephen Kirch, Jack Macdowell and The Palisades Group, LLC (Palisades), pursuant to which First PacTrust has an irrevocable option to purchase for an aggregate consideration of $500,000 (i) all of the currently issued and outstanding membership interests in

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Palisades, which are presently held by Messrs. Kirch and Macdowell, and (ii) newly-issued membership interests in Palisades. Of the $500,000 aggregate consideration payable by First PacTrust in respect of the Agreement, $450,000 is expected to be retained by Palisades as working capital. The option is exercisable in First PacTrust s sole discretion. In the event the option is exercised, the purchase of the membership interests contemplated by the Agreement will be subject to the satisfaction of certain closing conditions, including among other matters, the receipt of all required regulatory approvals, the amendment and restatement of the Palisades limited liability company agreement in a form satisfactory to First PacTrust, and the execution of agreements providing for the continued employment of Messrs. Kirch and Macdowell by Palisades on terms satisfactory to First PacTrust. First PacTrust entered into the Agreement in connection with its ongoing evaluation of certain non-deposit operations and strategies, including First PacTrust s and its subsidiaries mortgage portfolio strategies.

Palisades was formed in 2012 and seeks to provide certain management, advisory and administrative services to mortgage loan portfolios held by public and private investors. Palisades currently provides such services to PacTrust Bank.

Acquisitions of Credit Impaired Loans

During the course of 2012, the Company completed three bulk acquisitions of generally performing residential mortgage loans whose characteristics and payment history were consistent with borrowers that demonstrated a willingness and ability to remain in the residence pursuant to the current terms of the mortgage loan agreement. The Company was able to acquire these loans at a significant discount to both current property value at acquisition and note balance. For each acquisition the Company was able to utilize it s background in mortgage credit analysis to re-underwrite the borrower s credit to arrive at what it believes to be an attractive risk adjusted return for a highly collateralized investment in performing mortgage loans. The acquisition program implemented and executed by the Company involved a multifaceted due diligence process that included compliance reviews, title analyses, review of modification agreements, updated property valuation assessments, collateral inventory and other undertakings related to the scope of due diligence. In aggregate, the purchase price of the loans was less than 70% of current property value at the time of acquisition based on a third party broker price opinion, and less than 60% of note balance at the time of acquisition. Commonly referred to as re-performing loans, these loans were discounted because either (i) the borrower was delinquent at the time of the loan purchase or had previously been delinquent and had become current prior to our purchase of the loan, or (ii) because of a decline in the value of the property securing the loan since the date the loan was originated, the loan had an outstanding principal balance in excess of value of the underlying property and had an effective loan-to-value ratio of over 100%.

The Company acquired these loans with an unpaid principal balance of $114.8 million and a carrying value of $66.7 million. As of December 31, 2012, the unpaid principal balance of these loans was $108.3 million and the carrying value was $64.9 million. At the time of acquisition, approximately 97.1% of the mortgage loans had the original terms modified at some point since origination by a prior owner or servicer. The mortgage loans had a current weighted average interest rate of 4.13%, determined by the unpaid principal balance as of December 31, 2012. The weighted average credit score of the borrowers comprising the mortgage loans at or near the time of acquisition determined by the current principal balance and excluding those with no credit score on file was 632. The average property value determined by a broker price opinion obtained by third party licensed real estate professionals at or around the time of acquisition was $252,406. Approximately 97% of the loans were performing loans, 3% were delinquent and no loans were in foreclosure at the date of acquisition. Approximately 86.0% of the borrowers by current principal balance had made their last 12 scheduled monthly payments at the time the loans sold (or, in some cases calculated as making the last 11 scheduled monthly payments), and 99.1% had made their last six scheduled monthly payments. The mortgage loans are secured by residences located across 42 states, with California having the greatest geographic concentration at 31.5% of the unpaid principal balance at December 31, 2012.

At December 31, 2012, approximately 94% of the loans were performing, 6% were delinquent and 0.2% were in foreclosure.

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Forward-Looking Statements

This Form 10-K contains various forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that are based on assumptions and describe our future plans and strategies and our expectations. These forward-looking statements are generally identified by words such as believe, expect, intend, anticipate, estimate, project, or similar words. Our ability to predict results or the actu effect of future plans or strategies is uncertain. 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 merger agreement for the Company s pending acquisition of PBOC; (ii) the outcome of any legal proceedings that may be instituted against the Company or PBOC; (iii) the inability to complete the PBOC transaction due to the failure to satisfy such transaction s conditions to completion, including the receipt of regulatory approvals and the approval of the merger agreement by PBOC s shareholders; (iv) risks that the proposed PBOC transaction, or the Company s recently completed acquisitions of Beach and Gateway, 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; (v) continuation or worsening of current recessionary conditions, as well as continued turmoil in the financial markets; (vi) 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 and lease 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; (vii) the quality and composition of our securities portfolio; (viii) changes in general economic conditions, either nationally or in our market areas; (ix) 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; (x) 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; (xi) 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; (xii) legislative or regulatory changes that adversely affect our business, including changes in regulatory capital or other rules; (xiii) our ability to control operating costs and expenses; (xiv) staffing fluctuations in response to product demand or the implementation of corporate strategies that affect our work force and potential associated charges; (xv) errors in our estimates in determining fair value of certain of our assets, which may result in significant declines in valuation; (xvi) the network and computer systems on which we depend could fail or experience a security breach; (xvii) our ability to attract and retain key members of our senior management team; (xviii) costs and effects of litigation, including settlements and judgments; (xix) increased competitive pressures among financial services companies; (xx) changes in consumer spending, borrowing and saving habits; (xxi) adverse changes in the securities markets; (xxii) earthquake, fire or other natural disasters affecting the condition of real estate collateral; (xxiii) the availability of resources to address changes in laws, rules or regulations or to respond to regulatory actions; (xxiv) inability of key third-party providers to perform their obligations to us; (xxv) changes in accounting policies and practices, as may be adopted by the financial institution regulatory agencies or the Financial Accounting Standards Board or their application to our business or final audit adjustments, including additional guidance and interpretation on accounting issues and details of the implementation of new accounting methods; (xxvi) war or terrorist activities; and (xxvii) other economic, competitive, governmental, regulatory, and technological factors affecting our operations, pricing, products and services and the other risks described in this report.

We do not undertake, and specifically disclaim, any obligation to publicly revise any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

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Lending Activities

General. The Company offers a number of different commercial and consumer loan products, including commercial and industrial loans, commercial real estate mortgage loans, multi-family mortgage loans, SBA guaranteed business loans, construction loans, lease financing, single family 1-4 unit residential mortgage loans, home equity lines of credit (HELOCs), home equity loans and other consumer loans.

The Company s commercial and consumer loans carry either a fixed or an adjustable rate of interest. At December 31, 2012, the Company s net loan portfolio totaled $1.2 billion, which constituted 73.3% of our total assets. The breakdown of total gross loans in the portfolio was: 51.1% 1-4 residential (the SFR Mortgage Portfolio), 27.3% commercial real estate mortgages, 9.1% commercial multi-family, 6.4% commercial and industrial, 1.7% HELOCs, home equity loans and other consumer installment credit, 0.5% construction, 2.9% SBA, and 0.9% lease financing.

As of December 31, 2012, $658.6 million, or 52.8% of our total gross loan and lease portfolio was secured by single-family mortgage loans and home equity lines of credit. The Company s SFR mortgage portfolio is comprised of a combination of traditional, fully-amortizing and non-traditional mortgage loans. The Company s non-traditional mortgage loan portfolio includes our Green Account Loans (Green Loans), interest only mortgage loans, and mortgage loans with potential for negative amortization. At December 31, 2012, the balance of the Company s non-traditional mortgage (NTM) portfolio totaled $368.2 million, or 29.5% of the total gross loan portfolio, of which first mortgage Green Loans totaled $206.0 million or 16.5%. Green Loans are first and second mortgage lines of credit with linked checking accounts that allow all types of deposits and withdrawals to be performed, including direct deposit, check debit cards, ATM, ACH debits and credits, and internet banking and bill payment transactions. Also, at December 31, 2012, the Company had a total of $143.0 million in interest-only mortgage loans and $19.3 million in mortgage loans with potential for negative amortization.

In the case of PacTrust Bank, as of December 31, 2012, the Executive Vice President of Lending and the Chief Credit Officer may each approve loans to one borrower or group of related borrowers up to $2.5 million. The President/Chief Executive Officer (CEO) in combination with the Chief Credit Officer may approve loans to one borrower or group of related borrowers up to $5.0 million. The Management Loan Committee may approve loans to one borrower or group of related borrowers up to $10.0 million, with no single loan exceeding $5.0 million. The Board Loan Committee must approve loans over these amounts or outside our general loan policy.

In the case of Beach, as of December 31, 2012, the CEO in combination with the Chief Credit Officer may approve loans up to $1.5 million. Loans in excess of $1.5 million are presented to Beach s Directors Loan Committee for final approval.

At December 31, 2012, the maximum amount which PacTrust Bank could have loaned to any one borrower and the borrower s related entities was approximately $43.2 million on a secured basis and $25.9 million on an unsecured basis.

At December 31, 2012, the maximum amount which Beach could have loaned to any one borrower and the borrower s related entities was approximately $8.7 million on a secured basis and $5.2 million on an unsecured basis.

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The following table presents information concerning the composition of the Company s loan and lease portfolio in dollar amounts and in percentages as of the dates indicated.

	December 31,									
	2012		2011		2010		2009		2008	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in Thousands)									
Commercial:										
Commercial and industrial	$ 80,393	6.5%	$ 9,019	1.1%	$ 6,744	1.0%	$ 6,782	0.9%	$ 7,348	0.9%
Real estate mortgage	339,888	27.3	126,388	16.1	61,396	8.9	64,002	8.4	57,016	7.1
Multi-family	113,674	9.1	85,605	10.9	33,040	4.8	34,235	4.5	34,831	4.3
SBA	36,120	2.9		0.0		0.0		0.0		0.0
Construction	6,648	0.5		0.0		0.0		0.0	17,835	2.2
Lease financing	11,203	0.9		0.0		0.0		0.0		0.0
Consumer:										
Real estate 1-4 family first mortgage	637,071	51.1	546,760	69.6	568,854	82.3	633,118	83.4	670,401	82.9
HELOCs, home equity loans, and other consumer installment credit	21,562	1.7	17,823	2.3	20,954	3.0	20,983	2.8	21,319	2.6
Total loans	1,246,559	100.0%	785,595	100.0%	690,988	100.0%	759,120	100.0%	808,750	100.0%
Net deferred loan costs	447		1,109		1,824		2,262		2,581	
Unamortized purchase premium	1,465		1,685							
Allowance for loan losses	(14,448)		(12,780)		(14,637)		(13,079)		(18,286)	
Total loans receivable, net	$ 1,234,023		$ 775,609		$ 678,175		$ 748,303		$ 793,045	

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The following table shows loan and lease originations, purchases, sales, and repayment activities excluding loans originated for sale, for the periods indicated.

	Year Ended December 31, 2012	2011 (In thousands)	2010
Originations by type:			
Adjustable rate:			
Real estate one- to four-family	$ 183,343	$ 44,554	$ 3,552
Multi-family, commercial and land	72,142	12,826	3,742
SBA	5,216		
Construction or development	16,961		
Consumer and other	5,268	64,851	89,389
Commercial and industrial	32,329		
Total adjustable-rate	315,259	122,231	96,683
Fixed rate:			
Real estate one-to four-family	2,382		
Multi-family, commercial and land	95,640	76,299	
SBA	2,970		
Non-real estate-consumer	150	97	387
Commercial and industrial	2,103	493	871
Total fixed-rate	103,245	76,889	1,258
Total loans originated	418,504	199,120	97,941
Purchases:			
Real estate one- to four-family	66,718		182
Multi-family, commercial and land	18,674	58,027	
Construction or development			
Lease financing	14,487		
Consumer and other			
Commercial and industrial			
Total loans purchased	99,879	58,027	182
Acquired in business combinations	288,285		
Repayments:			
Principal repayments	(276,399)	(162,700)	(158,573)
Sales	(70,438)		
Increase (decrease) in other items, net	(1,417)	2,987	(9,424)
Net increase (decrease)	$ 458,414	$ 97,434	$ (69,874)

Commercial and Industrial Loans.

Commercial and industrial loans are made to finance operations, provide working capital, or to finance the purchase of assets, equipment or inventory. A borrower s cash flow from operations is generally the primary source of repayment. Accordingly, our policies provide specific guidelines regarding debt coverage and other important financial ratios. Commercial and industrial loans include lines of credit and commercial term loans. Lines of credit are extended to businesses or individuals based on the financial strength and integrity of the borrower and guarantor(s) and generally are collateralized by short-term assets such as accounts receivable, inventory, equipment or real estate and have a maturity of one year or less. Commercial term loans are typically made to finance the acquisition of fixed assets or refinance short-term debt originally used to purchase fixed assets. Commercial term loans generally have terms of one to five years. They may be collateralized by the asset being acquired or other available assets.

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Commercial and industrial loans include short-term secured and unsecured business and commercial loans with maturities typically ranging up to 5 years (up to 10 years if a SBA loan), accounts receivable financing typically for 1-5 years (up to 10 years if a SBA loan), and equipment leases up to 6 years. The interest rates on these loans generally are adjustable and usually are indexed to *The Wall Street Journal s* prime rate and will vary based on market conditions and be commensurate to the credit risk. Where it can be negotiated, loans are written with a floor rate of interest. Generally, lines of credit are granted for no more than a 12-month period.

Commercial and industrial loans, including accounts receivable and inventory financing, generally are made to businesses that have been in operation for at least 5 years or less if a SBA loan, including start ups. To qualify for such loans, prospective borrowers generally must have debt-to-net worth ratios not exceeding 3-to-1, operating cash flow sufficient to demonstrate the ability to pay obligations as they become due, and good payment histories as evidenced by credit reports. We attempt to control our risk by generally requiring loan-to-value (LTV) ratios of not more than 80% and by closely and regularly monitoring the amount and value of the collateral in order to maintain that ratio.

The Company s commercial and industrial business lending policy includes credit file documentation and analysis of the borrower s background, capacity to repay the loan, the adequacy of the borrower s capital and collateral as well as an evaluation of other conditions affecting the borrower. Analysis of the borrower s past, present and future cash flows is also an important aspect of our credit analysis. In order to mitigate the risk of borrower default, we generally require collateral to support the credit or, in the case of loans made to businesses, personal guarantees from their owners, or both. In addition, all such loans must have well-defined primary and secondary sources of repayment. Nonetheless, these loans are believed to carry higher credit risk than traditional single-family home loans.

Commercial and industrial loans are typically made on the basis of the borrower s ability to make repayment from the cash flow of the borrower s business. As a result, the availability of funds for the repayment of commercial and industrial loans may be substantially dependent on the success of the business itself (which, in turn, is often dependent in part upon general economic conditions). The Company s commercial business loans are usually, but not always, secured by business assets. However, the collateral securing the loans may depreciate over time, may be difficult to appraise and may fluctuate in value based on the success of the business. See Asset Quality Non-Accrual Loans and Leases in Item 1.

Commercial and industrial loan growth also assists in the growth of our deposits because many commercial loan borrowers establish noninterest-bearing (demand) and interest-bearing transaction deposit accounts and banking services relationships with us. Those deposit accounts help us to reduce our overall cost of funds and those banking services relationships provide us with a source of non-interest income.

At December 31, 2012 and 2011, commercial and industrial loans totaled $80.4 million or 6.4% and $9.0 million or 1.2% respectively, of the total gross loans. This increase was due to the acquisition of commercial loans in the Beach acquisition and origination of $134.0 million of commercial loans in 2012.

Commercial Real Estate Mortgage and Multi-Family Real Estate Lending. A focus of the Company is the funding of commercial real estate and multi-family loans. These loans are secured primarily by multi-family dwellings, and a limited amount of retail establishments, hotels, motels, warehouses, and office buildings, commercial and industrial buildings primarily located in the Company s market area, and throughout the West Coast. At December 31, 2012, commercial real estate and multi-family loans totaled $339.9 million, or 27.3%, and $113.7 million, or 9.1%, respectively, of the Company s total gross loans, as compared to $126.4 million, or 16.1%, and $85.6 million, or 10.9%, respectively, of the Company s total gross loans, at December 31, 2011.

The Company s loans secured by multi-family and commercial real estate are originated with either a fixed or adjustable interest rate. The interest rate on adjustable-rate loans is based on a variety of indices, generally determined through negotiation with the borrower. Loan-to-value ratios on these loans typically do not exceed

75% of the appraised value of the property securing the loan. These loans typically require monthly payments, may contain balloon payments and have maximum maturities of 30 years.

Loans secured by multi-family and commercial real estate are underwritten based on the income producing potential of the property and the financial strength of the borrower. The net operating income, which is the income derived from the operation of the property less all operating expenses, must be sufficient to cover the payments related to the outstanding debt. The Company generally requires an assignment of rents or leases in order to be assured that the cash flow from the project will be used to repay the debt. Appraisals on properties securing multi-family and commercial real estate loans are performed by independent state licensed fee appraisers approved by management. See Loan and Lease Originations, Purchases, Sales and Repayments. The Company generally maintains a tax or insurance escrow account for loans secured by multi-family and commercial real estate. In order to monitor the adequacy of cash flows on income-producing properties, the borrower is generally required to provide periodic financial information.

Loans secured by multi-family and commercial real estate properties generally involve a greater degree of credit risk than one-to-four single family residential mortgage loans. These loans typically involve large balances to single borrowers or groups of related borrowers.

Because payments on loans secured by multi-family and commercial real estate properties are often dependent on the successful operation or management of the properties, repayment of these loans may be subject to adverse conditions in the real estate market or the economy. If the cash flow from the project is reduced, or if leases are not obtained or renewed, the borrower s ability to repay the loan may be impaired. See Asset Quality Non-Accrual Loans and Leases in Item 1.

Small Business Administration Loans. The Company provides numerous SBA loan products, primarily through Beach Business Bank which has the distinction of Preferred Lenders Program (PLP) status within the SBA. Beach s PLP status generally gives it the authority to make the final credit decision and have most servicing and liquidation authority. The Company provides the following SBA products:

7(a) These loans provide the Company with a guarantee from the SBA of the United States Government for up to 85% of the loan amount for loans up to $5 million. Generally the guaranty percentage for loans in excess of $150,000 is 75%. There are term loans that can be used for a variety of purposes including expansion, renovation, new construction, and equipment purchases. Depending on collateral, these loans can have terms ranging from 7 to 25 years. The guaranteed portion of these loans is often sold into the secondary market.

Cap Lines Also guaranteed up to 85% and typically used for working capital purposes, secured by accounts receivable and/or inventory. These lines are up to $5 million and can be issued on an interest only basis for up to 10 years.

504 Loans These are real estate loans in which the lender can advance up to 90% of the purchase price; retain 50% as a first trust deed; and, have a Certified Development Company (CDC) retain the 2nd position for 40%. CDC s are licensed by the SBA. Required equity of the borrower is 10%. Terms of the first trust deed are typically similar to market rates for conventional real estate loans, while the CDC establishes rates and terms for the second trust deed loan.

SBA Express These loans offer a 50% guaranty by the SBA and are up to a maximum of $350,000. These loans are typically revolving lines and have maturities of up to 7 years.

SBA lending is subject to federal legislation that can affect the availability and funding of the program. This dependence on legislative funding might cause future limitations and uncertainties with regard to the continued funding of such programs, which could potentially have an adverse financial impact on our business.

The Company s portfolio of SBA loans is subject to certain risks, including, but not limited to: (i) the effects of economic downturns on the Southern California economy; (ii) interest rate increases; (iii) deterioration of the

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value of the underlying collateral; and (iv) deterioration of a borrower s or guarantors financial capabilities. We attempt to reduce the exposure of these risks through: (a) reviewing each loan request and renewal individually; (b) adhering to written loan policies; (c) adhering to SBA policies and regulations; (e) obtaining independent third party appraisals; and (f) obtaining external independent credit reviews. SBA loans normally require monthly installment payments of principal and interest and therefore are continually monitored for past due conditions. In general, the Company receives and reviews financial statements and other documents of borrowing customers on an ongoing basis during the term of the relationship and responds to any deterioration identified.

Beach Business Bank has historically been ranked as one of the top 100 Banks in the country in SBA lending volume.

At December 31, 2012, SBA loans totaled $36.1 million or 2.9% of total gross loans. The Company did not originate any SBA loans in 2011.

Construction Lending. Our construction lending primarily relates to one-to-four single family properties. From time to time the Company has purchased participations in real estate construction loans, however, it has not done so since 2008. The Company may in the future originate or purchase loans or participations in construction loans. The Company had $6.6 million in construction loans at December 31, 2012, or 0.5% of total gross loans compared to zero at December 31, 2011.

Lease Financing. Commercial equipment leasing and financing was introduced as a product in the third quarter of 2012 to meet the needs of small and medium sized business for growth through investments in commercial equipment. The Company provides full payout capital leases and equipment finance agreements for essential use equipment to small and medium sized business nationally. The terms are 1 to 6 years in length and generally provide more flexibility to meet the equipment obsolescence needs of small and medium sized business than traditional business loans.

Commercial equipment leases and loans are secured by the business assets being financed. These assets are secured by a Uniform Commercial Code Form 1(UCC1) filing on the specific assets as well as a commercial guaranty of the business and generally a personal guaranty of the owner(s) of the business. During the year ended December 31, 2012, the Company had purchased 391 contracts for $11.8 million with no losses. As of December 31, 2012, the Company had $11.2 million outstanding, or 0.9% of total loans.

Real Estate 1-4 Family First Mortgages. A significant focus for the Company is the origination of loans secured by first mortgages on one- to four-family residences in San Diego, Orange, Los Angeles and Riverside Counties, California as well as the states of Arizona, Washington and Oregon.

The Company offers a variety of loan products catering to the specific needs of borrowers, including fixed rate and adjustable rate mortgages with either 30-year or 15-year terms. The Company offers conventional mortgages eligible for sale to Fannie Mae or Freddie Mac, government insured Federal Housing Administration (FHA) and Veteran Affairs (VA) mortgages, and jumbo loans that generally meet conventional underwriting criteria except that the loan amount exceeds Fannie Mae or Freddie Mac limits.

The Company s residential lending division includes both a direct-to-consumer retail mortgage business and a wholesale mortgage business. In the retail business, Company loan officers are located either in our call center in Irvine, Bank branches, or loan production offices and originate mortgage loans directly to consumers. The wholesale mortgage business originates residential mortgage loans submitted to the Company by outside mortgage brokers for underwriting and funding. The Company does not originate loans defined as high cost by state or federal regulators.

A majority of residential mortgage loans originated by the Company are made to finance the purchase or the refinance of existing loans on owner-occupied homes with a smaller percentage used to finance non-owner occupied homes. A majority of the Company s loan originations for the held for investment portfolio are collateralized by real properties located in Southern California; however the Bank originates loans through its retail loan production offices throughout California and in the states of Arizona, Washington and Oregon, and to a lesser extent, in certain other states through its retail call center or mortgage brokers.

The Company generally underwrites one- to four-family loans based on the applicant s income and credit history and the appraised value of the subject property. Generally, the Company requires private mortgage insurance for conventional loans with a loan to value greater than 80% of the lesser of the appraised value or purchase price, and FHA insurance or a VA guaranty for government loans. Properties securing our one- to four-family loans are appraised by independent fee appraisers approved by management. The Company requires borrowers to obtain title insurance, hazard insurance, and flood insurance, if necessary.

The Company currently originates one- to four-family mortgage loans on either a fixed- or an adjustable-rate basis, as consumer demand and the Banks risk management dictates. The Company s pricing strategy for mortgage loans includes setting interest rates that are competitive with other local financial institutions.

Adjustable-rate mortgages (ARM) loans are offered with flexible initial and periodic repricing dates, ranging from one year to seven years through the life of the loan. The Company uses a variety of indices to reprice ARM loans. During the year ended December 31, 2012, the Company originated $183.3 million of one- to four-family ARM loans with terms up to 30 years.

During the course of 2012, the Bank completed three bulk acquisitions of generally performing real estate one-to-four family first mortgage loans whose characteristics and payment history were consistent with borrowers that demonstrated a willingness and ability to remain in the residence pursuant to the current terms of the mortgage loan agreement. At December 31, 2012, the unpaid principal balance of these loans was $108.3 million with a carrying value of $64.9 million. Approximately 94% of these loans were performing, 6% were delinquent and 0.2% were in foreclosure at December 31, 2012

The Company has grown its residential mortgage business to approximately $185.7 million in loan originations in 2012 excluding the bulk acquisition discussed above from approximately $44.6 million in loans in 2011.

The Company sells a majority of the mortgage loans it originates to various investors in the secondary market and may not service these loans after sale of the loans. However, a percentage of adjustable rate mortgage loans are held for investment, and the Company services these loans. Loans sold to investors are subject to certain indemnification provisions, including the repurchase of loans sold and the repayment of sales proceeds to investors under certain conditions. In addition, if a customer defaults on a mortgage payment within the first few payments after the loan is sold, the Company may be required to repurchase the loan at the full amount paid by the purchaser.

At December 31, 2012 and 2011, real estate one-to-four family first mortgages totaled $637.1 million, or 51.1% and $546.8 million or 69.6% respectively, of total gross loans.

HELOCs, Home Equity Loans and Other Consumer Credit. The Company offers a variety of secured consumer loans, including second trust deed home equity loans and home equity lines of credit and loans secured by savings deposits. The Company also offers a limited amount of unsecured loans. The Company originates consumer and other real estate loans primarily in its market area. Consumer loans generally have shorter terms to maturity or variable interest rates, which reduce our exposure to changes in interest rates, and carry higher rates of interest than do conventional one-to-four family residential mortgage loans. Management believes that offering consumer loan products helps to expand and create stronger ties to the Company s existing customer base by increasing the number of customer relationships and providing cross-marketing opportunities.

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The Company s second deed of trust home equity lines of credit totaled $21.6 million, and comprised 1.7% of the total gross loans at December 31, 2012. Other home equity lines of credit have a seven or ten year draw period and require the payment of 1.0% or 1.5% of the outstanding loan balance per month (depending on the terms) during the draw period. Following receipt of payments, the available credit includes amounts repaid up to the credit limit. Home equity lines of credit with a 10 year draw period have a balloon payment due at the end of the draw period. For loans with shorter term draw periods, once the draw period has lapsed, generally the payment is fixed based on the loan balance and prevailing market interest rates at that time.

The Company proactively monitors changes in the market value of all home loans contained in its portfolio. The Company s credit risk management policy requires the purchase of independent, third party valuations of every property in its residential loan portfolio twice during the year. The most recent valuations were as of November 30, 2012. The Company has the right to adjust, and has adjusted, existing lines of credit to address current market conditions subject to the terms of the loan agreement and covenants. At December 31, 2012, unfunded commitments totaled $10.9 million on other consumer lines of credit. Other consumer loan terms vary according to the type of collateral, length of contract and creditworthiness of the borrower.

Non-Traditional Mortgage Loans

The Company s non-traditional mortgage portfolio (NTM) is comprised of three interest only products: the Green Account Loans (Green Loans), the hybrid interest only adjustable rate mortgage (ARM) and a small number of negatively amortizing ARM loans (Neg Am). As of December 31, 2012 and 2011, the non-traditional mortgages totaled $368.2 million or 29.5% and $374.0 million or 47.6% of the total gross loan portfolio, respectively which is a decrease of $5.8 million or 1.6%.

Included in the Company s loan and lease portfolio are Non-Traditional Mortgage Loans in dollar amounts and in percentages as of the dates indicated:

	December 31, (Dollars in thousands)														
	2012			2011			2010			2009			2008		
	Count	Amount	Percent	Count	Amount	Percent	Count	Amount	Percent	Count	Amount	Percent	Count	Amount	Percent
Green loans	239	$ 206,004	55.94%	277	$ 228,205	61.02%	255	$ 228,823	53.75%	239	$ 220,078	44.41%	224	$ 201,636	35.99%
Interest-only	191	142,978	38.83	203	124,249	33.22	272	166,766	39.17	382	243,710	49.18	489	323,321	57.71
Negative amortization	40	19,262	5.23	45	21,525	5.76	52	30,142	7.08	55	31,755	6.41	61	35,293	6.30
Total NTM loans	470	$ 368,244	100.00%	525	$ 373,979	100.00%	579	$ 425,731	100.00%	676	$ 495,543	100.00%	774	$ 560,250	100.00%
Total gross loan portfolio		$ 1,246,559			$ 785,595			$ 690,988			$ 759,120			$ 808,750	
Percentage of NTM to total gross loan portfolio		29.5%			47.6%			61.6%			65.3%			69.3%	

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The Company s non-traditional mortgage portfolio (dollars reported in thousands) consists of the following property types as of the dates indicated:

	December 31, 2012						
	Green Amount	Percent	I/O Amount	Percent	Neg Am Amount	Percent	Total
Real estate 1-4 family first mortgage	$ 198,351	96.3%	$ 142,865	99.9%	$ 19,262	100.0%	$ 360,478
Real estate 1-4 family junior lien mortgage	7,653	3.7	113	0.1			7,766
Multi-family							
Land							
Commercial real estate mortgage							
Total NTM	$ 206,004	100.0%	$ 142,978	100.0%	$ 19,262	100.0%	$ 368,244
Percentage to Total	55.9%		38.8%		5.2%		100.0%

	December 31, 2011						
	Green Amount	Percent	I/O Amount	Percent	Neg Am Amount	Percent	Total
Real estate 1-4 family first mortgage	$ 219,502	96.2%	$ 122,248	98.4%	$ 21,525	100.0%	$ 363,275
Real estate 1-4 family junior lien mortgage	8,703	3.8	114	0.1			8,817
Multi-family							
Land			1,887	1.5			1,887
Commercial real estate mortgage							
Total NTM	$ 228,205	100.0%	$ 124,249	100.0%	$ 21,525	100.0%	$ 373,979
Percentage to Total	61.0%		33.2%		5.8%		100.0%

	December 31, 2010						
	Green Amount	Percent	I/O Amount	Percent	Neg Am Amount	Percent	Total
Real estate 1-4 family first mortgage	$ 215,395	94.1%	$ 148,185	88.9%	$ 30,142	100.0%	$ 393,722
Real estate 1-4 family junior lien mortgage	9,260	4.0	182	0.1			9,443
Multi-family							
Land	4,168	1.8	18,399	11.0			22,567
Commercial real estate mortgage							
Total NTM	$ 228,823	100.0%	$ 166,766	100.0%	$ 30,142	100.0%	$ 425,731
Percentage to Total	53.7%		39.2%		7.1%		100.0%

	December 31, 2009						
	Green Amount	Percent	I/O Amount	Percent	Neg Am Amount	Percent	Total
Real estate 1-4 family first mortgage	$ 208,945	94.9%	$ 224,404	92.1%	$ 31,755	100.0%	$ 465,104
Real estate 1-4 family junior lien mortgage	8,661	3.9	451	0.2			9,112
Multi-family							
Land	2,472	1.1	18,855	7.7			21,327
Commercial real estate mortgage							
Total NTM	$ 220,078	100.0%	$ 243,710	100.0%	$ 31,755	100.0%	$ 495,543
Percentage to Total	44.4%		49.2%		6.4%		100.0%

	December 31, 2008						
	Green Amount	**Percent**	**I/O Amount**	**Percent**	**Neg Am Amount**	**Percent**	**Total**
Real estate 1-4 family first mortgage	$ 192,586	95.5%	$ 301,494	93.2%	$ 35,293	100.0%	$ 529,373
Real estate 1-4 family junior lien mortgage	8,252	4.1	196	0.1			8,448
Multi-family							
Land	798	0.4	21,631	6.7			22,429
Commercial real estate mortgage							
Total NTM	$ 201,636	100.0%	$ 323,321	100.0%	$ 35,293	100.0%	$ 560,250
Percentage to Total	36.0%		57.7%		6.3%		100.0%

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The initial credit guidelines for the non-traditional mortgage portfolio were established based on borrower Fair Isaac Company (FICO) score, loan-to-value, property type, occupancy type, loan amount, and geography. Additionally from an ongoing credit risk management perspective, the Company has assessed that the most significant performance indicators for NTMs to be loan-to-value and FICO scores. On a semi-annual basis, the Company performs loan reviews of the NTM loan portfolio that includes refreshing FICO scores on the Green Loans and HELOCs and ordering third party automated valuation models (AVM) to confirm collateral value.

The table below reflects loan-to-value stratification for the single family residential one-to-four NTM mortgage loans as of the periods indicated:

	December 31, 2012											
	Green			I/O			Neg Am			Total		
LTV (1)	**Count**	**Amount**	**Percent**	**Count**	**Amount**	**Percent**	**Count**	**Amount**	**Percent**	**Count**	**Amount**	**Percent**
	(Dollars in thousands)											
<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
Total	212	$ 198,351	100.0%	190	$ 142,865	100.0%	40	$ 19,262	100.0%	442	$ 360,478	100.0%

	December 31, 2011											
	Green			I/O			Neg Am			Total		
LTV (1)	**Count**	**Amount**	**Percent**	**Count**	**Amount**	**Percent**	**Count**	**Amount**	**Percent**	**Count**	**Amount**	**Percent**
	(Dollars in thousands)											
<61	64	$ 53,917	24.6%	67	$ 40,809	33.4%	10	$ 2,263	10.5%	141	$ 96,989	26.7%
61-80	69	85,014	38.7	46	34,169	28.0	6	4,831	22.4	121	124,014	34.1
81-100	66	50,973	23.2	43	24,565	20.1	9	7,713	35.9	118	83,251	22.9
>100	46	29,598	13.5	47	22,705	18.5	20	6,718	31.2	113	59,021	16.3
Total	245	$ 219,502	100.0%	203	$ 122,248	100.0%	45	$ 21,525	100.0%	493	$ 363,275	100.0%

(1) LTV represents estimated current loan to value as current unpaid principal balance divided by estimated property value.

The table below represents the Company s non-traditional mortgage loans by period in which amortization payments begin or balances are due at maturity within the years indicated:

	December 31,							
	2012		2013		2014		2015	
Loan Type:	**Count**	**Principal**	**Count**	**Principal**	**Count**	**Principal**	**Count**	**Principal**
	(Dollars in thousands)							
Green (1)	1	$ 367	-	$ -	1	$ 4,259	-	$ -
Interest Only (2)	13	3,189	49	32,866	23	12,429	22	16,099
Neg Am (3)	40	19,262	-	-		-	-	-
Total NTM	54	$ 22,818	49	$ 32,866	24	$ 16,687	22	$ 16,099

	December 31,							
	2016		2017		Thereafter		Total	
Loan Type:	**Count**	**Principal**	**Count**	**Principal**	**Count**	**Principal**	**Count**	**Principal**
	(Dollars in thousands)							
Green (1)	-	$ -	-	$ -	237	$ 201,378	239	$ 206,004
Interest Only (2)	26	21,032	23	17,407	35	39,956	191	142,978

Neg Am (3)	-	-	-	-		-	40	19,262
Total NTM	26	$ 21,032	23	$ 17,407	272	$ 241,334	470	$ 368,244

(1) Green Loans typically have a 15 year balloon maturity

(2) Interest Only loans typically switch to a amortizing basis after 3, 5, or 7 years.

(3) $2.6 million or 13.5% of negative amortization loans have begun amortizing and $16.7 million or 86.5% are subject to negative amortization.

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Green Account Loans

At December 31, 2012, one-to-four single family residential mortgage loans totaled $637.1 million, or 51.1% of total gross loans, including the portion of the Company s Green Loans of $198.4 million that are secured by first trust deeds. At December 31, 2011, one-to-four single family residential mortgage first trust deed loans totaled $546.8 million or 69.6% of our total gross loan and lease portfolio including $219.5 million of the Company s Green Loan portfolio that are secured by first trust deeds. At December 31, 2012 Green Loan unfunded commitments totaled $16.8 million. As of December 31, 2012 and 2011, the Green Loans were 78% and 81%, respectively owner occupied. The Company no longer originates Green Loans.

Green Loans are single family residence first 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.

Transactions posted to the checking account are cleared on a daily basis against the loan, effectively bringing the checking account balance to zero on a daily basis. If the outstanding balance of the loan is paid down to a zero balance, excess funds remain in the linked checking account. Subsequent debit activity will use these funds before the line of credit is accessed.

The finance charge is calculated based on the current interest rate and daily outstanding principal balance. On the payment due date, depending on availability on the line of credit, the payment may be paid by an advance to the loan resulting in the borrower not making a payment. Borrowers who choose to make a payment do so by making a deposit into the linked checking account that is applied to the loan in a daily sweep.

The initial credit guidelines for Green Loans were established based on FICO score, loan-to-value, property type, occupancy type, loan amount, and geography. Additionally from an ongoing credit risk management perspective, the Company has assessed that the most significant performance indicators for NTMs to be loan-to-value and FICO scores. On a semi-annual basis, the Company performs loan reviews of the NTM loan portfolio that includes refreshing FICO scores on the Green Loans and HELOCs and ordering AVMs to confirm collateral value.

At the time of origination, FICOs were based on the primary wage earners mid FICO score and the lower of two mid FICO scores for full and alternative documentation, respectively. 76% of the FICO scores exceeded 700 at the time of origination. The table below represents the Company s Green Loan 1-4 family first mortgages by FICO category as of the dates indicated:

	FICO score at December 31, 2012			FICO score at June 30,2012			Changes in count and amounts		
	Count	Amount	Percentage	Count	Amount	Percentage	Count change	Amount change	Percentage change
	(Dollars in thousands)			(Dollars in thousands)					
800+	10	$ 8,133	4.1%	23	$ 14,028	7.1%	(13)	$ (5,895)	-42.0%
700-799	120	101,188	51.0	100	95,141	48.0	20	6,047	6.4
600-699	55	60,052	30.3	52	51,054	25.7	3	8,998	17.6
<600	15	12,887	6.5	11	9,090	4.6	4	3,797	41.8
No FICO (1)	12	16,091	8.1	26	29,038	14.6	(14)	(12,947)	-44.6
Total	212	$ 198,351	100.0%	212	$ 198,351	100.0%			0.0%

(1) No FICO scores reflect foreign nationals and trusts for which credit scores do not exist.

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Interest Only Mortgage Loans

As of December 31, 2012, the interest-only mortgage loans increased by $18.8 million or 15.1% to $143.0 million from $124.2 million in 2011. The Company reduced its overall interest-only mortgage loans to the total gross loan portfolio by 4.3% from 15.8% to 11.5% primarily due to our loan portfolio growth.

	December 31,									
	2012		2011		2010		2009		2008	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)									
Real estate 1-4 family first mortgage	$ 142,865	99.9%	$ 122,248	98.4%	$ 148,185	88.9%	$ 224,404	92.1%	$ 301,494	93.2%
Real estate 1-4 family junior lien mortgage	113	0.1	114	0.1	183	0.1	451	0.2	196	0.1
Land		0.0	1,887	1.5	18,398	11.0	18,855	7.7	21,631	6.7
Total Interest Mortgage Only loans	$ 142,978	100.0%	$ 124,249	100.0%	$ 166,766	100.0%	$ 243,710	100.0%	$ 323,321	100.0%

Interest-only mortgage loans are primarily single family residence first mortgage loans with payment features that allow interest-only payments during the first one, three, or five years during which time the interest rate is fixed before converting to fully amortizing payments. Following the expiration of the fixed interest rate, the interest rate and payment begins to adjust on an annual basis, with fully amortizing payments that include principal and interest calculated over the remaining term of the loan. The loan can be secured by owner or non-owner occupied properties that include one-to-four single family units and second homes.

Originations of interest only mortgage loans were $53.7 million and $29.3 million for 2012 and 2011, respectively.

Loans with the Potential for Negative Amortization

As of December 31, 2012 and 2011 the negative amortization loan balance continued to decline to $19.3 million from $21.5 million. We discontinued origination of negative amortization loans in 2007. As of December 31, 2012 and 2011, zero and $0.9 million, respectively, 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 LTV ratios.

Included in the Company s loan and lease portfolio segments are loans with the potential for negative amortization in dollar amounts and percentages as of the dates indicated:

	December 31,									
	2012		2011		2010		2009		2008	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)									
Real estate 1-4 family first mortgage	$ 19,262	100.0%	$ 21,525	100.0%	$ 30,142	100.0%	$ 31,755	100.0%	$ 35,293	100.0%
Real estate 1-4 family junior lien mortgage		0.0		0.0		0.0		0.0		0.0
Land		0.0		0.0		0.0		0.0		0.0
Total loans with the potential for Negative Amortization	$ 19,262	100.0%	$ 21,525	100.0%	$ 30,142	100.0%	$ 31,755	100.0%	$ 35,293	100.0%

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Adjustable Rate Mortgages

ARM loans generally pose different credit risks than fixed-rate loans, primarily because as interest rates rise, the borrower s minimum monthly payment rises, increasing the potential for default (See Asset Quality in Item 1). At December 31, 2012, the Company s one- to four family ARM loan portfolio comprised of $567.0 million of first deed of trust loans and $13.9 million of loans secured by subordinated or junior liens, 45.5% and 1.1% respectively, of our gross loan and lease portfolio. At December 31, 2012, the fixed-rate one-to-four family mortgage loan portfolio comprised of $70.1 million of first deed of trust loans and $319 thousand of loans secured by subordinated or junior liens, 5.6% and less than 1.0%, respectively, of the Company s gross loan and lease portfolio. The interest rate sensitivity composition of the Company s loan and lease portfolio did not significantly change during 2012. At December 31, 2012, $19.7 million of the Company s ARM loan portfolio were non-performing loans.

The following table shows the composition of the Company s loan and lease portfolio by fixed- and adjustable-rate at the dates indicated.

	December 31,									
	2012		2011		2010		2009		2008	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in Thousands)									
FIXED-RATE										
Commercial:										
Commercial and industrial	$ 18,239	1.5%	$ 6	0.0%	$ 500	0.1%	$ 511	0.1%	$ 525	0.1%
Real estate mortgage	160,498	12.9	59,580	7.6	36,013	5.2	38,810	5.1	47,222	5.8
Multi-family	55,295	4.4	3,075	0.4	22,532	3.3	21,992	2.9	22,693	2.8
SBA	1,755	0.1		0.0		0.0		0.0		0.0
Construction		0.0		0.0		0.0		0.0		0.0
Lease financing	11,203	0.9		0.0		0.0		0.0		0.0
Consumer:										
Real estate 1-4 family first mortgage	70,089	5.6	7,643	1.0	4,542	0.6	5,635	0.7	7,980	0.99
HELOCs, home equity loans, and other consumer installment credit	1,138	0.1	378	0.1	621	0.09	1,010	0.1	924	0.11
Total fixed rate loans	318,217	25.5	70,682	9.00	64,208	9.3	67,958	9.0	79,344	9.8
ADJUSTABLE-RATE										
Commercial:										
Commercial and industrial	62,154	5.0	9,013	1.2	6,244	0.9	6,271	0.8	6,823	0.9
Real estate mortgage	179,390	14.4	66,808	8.5	25,383	3.7	25,192	3.3	9,794	1.2
Multi-family	58,379	4.7	82,530	10.5	10,508	1.5	12,243	1.6	12,138	1.5
SBA	34,365	2.8		0.0		0.0		0.0		0.0
Construction	6,648	0.5		0.0		0.0		0.0	17,835	2.2
Lease financing		0.0		0.0		0.0		0.0		0.0
Consumer:										
Real estate 1-4 family first mortgage	566,982	45.5	539,117	68.6	564,312	81.7	627,483	82.7	662,421	81.9
HELOCs, home equity loans, and other consumer installment credit	20,424	1.6	17,445	2.2	20,333	2.9	19,973	2.6	20,395	2.5
Total adjustable-rate loans	928,342	74.5	714,913	91.0	626,780	90.7	691,162	91.0	729,406	90.2
Total loans	1,246,559	100.00%	785,595	100.00%	690,988	100.00%	759,120	100.00%	808,750	100.00%
Net deferred loan costs	447		1,109		1,824		2,262		2,581	
Unamortized purchase premium	1,465		1,685							
Allowance for loan losses	(14,448)		(12,780)		(14,637)		(13,079)		(18,286)	
Total loans receivable, net	$ 1,234,023		$ 775,609		$ 678,175		$ 748,303		$ 793,045	

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The following schedule illustrates the contractual maturity of the Company s loan and lease portfolio at December 31, 2012. (Dollars in thousands)

	Commercial							
	Commercial and Industrial		Real Estate Mortgage		Multi-Family		SBA	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
Due During Years Ending December 31, 2013(1)	$ 34,131	5.6%	$ 21,014	6.5%	$ 14,232	6.1%	$ 73	6.4%
2014	4,221	5.8	21,513	5.1	2,004	5.3	624	8.4
2015 and 2016	14,216	4.9	38,455	5.7	6,293	5.3	1,117	7.3
2017 to 2021	22,184	5.5	125,008	5.3	47,086	5.3	15,766	6.1
2022 to 2036	5,641	5.3	122,516	5.5	34,097	5.0	18,343	5.4
2037 and following			11,382	4.6	9,962	5.5	197	4.9
Total	$ 80,393	5.4%	$ 339,888	5.5%	$ 113,674	5.3%	$ 36,120	5.8%

	Commercial				Consumer					
	Construction		Lease Financing		Real Estate 1-4 Family First Mortgage		HELOCs, Home Equity Loans and Other Consumer Installment Credit		TOTALS	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
Due During Years Ending December 31, 2013(1)	$ 3,524	5.7%	$		$ 8,473	7.6%	$ 520	5.1%	$ 81,967	6.0%
2014	3,124	5.4	226	8.4%	4,555	4.7	197	3.2	36,464	5.3
2015 and 2016			1,182	8.9	86	5.5	2,536	3.4	63,885	5.7
2017 to 2021			6,397	9.0	61,750	3.4	6,292	3.3	284,483	5.0
2022 to 2036			3,398	10.0	318,595	3.6	10,319	4.5	512,909	4.3
2037 and following					243,612	4.6	1,698	3.9	266,851	4.6
Total	$ 6,648	5.6%	$ 11,203	9.3%	$ 637,071	4.0%	$ 21,562	4.3%	$ 1,246,559	4.7%

(1) Includes demand loans and leases, loans and leases having no stated maturity and overdraft loans.

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The following schedule illustrates the Company s loan and lease portfolio at December 31, 2012 as the loans and leases reprice. Loans which have adjustable or renegotiable interest rates are shown as maturing in the period during which the loan reprices. The schedule does not reflect the effects of possible prepayments or enforcement of due-on-sale clauses. (Dollars in thousands)

	Commercial							
	Commercial and Industrial		Real Estate Mortgage		Multi-Family		SBA	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
Due During Years Ending December 31, 2013	$ 40,685	5.4%	$ 93,101	5.6%	$ 42,887	5.4%	$ 34,204	5.6%
2014	8,288	5.0	29,224	5.5	5,795	5.6	53	15.3
2015 and 2016	6,096	5.5	42,838	5.9	7,358	5.3	432	13.7
2017 to 2021	21,023	5.6	120,186	5.1	49,882	5.3	584	11.8
2022 to 2036	4,301	5.3	46,273	5.7	5,579	5.0	847	8.8
2037 and following			8,266	4.9	2,173	4.5		
Total	$ 80,393	5.4%	$ 339,888	5.5%	$ 113,674	5.3%	$ 36,120	5.8%

	Commercial				Consumer					
	Construction		Lease Financing		Real Estate 1-4 Family First Mortgage		HELOCs, Home Equity Loans and Other Consumer Installment Credit		TOTALS	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
Due During Years Ending December 31, 2013(1)	$ 6,648	5.6%	$		$ 371,516	3.6%	$ 16,062	3.4%	$ 605,103	4.3%
2014			226	8.9%	56,364	4.6			99,950	5.0
2015 and 2016			1,182	8.9	51,206	5.3	21	19.7	109,133	5.8
2017 to 2021			6,397	9.0	78,379	3.7	284	9.1	276,735	4.9
2022 to 2036			3,398	10.0	17,889	4.9	4,311	6.0	82,598	5.6
2037 and following					61,717	5.4	884	3.9	73,040	5.1
Total	$ 6,648	5.6%	$ 11,203	9.3%	$ 637,071	4.0%	$ 21,562	4.3%	$ 1,246,559	4.7%

(1) Includes demand loans and leases, loans and leases having no stated maturity and overdraft loans.

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The total amount of loans and leases due after December 31, 2012 which have predetermined interest rates is $318.2 million, while the total amount of loans and leases due after such date which have floating or adjustable interest rates is $928.3 million.

Loan and Lease Originations, Purchases, Repayments, and Servicing

The Company originates real estate secured loans primarily through MHMB (a division of PacTrust Bank), other mortgage brokers and banking relationships. Loans originated are either: eligible for sale to Fannie Mae and Freddie Mac, government insured FHA or VA, held by the Company, or sold to private investors.

The Company also originates consumer and real estate loans on a direct basis through our marketing efforts and our existing and walk-in customers. The Company originates both adjustable and fixed-rate loans, however, the ability to originate loans is dependent upon customer demand for loans in our market areas. Demand is affected by competition and the interest rate environment. During the last few years, the Company has significantly increased origination of ARM loans. The Company has also purchased ARM loans secured by one-to four-family residences and participations in construction and commercial real estate loans in the past. During 2012, the Company purchased ARM loans secured by purchased commercial real estate and multi-family properties totaling $18.7 million, and lease financing receivables totaling $11.8 million. Loans and participations purchased must conform to the Company s underwriting guidelines or guidelines acceptable to the management loan committee.

During the course of 2012, the Company completed three bulk acquisitions of generally performing residential mortgage loans whose characteristics and payment history were consistent with borrowers that demonstrated a willingness and ability to remain in the residence pursuant to the current terms of the mortgage loan agreement. The Company was able to acquire these loans at a significant discount to both current property value at acquisition and note balance. For each acquisition the Company was able to utilize it s background in mortgage credit analysis to re-underwrite the borrower s credit to arrive at what it believes to be an attractive risk adjusted return for a highly collateralized investment in performing mortgage loans. The acquisition program implemented and executed by the Company involved a multifaceted due diligence process that included compliance reviews, title analyses, review of modification agreements, updated property valuation assessments, collateral inventory and other undertakings related to the scope of due diligence. In aggregate, the purchase price of the loans was less than 70% of current property value at the time of acquisition based on a third party broker price opinion, and less than 60% of note balance at the time of acquisition. The Bank acquired these loans with an unpaid principal balance of $114.8 million and carrying value of $66.7 million. As of December 31, 2012 the unpaid principal balance of these loans was $ 108.3 million and carrying value of $ 64.9 million.

Servicing

One to four single family residential real estate loans held in the portfolio are serviced in house, pursuant to secondary market guidelines. When a borrower fails to make a payment on a mortgage loan, a late charge notice is mailed 16 days after the due date. All delinquent accounts are reviewed by a collector, who attempts to cure the delinquency by contacting the borrower prior to the loan becoming 30 days past due. If the loan becomes 60 days delinquent, the collector will generally contact the borrower by phone, send a personal letter and/or engage a field service company to visit the property in order to identify the reason for the delinquency. Once the loan becomes 90 days delinquent, contact with the borrower is made requesting payment of the delinquent amount in full, or the establishment of an acceptable repayment plan to bring the loan current. When a loan becomes 90 days delinquent, a drive-by inspection is made and if an acceptable repayment plan has not been agreed upon, a collection officer will generally initiate foreclosure or refer the account to the Company s counsel to initiate foreclosure proceedings.

For SBA, construction, lease financing and consumer loans a similar process is followed, with the initial written contact being made once the loan is 10 days past due with a follow-up notice at 16 days past due. Follow-up contacts are generally on an accelerated basis compared to the SFR mortgage loan procedure.

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Asset Quality

Accruing Loans and Leases in Past Due Status. The following table is a summary of our performing loans and leases that were past due at least 30 days but less than 90 days past due as of December 31, 2012 and December 31, 2011. The Company ceases accruing interest, and therefore classifies as non-performing, any loan or lease to which principal or interest has been in default for period of 90 days or more, or if repayment in full of interest or principal is not expected.

	December 31, 2012	December 31, 2011
	(Dollars in Thousands)	
Performing loans past due 30 to 89 days:		
Commercial:		
Commercial and industrial	$ 255	$
Real estate mortgage	775	291
Multi-family		
SBA	136	
Construction		
Lease financing	118	
Consumer:		
Real estate 1-4 family mortgage	7,797	10,669
HELOC, home equity loans, and other consumer installment credit	27	4
Total performing loans past due 30 to 89 days	$ 9,108	$ 10,964
Ratios:		
Performing loans past due 30 to 89 days as a percentage of total loans	0.69%	1.40%
Performing loans past due 90 days or more as a percentage of total loans	0.00%	0.00%
Total performing loans in past due status as a percentage of total loans	0.69%	1.40%

Non Traditional Mortgage Loan Delinquency. As of December 31, 2012 and 2011, $11.7 million or 3.2% and $10.2 million or 2.7%, respectively of the NTM portfolio were greater than 30 days delinquent.

The table below represents the Company s non-traditional mortgage loan delinquency status as of the dates indicated:

	December 31,									
	2012					2011				
	Current	30+	60+	90+	Total	Current	30+	60+	90+	Total
	(Dollars in thousands)					(Dollars in thousands)				
Green	$ 196,441	$ 1,410	$ 2,495	$ 5,658	$ 206,004	$ 225,599	$ 630	$	$ 1,976	$ 228,205
Interest-Only	141,218	795	58	907	142,978	118,280	2,517	512	2,940	124,249
Negative Amortization	18,841		421		19,262	19,905	734		886	21,525
Total Real Estate 1-4 family first mortgages	$ 356,500	$ 2,205	$ 2,974	$ 6,565	$ 368,244	$ 363,784	$ 3,881	$ 512	$ 5,802	$ 373,979
Percentage to total	96.8%	0.6%	0.8%	1.8%	100.0%	97.3%	1.0%	0.1%	1.6%	100.0%

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Nonaccrual Loans and Leases. The following table summarizes our nonaccrual loans and leases, at the dates indicated. This table includes troubled debt restructured loans on nonaccrual. There were no loans or leases past due 90 days or more and still accruing interest at December 31, 2012, 2011, 2010, 2009 and 2008. Nonaccrual loans and leases at December 31, 2012, 2011, 2010, 2009 and 2008, totaling $21.7 million, $16.3 million, $35.4 million and $40.6 million and $31.0 million, respectively, were net of specific reserve allocations of $1.3 million, $2.9 million, $3.4 million, $5.6 million and $13.2 million, respectively.

	December 31, 2012	December 31, 2011	December 31, 2010	December 31, 2009	December 31, 2008
			(Dollars in thousands)		
Commercial:					
Commercial and industrial	$	$	$	$	$
Real estate mortgage	2,906	1,887	9,715	7,247	9,377
Multi-Family	5,442	3,090	8,502	10,519	5,412
SBA	141				
Construction					17,835
Lease financing					
Consumer:					
Real estate 1-4 family first mortgage	14,503	14,272	20,611	24,443	11,503
HELOC, home equity loans, and other consumer installment credit	1	5	2	3,963	92
Total nonaccrual loans and leases	$ 22,993	$ 19,254	$ 38,830	$ 46,172	$ 44,219

Non-Performing Assets. Non-performing assets consist of (i) loans on non-accrual status which are loans on which the accrual of interest has been discontinued and include restructured loans when there has not been a history of past performance on debt service in accordance with the contractual terms of the restructured loans, (ii) loans 90 days or more past due and still accruing interest, and (iii) other real estate owned, or OREO, which consists of real properties which have been acquired by foreclosure or similar means and which the Company holds for sale.

Loans are placed on non-accrual status when, in the opinion of the Company s management, the full timely collection of principal or interest is in doubt. Generally, the accrual of interest is discontinued when principal or interest payments become more than 90 days past due, unless the Company believes the loan is adequately collateralized and the loan is in the process of collection. However, in certain instances, the Company may place a particular loan on non-accrual status earlier, depending upon the individual circumstances involved in loan s delinquency. When a loan is placed on non-accrual status, previously accrued but unpaid interest is reversed against current income. Subsequent collections of unpaid amounts on such a loan are applied to reduce principal when received, except when the ultimate collectability of principal is probable, in which case interest payments are credited to income. Non-accrual loans may be restored to accrual status if and when principal and interest become current and full repayment is expected. Interest income is recognized on the accrual basis for impaired loans not meeting the criteria for non-accrual treatment.

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The following table is a summary of our non-performing loans and leases, including non-performing restructured loans and leases at December 31, 2012 and 2011. This table includes troubled debt restructured loans on nonaccrual. There were no loans or leases past due 90 days or more and still accruing interest at December 31, 2012 and 2011. Non-performing loans and leases at December 31, 2012 and 2011 totaling $21.7 million and $16.3 million were net of specific reserve allocations of $1.3 million and $2.9 million, respectively. Other real estate owned at December 31, 2012 and 2011 totaling $4.5 million and $14.7 million was net of specific reserve allocations of $2.1 million and $4.1 million, respectively.

	At December 31, 2012	At December 31, 2011
	(In thousands)	
Commercial:		
Commercial and industrial	$	$
Real estate mortgage	2,906	1,887
Multi-Family	5,442	3,090
SBA	141	
Construction		
Lease financing		
Consumer:		
Real estate 1-4 family first mortgage	14,503	14,272
HELOC, home equity loans, and other consumer installment credit	1	5
Total nonperforming loans	22,993	19,254
Other real estate owned	4,527	14,692
Total nonperforming assets	$ 27,520	$ 33,946

Troubled Debt Restructured Loans and Leases (TDRs). Loans that the Company modifies or restructures where the debtor is experiencing financial difficulties and makes a concession to the borrower in the form of changes in the amortization terms, reductions in the interest rates, the acceptance of interest only payments and, in limited cases, concessions to the outstanding loan balances are classified as troubled debt restructurings (TDRs). TDRs are loans modified for the purpose of alleviating temporary impairments to the borrower s financial condition. A workout plan between a borrower and the Company is designed to provide a bridge for the cash flow shortfalls in the near term. If the borrower works through the near term issues, in most cases, the original contractual terms of the loan will be reinstated.

As of December 31, 2012, the Company had 33 loans and leases with an aggregate balance of $18.7 million classified as TDR. Specific valuation allowances totaling $0.6 million have been established for these loans and leases. When a loan or lease becomes a TDR the Company ceases accruing interest, and classifies it as non-accrual until the borrower demonstrates that the loan or lease is again performing.

As of December 31, 2012, of the 33 loans and leases classified as TDRs, 31 loans and leases totaling $17.2 million are making payments according to their modified terms and are less than 90-days delinquent. Of the aforementioned $17.2 million in TDR loans and leases, $10.5 million are secured by single-family residential real estate, $1.9 million are secured by commercial real estate, $3.1 million are secured by multi-family and the remaining is comprised of commercial and industrial loans of $1.2 million, SBA loans of $423 thousand and an unsecured $1 thousand consumer loan. Two TDR loans with an aggregate balance of $1.5 million are over 90 days delinquent and are secured by SFRs.

Other Real Estate Owned. At December 31, 2012, other real estate acquired in settlement of loans and leases totaled $4.5 million, net of a valuation allowance of $2.1 million, based on the fair value of the collateral less estimated costs to sell.

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Classified Assets. Federal regulations provide for the classification of loans and leases and other assets, such as debt and equity securities considered to be of lesser quality, as substandard, doubtful or loss. An asset is considered substandard if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Substandard assets include those characterized by the distinct possibility that the insured institution will sustain some loss if the deficiencies are not corrected. Assets classified as doubtful have all of the weaknesses inherent in those classified substandard, with the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. Assets classified as loss are those considered uncollectible and of such little value that their continuance as assets without the establishment of a specific loss reserve or charge-off is not warranted.

When an insured institution classifies problem assets as either substandard or doubtful, it may establish general allocation allowances for loan and lease losses in an amount deemed prudent by management and approved by the Board of Directors. General allocation allowances represent loss allowances which have been established to recognize the inherent risk associated with lending activities, but, unlike specific allowances, have not been allocated to particular problem assets. When an insured institution classifies problem assets as loss, it is required either to establish a specific allocation allowance for losses equal to 100% of that portion of the asset so classified or to charge off such amount. An institution s determination as to the classification of its assets and the amount of its specific allocation allowances is subject to review by the OCC (in the case of PacTrust Bank) and the FDIC (in the case of Beach), which may order the establishment of additional general or specific loss allocation allowances.

In connection with the filing of the Banks periodic reports with the OCC and FDIC and in accordance with policies for our classification of assets, we regularly review the problem assets in our portfolio to determine whether any assets require classification in accordance with applicable regulations. On the basis of management s review of assets, at December 31, 2012, the Company had classified assets (including OREO) totaling $33.0 million, of which all was classified as substandard. The total amount classified represented 17.5% of the Company s shareholders equity and 2.0% of the Company s total assets at December 31, 2012.

The following table displays the Company s risk categories including non-traditional mortgages, as of December 31, 2012.

	December 31, 2012					
	Pass	Special Mention	Substandard (Dollars in thousands)	Doubtful	Not Rated	TOTAL
Commercial						
Commercial and industrial	$ 73,579	$	$	$	$	$ 73,579
Real estate mortgage	310,977	1,618	4,469			317,064
Multi-family	109,059		5,178			114,237
SBA	30,296	18	154			30,468
Construction	6,623					6,623
Lease financing	11,202					11,202
Consumer						
Real estate 1-4 family first mortgage	543,928	11,222	18,451			573,601
HELOC, 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

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Non-Traditional Mortgage Classified Assets. The Company s non-traditional mortgage risk management and credit monitoring policy includes reviewing delinquency, FICO scores, and collateral values on the non-traditional mortgage loan portfolio. Loan reviews are performed on the NTM portfolio on a semi-annual basis and management believes the loan reviews are an effective method to proactively identify any borrower who may be experiencing financial difficulty before they fail to make loan payments. Part of the loan review includes risk rating each loan according to performance factor that include FICO scores, LTV, and delinquency.

The table below represents the Company s non-traditional mortgage loans by credit risk categories as of the dates indicated:

	December 31, 2012				
	Pass	Special Mention	Substandard (Dollars in thousands)	Doubtful	Total
Green	$ 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 Real Estate 1-4 family first loans	$ 346,708	$ 7,770	$ 13,766	$	$ 368,244
Percent to total for each loan category	94.2%	2.1%	3.7%		100.0%

	December 31, 2011				
	Pass	Special Mention	Substandard (Dollars in thousands)	Doubtful	Total
Green	$ 209,656	$ 9,369	$ 9,180	$	$ 228,205
Interest-Only	109,281	6,064	8,904		124,249
Negative Amortization	19,331	1,309	885		21,525
Total Real Estate 1-4 family first loans	$ 338,268	$ 16,742	$ 18,969	$	$ 373,979
Percent to total for each loan category	90.4%	4.5%	5.1%		100.0%

Provision for Loan and Lease Losses. While the past year has been a challenging operating environment, we believe that the national and local Southern California economies are both improving. Two economic metrics that most significantly affect the Bank are unemployment and home prices, that are trending positively, albeit slowly. Unemployment in Southern California is still high but declining. Home prices have stabilized with some pockets in Southern California seeing prices appreciate. The Company saw declines in the level and composition of the Banks non-performing and classified assets between December 31, 2011 and December 31, 2012. While the Company s non-performing and classified assets are trending downward, the Company s loan and lease loss provision was relatively stable for the year ended December 31, 2012 of $5.5 million, compared to a loan and lease loss provision of $5.4 million for the year ended December 31, 2011. The provision for loan and lease losses is charged or credited to income to adjust our allowance for loan and lease losses to reflect probable losses presently inherent in the loan and lease portfolio based on the factors discussed below under Allowance for Loan and Lease Losses.

Allowance for Loan and Lease Losses. The allowance for loan and lease losses (ALLL) represents management s best estimate of the probable losses inherent in the existing loan and lease portfolio. The ALLL is increased by the provision for loan losses charged to expense and reduced by loan and lease charge-offs, net of recoveries.

Management evaluates the Company s ALLL on a quarterly basis, or more often if needed. Management believes the ALLL is a critical accounting estimation because it is based upon the assessment of various

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quantitative and qualitative factors affecting the collectability of loans and lease, including current economic conditions, past credit experience, delinquency status, the value of the underlying collateral, if any, and a continuing review of the portfolio of loans and leases.

The Company s ALLL is based on a number of quantitative and qualitative factors, including levels and trends of past due and non-accrual loans and leases, TDR, asset classifications, loan and lease credit risk grades, changes in the volume and mix of loans and leases, collateral value, historical loss experience, peer group loss experience, size and complexity of individual credits, and economic conditions. Provisions for loan and lease losses are provided on both a specific and general basis.

The Company incorporates statistics provided by the FDIC regarding loss percentages experience by banks in the western United States, as well as an internal three-year loss history, to establish potential risk based on the type of collateral, if any, securing each loan and lease. As an additional comparison, data from local banks with the Company s peer group is reviewed to determine the nature and scope of their losses to date. These reviews provide an understanding of the geographic and size trends in the local banking community.

Specifically, our allowance methodology contains three key elements: (i) amounts based on specific evaluations of impaired loans and leases; (ii) amounts of estimated losses by loans and leases segmentation and by risk rating; and (iii) amounts for qualitative factors, including environmental and general economic factors that indicate probable losses were incurred but were not captured through the other elements of our ALLL process. In addition, for loans and leases measured at fair value on the acquisition date, and deemed to be non-impaired, our allowance methodology captures deterioration in credit quality and other inherent risks of such acquired assets experienced after the purchase date.

Impaired loans and leases are identified at each reporting date based on certain criteria and the majority of which are individually reviewed for impairment. Nonaccrual loans and leases and all performing restructured loans are reviewed individually for the amount of impairment, if any. A loan or lease is considered impaired when it is probable that we will be unable to collect all amounts due according to the original contractual terms of the agreement. We measure impairment of a loan based upon the fair value of the loan s collateral if the loan is collateral-dependent, or the present value of cash flows, discounted at the loan s effective interest rate, if the loan is not collateral-dependent. We measure impairment of a lease based upon the present value of the scheduled lease and residual cash flows, discounted at the lease s effective interest rate. Increased charge-offs or additions to specific reserves generally result in increased provisions for credit losses.

Our loan and lease portfolio, excluding impaired loans and leases which are evaluated individually, is evaluated by segmentation. The segmentations we currently evaluate are:

Commercial real estate manufacturing

Commercial real estate retail

Commercial real estate office

Commercial real estate industrial

Commercial real estate hospitality

Commercial real estate other

Legacy condo conversion

Leasing

Single family residence owner occupied, 1st trust deed

- Ø Amortizing

- Ø Interest only now amortizing

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- Ø Interest only
- Ø Negative amortization
- Ø Green Loans

Single family residence non-owner occupied, ^{s}1 trust deed

- Ø Amortizing
- Ø Interest only now amortizing
- Ø Interest only
- Ø Negative amortization
- Ø Green Loans

2nd trust deeds

Consumer

Within these loan segments, we then evaluate loans and leases not adversely classified, which we refer to as pass credits, separately from adversely classified loans and leases. The adversely classified loans and leases are further grouped into three credit risk rating categories: special mention, substandard, and doubtful. See Asset Quality Classified Assets.

In addition, we may refer to the loans and leases classified as substandard and doubtful together as criticized loans and leases.

The allowance amounts for pass rated loans and leases and those loans and leases adversely classified, which are not reviewed individually, are determined using historical loss rates. The historical loss rates are updated quarterly based on historical losses.

Finally, in order to ensure our allowance methodology is incorporating recent trends and economic conditions, we perform a qualitative analysis, including the consideration of environmental and general economic factors to our ALLL methodology including: (i) credit concentrations; (ii) delinquency trends; (iii) economic and business conditions; (iv) the quality of lending management and staff; (v) lending policies and procedures; (vi) loss and recovery trends; (vii) nature and volume of the portfolio; (viii) nonaccrual and problem loan trends; (ix) usage trends of unfunded commitments; (x) and other adjustments for items not covered by other factors.

Management periodically reviews the quantitative and qualitative loss factors utilized in its analysis of the specific and general ALLL in an effort to incorporate the current status of the factors described above.

Although management believes the level of the ALLL as of December 31, 2012 was adequate to absorb probable losses in the portfolio, declines and/or improvements in economics of the Company s primary markets or other factors could result in losses that cannot be reasonably predicted at this time.

Although we have established an ALLL that we consider appropriate, there can be no assurance that the established ALLL will be sufficient to offset losses on loans and leases in the future. Management also believes that the reserve for unfunded loan commitments is appropriate. In making this determination, we use the same methodology for the reserve for unfunded loan commitments as we do for the allowance for loan and lease losses and consider the same quantitative and qualitative factors, as well as an estimate of the probability of advances of the commitments correlated to their credit risk rating.

At December 31, 2012, our ALLL was $14.4 million or 1.16% of the total gross loans. Assessing the allowance for loan and lease losses is inherently subjective as it requires making material estimates, including the

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amount and timing of future cash flows expected to be received on impaired loans and leases that may be susceptible to significant change. In the opinion of management, the allowance, when taken as a whole, reflects estimated probable losses presently inherent in our loan and lease portfolios.

The following table sets forth an analysis of our allowance for loan and lease losses.

	Year Ended December 31,				
	2012	2011	2010	2009	2008
	(Dollars in Thousands)				
Balance at beginning of period	$ 12,780	$ 14,637	$ 13,079	$ 18,286	$ 6,240
Charge-offs					
Commercial:					
Commercial and industrial					(647)
Real Estate mortgage	(987)	(1,899)	(2,695)	(6,266)	
Multi-family		(2,136)			
SBA	(64)				
Construction				(12,557)	
Lease financing					
Consumer:					
Real Estate 1-4 family first mortgage	(3,006)	(3,276)	(4,747)	(1,666)	(461)
HELOC s, home equity loans, and other consumer installment credit	(14)	(201)	(89)	(2,016)	(443)
Loans charged off	(4,071)	(7,512)	(7,531)	(22,505)	(1,551)
Recoveries					
Commercial:					
Commercial and industrial					
Real Estate mortgage		24	6		
Multi-family		68			
SBA	14				
Construction					
Lease financing					
Consumer:					
Real Estate 1-4 family first mortgage	221	165	92		
HELOC s, home equity loans, and other consumer installment credit	4	10	34	2	50
Recoveries of loans previously charged off	239	267	132	2	50
Net charge-offs	(3,832)	(7,245)	(7,399)	(22,503)	(1,501)
Provision for loan losses	5,500	5,388	8,957	17,296	13,547
Balance at end of period	$ 14,448	$ 12,780	$ 14,637	$ 13,079	$ 18,286
Net charge-offs to average loans during this period	0.40%	1.06%	1.04%	2.89%	0.20%
Allowance for loan losses to non-performing loans	62.84%	66.38%	37.70%	56.20%	50.45%
Allowance as a % of total loans (end of period)	1.16%	1.63%	2.12%	1.72%	2.26%

Investment Activities

The general objectives of our investment portfolio are to provide liquidity when loan and lease demand is high, to assist in maintaining earnings when loan and lease demand is low and to maximize earnings while satisfactorily managing risk, including credit risk, reinvestment risk, liquidity risk and interest rate risk. See Item 7A Quantitative and Qualitative Disclosures About Market Risk.

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The Company currently invests in mortgage-backed securities (MBS) as part of our asset/liability management strategy. Management believes that MBS can represent attractive investment alternatives relative to other investments due to the wide variety of maturity and repayment options available through such investments. In particular, the Company has concluded that short and intermediate duration MBS (with an expected average life of less than ten years) represent a combination of rate and duration that match the Company s liquidity and risk profile goals. All of the Company s negotiable securities, including MBS, are held as available for sale.

The following table sets forth the composition of our securities portfolio and other investments at the dates indicated. Our securities portfolio at December 31, 2012, did not contain securities of any issuer with an aggregate book value in excess of 10% of our stockholders equity, excluding those issued by the United States Government or its agencies. Collateralized mortgage obligations totaling $77.7 million were purchased during 2012. Seven securities were sold during 2012 totaling $11.9 million. These agency and private label mortgage-backed securities are collateralized with one-to four- family and multi-family residential loans.

	December 31,					
	2012		2011		2010	
	Carrying Value	% of Total	Carrying Value	% of Total	Carrying Value	% of Total
	(Dollars in Thousands)					
Securities Available for Sale:						
U.S. government-sponsored entities and agency securities	$ 2,710	2.23%	$ 4,038	3.97%	$ 5,055	7.80%
State and Municipal securities[1]	9,944	8.19	5,713	5.62		0.00
Private label residential mortgage-backed securities	41,846	34.46	76,203	74.99	54,246	83.73
Agency residential mortgage-backed securities	66,919	55.12	15,662	15.42	3	0.00
Government National Mortgage Association securities		0.00		0.00	5,486	8.47
Total	$ 121,419	100.00	$ 101,616	100.00	$ 64,790	100.00
Estimated average remaining life of securities	3.0 years		3.0 years		2.3 years	
Other interest earning assets:						
Interest-earning deposits with banks	$ 105,416	92.26%	$ 37,720	84.40%	$ 53,729	86.59%
FHLB and other bank stock	8,842	7.74	6,972	15.60	8,323	13.41
	$ 114,258	100.00%	$ 44,692	100.00%	$ 62,052	100.00%

[1] Includes tax exempt municipal securities with a carrying value of $5.9 million at December 31, 2012.

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The composition and maturities of the securities portfolio, excluding Federal Home Loan Bank stock, as of December 31, 2012 are indicated in the following table.

	December 31, 2012					
	One Year or Less Amortized Cost	After One Year through Five Years Amortized Cost	After Five Years Through 10 Years Amortized Cost	After 10 Years Amortized Cost	Total Securities Amortized Cost	Total Securities Fair Value
	(Dollars in Thousands)					
Available for Sale:						
U.S. government-sponsored entities and agency securities	$ 706	$ 2,000	$	$	$ 2,706	$ 2,710
Municipal securities		2,526	896	6,238	9,660	9,944
Private label residential mortgage-backed securities				41,499	41,499	41,846
Agency residential mortgage-backed securities				66,818	66,818	66,919
Total investment securities	$ 706	$ 4,526	$ 896	$ 114,555	$ 120,683	$ 121,419
Weighted average yield	4.38%	2.83%	4.16%	1.77%	1.86%	

Sources of Funds

General. The Company s primary sources of funds are deposits, payments and maturities of outstanding loans and leases and investment securities, and other short-term investments and funds provided from operations. While scheduled payments from the amortization of loans and leases and mortgage-backed securities and maturing securities and short-term investments are relatively predictable sources of funds, deposit flows and loan and lease prepayments are greatly influenced by general interest rates, economic conditions, and competition. In addition, the Company invests excess funds in short-term interest-earning assets, which provide liquidity to meet lending requirements. The Company also generates cash through borrowings. The Company utilizes Federal Home Loan Bank advances to leverage its capital base, to provide funds for its lending activities, as a source of liquidity, and to enhance its interest rate risk management.

Deposits. The Company offers a variety of deposit accounts to both consumers and businesses having a wide range of interest rates and terms. The Company s deposits consist of savings accounts, money market deposit accounts, interest bearing demand accounts, and certificates of deposit. The Company solicits deposits primarily in our market area and from institutional investors. PacTrust Bank did not hold any brokered deposits at December 31, 2012. Beach held brokered deposits of $141 thousand at December 31, 2012. The Company primarily relies on competitive pricing policies, marketing and customer service to attract and retain deposits.

The flow of deposits is influenced significantly by general economic conditions, changes in money market and prevailing interest rates and competition. The variety of deposit accounts the Company offers has allowed the Company to be competitive in obtaining funds and to respond with flexibility to changes in consumer demand. The Company has become more susceptible to short-term fluctuations in deposit flows, as customers have become more interest rate conscious. The Company tries to manage the pricing of our deposits in keeping with our asset/liability management, liquidity and profitability objectives, subject to competitive factors. Based on our experience, the Company believes that our deposits are relatively stable sources of funds. Despite this stability, the Company s ability to attract and maintain these deposits and the rates paid on them has been and will continue to be significantly affected by market conditions.

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The following table sets forth our deposit flows during the periods indicated.

	At or for the Year Ended December 31, 2012	2011	2010
	(Dollars in Thousands)		
Opening balance	$ 786,334	$ 646,308	$ 658,432
Deposits net of withdrawls	99,733	135,037	(20,057)
Acquired in business combinations	414,315		
Interest credited	5,960	4,989	7,933
Ending balance	$ 1,306,342	$ 786,334	$ 646,308
Net increase/(decrease)	$ 520,008	$ 140,026	$ (12,124)
Percent increase/(decrease)	66.1%	21.7%	(1.8)%

The following table sets forth the maturities of certificates of deposit and other time deposits $250,000 and over at December 31, 2012 (in thousands):

Certificates of deposit $250,000 and over:	
Maturing within three months	$ 68,721
After three but within six months	42,501
After six but within twelve months	22,984
After twelve months	40,919
Total certificates of deposit $250,000 and over	**$ 175,125**
Other time deposits $ 250,000 and over [1]:	
Maturing within three months	$ 556
After three but within six months	262
After six but within twelve months	
After twelve months	266
Total certificates of deposit $250,000 and over	**$ 1,084**

(1) Consists of time deposits held in individual retirement accounts (IRAs).

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The following table sets forth the dollar amount of deposits in the various types of deposit programs we offered at the dates indicated.

	December 31,					
	2012		2011		2010	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
			(Dollars in Thousands)			
Noninterest-bearing demand	$ 194,662	14.90%	$ 20,039	2.55%	$ 15,171	2.35%
Savings	159,055	12.18%	39,176	4.98	124,620	19.28
Interest-bearing demand	15,111	1.16%	68,578	8.72	44,860	6.94
Money market	294,804	22.57%	188,658	23.99	89,708	13.88
	663,632	50.80%	316,451	40.24	274,359	42.45
Certificates of deposit						
0.00% - 0.99%	434,189	33.24%	319,729	40.66	131,737	20.38
1.00% - 1.99%	186,292	14.26%	123,944	15.76	199,565	30.88
2.00% - 2.99%	9,246	0.71%	15,774	2.01	23,527	3.64
3.00% - 3.99%	7,752	0.59%	4,498	0.57	8,418	1.30
4.00% - 4.99%	4,818	0.37%	5,350	0.68	7,286	1.13
5.00% - 5.99%	202	0.02%	199	0.03	1,416	0.22
6.00% - 6.99%	211	0.02%	349	0.04		0.00
8.00% - 8.99%		0.00%	40	0.01		0.00
Total certificates of deposit	642,710	49.20%	469,883	59.76	371,949	57.55
	$ 1,306,342	100.00%	$ 786,334	100.00%	$ 646,308	100.00%

The following table (in thousands) indicates the amount of the Company s certificates of deposit by time remaining until maturity as of December 31, 2012.

	2013	2014	2015	2016	2017	Total
0.00% - 2.99%	$ 460,037	$ 107,931	$ 26,828	$ 17,884	$ 17,047	$ 629,727
3.00% - 3.99%	3,115	3,875	711		51	7,752
4.00% - 4.99%	4,585	233				4,818
5.00% - 5.99%			202			202
6.00% - 6.99%	150	61				211
8.00% - 8.99%						
	$ 467,887	$ 112,100	$ 27,741	$ 17,884	$ 17,098	$ 642,710
$100,000 and over	$ 339,702	$ 95,729	$ 23,560	$ 15,920	$ 14,731	$ 489,642
Below $100,000	128,185	16,371	4,181	1,964	2,367	153,068
Total	$ 467,887	$ 112,100	$ 27,741	$ 17,884	$ 17,098	$ 642,710
Weighted Average Interest Rate	0.72%	0.95%	1.22%	1.17%	1.28%	0.81%

Borrowings. Although deposits are our primary source of funds, the Company may utilize borrowings when they are a less costly source of funds and can be invested at a positive interest rate spread, when the Company desires additional capacity to fund loan and lease demand or when they meet our asset/liability management goals. The Company s borrowings historically have consisted of advances to the Banks from the Federal Home Loan Bank of San Francisco (FHLB). However, the Banks also have the ability to borrow from the Federal Reserve Bank of San

Francisco (Federal Reserve Bank).

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The Banks may obtain advances from the FHLB by collateralizing the advances with certain of the Banks mortgage loans and mortgage-backed and other securities. These advances may be made pursuant to several different credit programs, each of which has its own interest rate, range of maturities and call features. At December 31, 2012, the Banks had $75.0 million in Federal Home Loan Bank advances outstanding and the ability to borrow an additional $179.9 million. The Banks also had the ability to borrow $112.9 million from the Federal Reserve Bank as of that date. See also Note 16 of the Notes to the Company s consolidated financial statements at Item 8 of this report for additional information regarding FHLB advances. Of the $75.0 million in FHLB borrowings outstanding as of December 31, 2012, $50.0 million are expected to mature in 2013 and $25.0 million are expected to mature in 2014 and 2015.

The following table sets forth certain information as to our FHLB advances at the dates and for the years indicated. We had no other short term borrowings during the years indicated.

	At or for the Year Ended December 31,		
	2012	2011	2010
		(Dollars in Thousands)	
Average balance outstanding	$ 54,030	$ 39,918	$ 94,548
Maximum month-end balance	$ 100,000	$ 70,000	$ 120,000
Balance at end of year	$ 75,000	$ 20,000	$ 75,000
Weighted average interest rate during the year	0.64%	2.63%	3.02%
Weighted average interest rate at end of the year	0.45%	1.79%	3.02%

Competition

The Company faces strong competition in originating real estate and other loans and in attracting deposits. Competition in originating real estate loans comes primarily from other savings institutions, commercial banks, credit unions and mortgage bankers. Other savings institutions, commercial banks, credit unions and finance companies provide vigorous competition in consumer lending.

The Company attracts deposits through the retail branch network and through the internet. One of the ways the Company has been able to be competitive in this area is through its retail branch network. A greater understanding for the needs of the client is uncovered through certain sales processes utilized by the branch network. Consequently, the branches have the ability to service those needs with a variety of deposit accounts at competitive rates. Competition for deposits is principally from other savings institutions, commercial banks and credit unions located in the same community, as well as mutual funds and other alternative investments. Based on the most recent branch deposit data as of June 30, 2012 provided by the FDIC, the share of deposits for PacTrust Bank and Beach in Los Angeles, Orange, Riverside, and San Diego counties was as follows:

	PacTrust Bank	Beach
Los Angeles	0.02%	0.09%
Orange	0.38%	0.05%
Riverside	0.53%	
San Diego	0.80%	

Employees

At December 31, 2012, we had a total of 572 full-time employees and 42 part-time employees. Our employees are not represented by any collective bargaining group. Management considers its employee relations to be satisfactory.

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REGULATION AND SUPERVISION

As a result of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act), effective July 20, 2011, the regulation and supervision of savings and loan holding companies and bank holding companies was transferred from the Office of Thrift Supervision (OTS) to the Federal Reserve Board, and regulation and supervision of federal savings banks, including PacTrust Bank, was transferred from the OTS to the OCC. On July 1, 2012, First PacTrust became a bank holding company as a result of the acquisition of Beach. Prior to that date, First PacTrust was a savings and loan holding company. The Dodd-Frank Act requires that both savings and loan holding companies and bank holding companies, such as First PacTrust, act as a source of financial and managerial strength for their insured depository institution subsidiaries, such as the Banks, particularly when such subsidiaries are in financial distress. The FDIC has the authority to hold a bank liable for losses it incurs in connection with another commonly controlled bank. The Banks are commonly controlled.

Oversight of First PacTrust by the Federal Reserve Board is substantially similar to that conducted by the OTS. Oversight of PacTrust Bank by the OCC, its primary federal banking regulator, is substantially similar to that conducted by the OTS. In addition to the OCC, the FDIC also has authority to regulate and supervise PacTrust Bank, and is the primary federal banking regulator of Beach. The DFI also regulates and supervises Beach.

The Federal Reserve Board has extensive enforcement authority over First PacTrust, and the OCC and the FDIC have extensive enforcement authority over PacTrust Bank and Beach, respectively, under federal law. In addition, the DFI has enforcement authority over Beach under California law. Enforcement authority generally includes, among other things, the ability to assess civil money penalties, to issue cease-and-desist or removal orders and to initiate injunctive actions. In general, these enforcement actions may be initiated for violations of laws and regulations and unsafe or unsound practices. Other actions or inactions may provide the basis for enforcement action, including misleading or untimely filing of reports. Except under certain circumstances, public disclosure of formal enforcement actions by the Federal Reserve Board, the OCC, the FDIC and the DFI is required by law.

The Dodd-Frank Act made other significant changes to the regulation of bank holding companies including First PacTrust and their subsidiary banks, including PacTrust Bank and Beach, and other significant changes will continue to occur as rules are promulgated under Dodd-Frank. These regulatory changes have had and will continue to have a material effect on the business and results of First PacTrust, PacTrust Bank and Beach. The Dodd-Frank Act created the Consumer Financial Protection Bureau (CFPB), with the authority to promulgate regulations intended to protect consumers with respect to financial products and services, including those provided by the Banks, and to restrict unfair, deceptive or abusive conduct by providers of consumer financial products and services. The activities of PacTrust Bank and Beach are also subject to regulation under numerous United States federal laws and state consumer protection statutes.

In addition to the Dodd-Frank Act, other legislative and regulatory proposals affecting banks have been made both domestically and internationally. Among other things, these proposals include significant additional capital and liquidity requirements and limitations on size or types of activity in which banks may engage.

As a public company, First PacTrust is subject to the regulation and reporting requirements of the SEC. As a publicly traded company listed on NASDAQ, First PacTrust is subject to the rules of NASDAQ for listed companies.

First PacTrust, the Banks, and their subsidiaries are subject to an extensive laws and regulations that are intended primarily for the protection of customers and depositors and not for the protection of security holders. Set forth below is a brief description of material information regarding certain laws and regulations that are applicable to First PacTrust and the Banks. This description, as well as other descriptions of laws and regulations in this 10-K, is not complete and qualified in its entirety by reference to applicable laws and regulations.

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Legislation is introduced from time to time in the United States Congress that may affect our operations. In addition, the regulations governing First PacTrust and the Banks may be amended from time to time by the OCC, the FDIC, the DFI, the Federal Reserve Board, the CFPB or the SEC, as appropriate. Any legislative or regulatory changes in the future, including those resulting from the Dodd-Frank Act, could adversely affect our operations and financial condition.

The Banks

Both Banks are subject to a variety of requirements under federal law.

Each Bank is required to maintain sufficient liquidity to ensure safe and sound operations. See Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources.

The OCC and the FDIC have adopted guidelines establishing safety and soundness standards on such matters as loan and lease underwriting and documentation, asset quality, earnings standards, internal controls and audit systems, interest rate risk exposure and compensation and other employee benefits. Any institution which fails to comply with these standards must submit a compliance plan.

The Federal Reserve Board requires all depository institutions to maintain non-interest bearing reserves at specified levels against their transaction accounts, primarily checking, NOW and Super NOW checking accounts. At December 31, 2012, each Bank was in compliance with these reserve requirements.

FDIC Insurance. The deposits of each Bank are insured up to the applicable limits by the FDIC, and such insurance is backed by the full faith and credit of the United States. For each Bank, the basic deposit insurance limit is generally $250,000 as specified in FDIC regulations. Non-interest bearing transaction accounts received unlimited coverage through December 31, 2012.

As insurer, the FDIC imposes deposit insurance premiums and is authorized to conduct examinations of and to require reporting by FDIC-insured institutions. The Banks deposit insurance premiums for the year ended December 31, 2012 were $1.2 million. FDIC-insured institutions are required to pay an additional quarterly assessment called the FICO assessment in order to fund the interest on bonds issued to resolve thrift failures in the 1980s. This assessment will continue until the bonds mature in the years 2017 through 2019. For the fiscal year ended December 31, 2012, the Banks paid $71 thousand in FICO assessments.

The FDIC assesses deposit insurance premiums quarterly on each FDIC-insured institution based on annualized rates. Each institution is assigned to one of four risk categories based on its capital, supervisory ratings and other factors, with higher risk institutions paying higher premiums. Its deposit insurance premiums are based on the rates applicable to its risk category, subject to certain adjustments, and as required by the Dodd-Frank Act, are assessed on the amount of an institution s total assets minus its Tier 1 capital.

As a result of a decline in the reserve ratio of the Deposit Insurance Fund (the ratio of the net worth of that fund to estimated insured deposits, referred to as the (DIF) and concerns about expected failure costs and available liquid assets in the DIF, the FDIC required insured institutions to prepay on December 30, 2009 the estimated amount of their quarterly assessments for the fourth quarter of 2009 and all quarters through the end of 2012. The prepaid amount is recorded as an asset and institutions record quarterly expenses for deposit insurance. If events cause actual assessments during the prepayment period to vary from the prepaid amount, institutions will pay excess assessments in cash, or receive a rebate of prepaid amounts not exhausted after collection of assessments due on January 13, 2013, as applicable. Collection of the prepayment does not preclude the FDIC from changing assessment rates or revising the risk-based assessment system in the future.

Capital Requirements. Each Bank is required to maintain specified levels of regulatory capital under the current capital and prompt corrective action regulations of the OCC and the FDIC. To be adequately capitalized, an institution must have a leverage ratio of at least 4.0%, a Tier 1 risk-based capital ratio of at least 4.0% and a total risk-based capital ratio of at least 8.0%. To be a well-capitalized, an institution must have a leverage ratio of at least 5.0%, a Tier 1 risk-based capital ratio of at least 6.0% and total risk-based capital ratio of at least 10.0%. Institutions that are not well-capitalized are subject to certain restrictions on brokered deposits and interest rates on deposits.

The term leverage ratio means the ratio of Tier 1 or core capital to adjusted total assets. The term Tier 1 risk-based capital ratio means the ratio of Tier 1 capital to risk-weighted assets. The term total risk-based capital ratio means the ratio of total capital to risk-weighted assets. Tier 1 core capital generally consists of common stockholders equity and retained earnings and certain noncumulative perpetual preferred stock and related earnings, excluding most intangible assets. Total capital consists of the sum of an institution s Tier 1 core capital and the amount of its Tier 2 capital up to the amount of its Tier 1 core capital. Tier 2 capital consists generally of certain permanent and maturing capital instruments, the amount of the institution s allowance for loan and lease losses up to 1.25% of risk-weighted assets and certain unrealized gains on equity securities. Adjusted total assets consist of total assets as specified for call report purposes, less such certain items as disallowed servicing assets and accumulated gains/losses on available-for-sale securities. Risk-weighted assets are determined under the capital regulations, which assign to every asset, including certain off-balance sheet items, a risk weight generally ranging from 0% to 100% based on the inherent risk of the asset. At December 31, 2012, the regulatory capital ratios of each Bank exceeded the ratios required to qualify as well-capitalized. See Management s Discussion and Analysis of Financial Condition and Results of Operations Capital.

The OCC and the FDIC have the ability to establish an individual minimum capital requirement for a particular institution, based on its circumstances, which varies from the capital levels that would otherwise be required. The OCC has not imposed any such requirement on PacTrust Bank nor has the FDIC imposed any such requirement on Beach.

An institution that is not well-capitalized is subject to certain restrictions on brokered deposits and interest rates on deposits. The OCC and the FDIC are authorized and, under certain circumstances, required to take certain actions against an institution that is less than adequately capitalized. Such an institution must submit a capital restoration plan, including a specified guarantee by its holding company, and until the plan is approved by the OCC or the FDIC, the institution may not increase its assets, acquire another institution, establish a branch or engage in any new activities, and generally may not make capital distributions.

For institutions that are not at least adequately capitalized, progressively more severe restrictions generally apply as capital ratios decrease, or if the OCC or FDIC reclassifies an institution into a lower capital category due to unsafe or unsound practices or unsafe or unsound condition. Such restrictions may cover all aspects of operations and may include a forced merger or acquisition. An institution that becomes critically undercapitalized because it has a tangible capital ratio of 2.0% or less is generally subject to the appointment of the FDIC as receiver or conservator for the institution within 90 days after it becomes critically undercapitalized. The imposition by the OCC or the FDIC of any of these measures on the Banks may have a substantial adverse effect on their operations and profitability.

The OCC and the FDIC have proposed substantial revisions to the regulations on capital prompt corrective action for FDIC-insured institutions. See Proposed Capital Regulations below.

Anti-Money Laundering and Suspicious Activity Several federal laws, including the Bank Secrecy Act, the Money Laundering Control Act and the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the Patriot Act) require all financial institutions including banks implement policies and procedures relating to anti-money laundering, compliance, suspicious activities, and currency transaction reporting and due diligence on customers. The Patriot Act also requires

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federal bank regulators to evaluate the effectiveness of an applicant in combating money laundering when determining whether to approve a proposed bank acquisition.

Community Reinvestment Act Both Banks are subject to the provisions of the Community Reinvestment Act (CRA). Under the terms of the CRA, the banks have a continuing and affirmative obligation, consistent with safe and sound operation, to help meet the credit needs of their communities, including providing credit to individuals residing in low- and moderate-income neighborhoods. The CRA does not establish specific lending requirements or programs for financial institutions, and does not limit an institution s discretion to develop the types of products and services that it believes are best suited to its particular community in a manner consistent with the CRA.

The OCC regularly assesses PacTrust Bank and the FDIC regularly assesses Beach on its record in meeting the credit needs of the community served by that institution, including low-income and moderate-income neighborhoods. Each Bank received a satisfactory rating in its most recent CRA evaluation.

The CRA assessment also is considered when the Federal Reserve reviews applications by banking institutions to acquire, merge or consolidate with another banking institution or its holding company, to establish a new branch office that will accept deposits or to relocate an office. In the case of a bank holding company applying for approval to acquire a bank, the Federal Reserve will assess the records of each subsidiary depository institution of the applicant bank holding company, and those records may be the basis for denying the application.

Financial Privacy Under the requirements imposed by the Gramm-Leach-Bliley Act (the GLBA), the Company and its subsidiaries are required periodically to disclose to their retail customers the Company s policies and practices with respect to the sharing of nonpublic customer information with its affiliates and others, and the confidentiality and security of that information. Under the GLBA, retail customers also must be given the opportunity to opt out of information-sharing arrangements with nonaffiliates, subject to certain exceptions set forth in the GLBA.

Limitations on Transactions with Affiliates Transactions between either PacTrust Bank or Beach and any affiliate are governed by Sections 23A and 23B of the Federal Reserve Act. An affiliate of a bank is any company or entity which controls, is controlled by or is under common control with the bank but which is not a subsidiary of the bank. First PacTrust is an affiliate of each of PacTrust Bank and Beach, and PacTrust Bank and Beach are each affiliates of the other. Generally, Section 23A limits the extent to which the Bank or its subsidiaries may engage in covered transactions with any one affiliate to an amount equal to 10.0% of a bank s capital stock and surplus, and imposes an aggregate limit on all such transactions with all affiliates in an amount equal to 20.0% of such capital stock and surplus. Section 23B applies to covered transactions as well as certain other transactions and requires that all transactions be on terms substantially the same, or at least as favorable to the Bank, as those provided to a non-affiliate. The term covered transaction includes the making of loans to an affiliate, the purchase of or investment in the securities issued by an affiliate, the purchase of assets from an affiliate, the acceptance of securities issued by an affiliate as collateral security for a loan or extension of credit to any person or company, or the issuance of a guarantee, acceptance or letter of credit on behalf of an affiliate.

In addition, Sections 22(g) and (h) of the Federal Reserve Act place restrictions on loans to executive officers, directors and principal shareholders of the Bank and its affiliates. Under Section 22(h), loans to a director, executive officer or greater than 10.0% shareholder of the Bank or its affiliates and certain related interests may generally not exceed, together with all other outstanding loans to such person and related interests, 15.0% of the Bank s unimpaired capital and surplus, plus an additional 10.0% of unimpaired capital and surplus for loans that are fully secured by readily marketable collateral having a value at least equal to the amount of the loan. Section 22(h) also requires that loans to directors, executive officers and principal shareholders be made on terms substantially the same as those offered in comparable transactions to other persons, and not involve more than the normal risk of repayment or present other unfavorable features. There is an exception for loans that are made pursuant to a benefit or compensation program that (1) is widely available to employees of the Bank or its affiliate and (2) does not give preference to any director, executive officer or principal shareholder or certain related interests over other employees of the Bank or its affiliate. Section 22(h) also requires prior board approval for certain loans. In addition, the aggregate amount of all loans to all of the executive officers, directors and principal shareholders of the Bank or its affiliates and certain related interests may not exceed 100.0% of the institution s unimpaired capital and surplus. Furthermore, Section 22(g) places additional restrictions on loans to executive officers. At December 31, 2012, each of PacTrust Bank and Beach was in compliance with the limitations on transactions with affiliates.

Identity Theft. Under Section 315 of the Fair and Accurate Credit Transactions Act (FACT Act), PacTrust Bank and Beach are each required to develop and implement a written Identity Theft Prevention Program to detect, prevent and mitigate identity theft red flags in connection with the opening of certain accounts or certain existing accounts. Under the FACT Act, each Bank is required to adopt reasonable policies and procedures to (i) identify relevant red flags for covered accounts and incorporate those red flags into the program: (ii) detect red flags that have been incorporated into the program; (iii) respond appropriately to any red flags that are detected to prevent and mitigate identity theft; and (iv) ensure the program is updated periodically, to reflect changes in risks to customers or to the safety and soundness of the financial institution or creditor from identity theft.

PacTrust Bank and Beach each maintain a program to meet the requirements of Section 315 of the FACT Act and PacTrust Bank and Beach each believes it is currently in compliance with these requirements.

Consumer Protection Laws and Regulations Each of PacTrust Bank and Beach and its affiliates are subject to a broad array of federal and state consumer protection laws and regulations that govern almost every aspect of its business relationships with consumers including but not limited to the Truth-in-Lending Act, the Truth in Savings Act, the Electronic Funds Transfer Act, the Expedited Funds Availability Act, the Equal Credit Opportunity Act, the Fair Housing Act, the Secure and Fair Enforcement in Mortgage Licensing Act, the Real Estate Settlement Procedures Act, the Home Mortgage Disclosure Act, the Fair Credit Reporting Act, the Fair Debt Collection Practices Act, the Service Members Civil Relief Act, the Right to Financial Privacy Act, the Home Ownership and Equity Protection Act, the Consumer Leasing Act, the Fair Credit Billing Act, the Homeowners Protection Act, the Check Clearing for the 21st Century Act, laws governing flood insurance, federal and state laws prohibiting unfair and deceptive business practices, foreclosure laws and various regulations that implement some or all of the foregoing. These laws and regulations mandate certain disclosure requirements and regulate the manner in which financial institutions must deal with customers when taking deposits, making loans, collecting loans and providing other services. If either PacTrust Bank or Beach fails to comply with these laws and regulations, it may be subject to various penalties, including but not limited to, enforcement actions, injunctions, fines, civil liability, criminal penalties, punitive damages and the loss of certain contractual rights. Each of PacTrust Bank and Beach has compliance policies and procedures in place to help ensure its compliance with these requirements.

Consumer Financial Protection Bureau. The Dodd-Frank Act established the CFPB as a new independent bureau within the Federal Reserve system that is responsible for regulating consumer financial products and services under federal consumer financial laws. The CFPB has broad rulemaking authority with respect to these laws. First PacTrust, PacTrust Bank and Beach are subject to CFBB s regulation of consumer financial services and products. The CFPB issued numerous regulations in 2012, and will continue to do so in the next few years. The CFPB s rulemaking, examination and enforcement authority is expected to significantly affect financial institutions involved in the provision of consumer financial products and services, including First PacTrust, PacTrust Bank and Beach.

New restrictions on residential mortgages were also promulgated under the Dodd-Frank Act. The provisions include (i) a requirement that lenders make a determination that at the time a residential mortgage loan is consummated the consumer has a reasonable ability to repay the loan and related costs, (ii) a ban on loan originator compensation based on the interest rate or other terms of the loan (other than the amount of the

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principal), (iii) a ban on prepayment penalties for certain types of loans, (iv) bans on arbitration provisions in mortgage loans and (v) requirements for enhanced disclosures in connection with the making of a loan. The Dodd-Frank Act also imposes a variety of requirements on entities that service mortgage loans. In January 2013, the CFPB issued select final rules required by the Dodd-Frank Act related to residential mortgage origination and servicing. These rules go into effect January 2014

PacTrust Bank

The investment and lending authority of PacTrust Bank is prescribed by federal laws and regulations and PacTrust Bank is prohibited from engaging in any activities not permitted by such laws and regulations.

As a federally chartered savings bank, PacTrust Bank is required to meet a qualified thrift lender (QTL) test, under which PacTrust Bank is required to maintain a significant portion of its assets in housing-related loans and leases and investments. Failure to meet the QTL test can trigger certain restrictions on PacTrust Bank and First PacTrust, and can be the basis for enforcement action. As of December 31, 2012, PacTrust Bank met the QTL test.

PacTrust Bank is also subject to a 35% of total assets limit on consumer loans, commercial paper and corporate debt securities, and a 20% limit on commercial non-mortgage loans. Separately, PacTrust Bank has authority to invest up to 400% of its capital in loans secured by non-residential real estate. PacTrust Bank met these limits as of December 31, 2012.

The branching authority of PacTrust Bank is regulated by the OCC. PacTrust Bank is generally authorized to branch nationwide, subject to OCC approval. The OCC also must approve PacTrust Bank s acquisition of other financial institutions and certain other acquisitions.

PacTrust Bank s general limit on aggregate loans to one borrower is equal to 25% of the sum of its Tier 1 and Tier 2 capital and its allowance for loan and lease losses, subject to certain exceptions. Of this amount, no more than 15% may be unsecured loans. At December 31, 2012, PacTrust Bank s lending limit under this restrictions was $43.2 million on a secured basis and $25.9 million on an unsecured basis. PacTrust Bank is in compliance with the loans-to-one-borrower limitation.

OCC regulations impose various restrictions on the ability of a federal savings bank to make capital distributions, which include dividends, stock redemptions or repurchases, and certain other items. Generally, if both before and after the proposed distribution, a federal savings bank would remain well-capitalized, it may make capital distributions during any calendar year equal to up to 100% of net income for the year-to-date plus retained net income for the two preceding years. However, the OCC may restrict dividends by an institution deemed to be in need of more than normal supervision.

A federal savings bank proposing to make a capital distribution must submit written notice to the OCC if it would not remain well-capitalized following the distribution. A federal savings bank that does not, or would not meet its current minimum capital requirements following a proposed capital distribution, or proposes to exceed these net income limitations, must obtain OCC approval prior to making such distribution. The OCC may object to the distribution on safety and soundness concerns.

PacTrust Bank is a member of the FHLB, which makes loans or advances to members. All advances are required to be fully secured by sufficient collateral as determined by the FHLB, and all long-term advances are required to provide funds for residential home financing. PacTrust Bank is required to purchase and maintain stock in the FHLB. At December 31, 2012, PacTrust Bank had $7.2 million in FHLB stock, which was in compliance with this requirement.

Beach

The investment, lending and other authorities of Beach are prescribed by federal and California laws and regulations, including but not limited to the California Financial Information Privacy Act. Beach is prohibited from engaging in any activities not permitted by such laws and regulations. Generally, under federal law, its activities and investments are limited to those permissible for a national bank, subject to certain exceptions.

The branching authority of Beach is regulated by the FDIC and the DFI. Beach is generally authorized to branch nationwide, subject to regulatory approval. These agencies also must approve Beach s acquisition of other financial institutions and certain other acquisitions.

Beach s general limit on aggregate loans to one borrower is 25% of the sum of shareholders equity, allowance for loan and lease losses, capital notes and debentures. Of this amount, no more than 15% may be unsecured loans. At December 31, 2012, Beach s lending limits under these restrictions were $8.7 million and $5.2 million, respectively. Beach is in compliance with the loans-to-one-borrower limitation.

With the prior approval of the DFI, Beach may make distributions to shareholders, which include dividends, stock redemptions or repurchases, and certain other items, up to the greater of its retained earnings, its net income for the last fiscal year, or its net income for the current fiscal year. If the DFI determines that the shareholders equity of Beach is inadequate or that payment of a proposed dividend would be unsafe or unsound for Beach, it may prohibit the payment of dividends.

Beach is a member of the FHLB, which makes loans or advances to members. All advances are required to be fully secured by sufficient collateral as determined by the FHLB, and all long-term advances are required to provide funds for residential home financing. Beach is required to purchase and maintain stock in the FHLB. At December 31, 2012, Beach had $1.2 million in FHLB stock, which was in compliance with this requirement.

First PacTrust

First PacTrust is required to register and file reports with, and is subject to regulation and examination by the Federal Reserve Board. The activities of First PacTrust and its subsidiaries other than the Banks are restricted to activities permissible for bank holding companies. Federal Reserve Board approval is required for acquisition of another financial institution or holding company thereof, and, under certain circumstances, for the acquisition of other subsidiaries.

As a bank holding company, First PacTrust is subject to the current regulations of the Federal Reserve Board on capital for a bank holding company, which establish a capital framework based on Tier 1 and Tier 2 capital generally the same as Tier 1 and a Tier 2 capital for the Banks, as described above. For bank holding companies, generally the minimum capital ratios (all on a consolidated basis) consist of a Tier 1 risk-based capital ratio of 4%, a total risk-based capital ratio of 8% and a leverage ratio of 4%. On an individual basis, the Federal Reserve Board can impose higher ratios on a bank holding company. To be considered well-capitalized, a bank holding company must have a leverage ratio of at least 5%, a Tier 1 risk-based capital ratio of at least 6%, and a total risk-based capital ratio of at least 10%, and is not subject to a written agreement, order or directive to maintain a specific capital measure. As of December 31, 2012, First PacTrust was considered well-capitalized, with capital ratios in excess of those required to qualify as such.

The Federal Reserve Board has proposed substantial revisions to the regulations on capital for bank holding companies. See Proposed Capital Regulations below.

Under the Federal Reserve Board s policy statement on the payment of cash dividends, a bank holding company should pay cash dividends only to the extent that its net income for the past year is sufficient to cover both the cash dividends and a rate of earnings retention that is consistent with the company s capital needs, asset quality, and overall financial condition. A bank holding company must give the Federal Reserve Board prior notice of any purchase or redemption of its equity securities if the consideration for the purchase or redemption, when combined with the consideration for all such purchases or redemptions in the preceding 12 months is equal to 10% or more of its consolidated net worth. The Federal Reserve Board may disapprove such a purchase or redemption if it determines that the proposal would be an unsafe or unsound practice or would violate any law, regulation, Federal Reserve Board order, or condition imposed in writing by the Federal Reserve Board. This notification requirement does not apply to a bank holding company that qualifies as well capitalized, received a composite rating and a rating for management of 1 or 2 in its last examination and is not subject to any unresolved supervisory issue.

Proposed Capital Requirements

The Federal Reserve Board, the OCC and the FDIC have proposed rules that would substantially amend the capital regulations applicable to First PacTrust and the Banks. The proposed rules would implement the Basel III regulatory capital reforms and changes required by the Dodd-Frank Act. Basel III refers to various documents released by the Basel Committee on Banking Supervision. As published, the proposed rules contemplated a general effective date of January 1, 2013, and, for certain provisions, various phase-in periods and later effective dates. However, the federal banking agencies have announced that the proposed rules will not be effective on January 1, 2013. The agencies have not adopted final rules or published any modifications to the proposed rules. The proposed rules as published are summarized below. It is not possible to predict when or in what form final regulations may be adopted.

The proposed rules include new minimum capital ratios, to be phased in until fully effective on January 1, 2015, and would refine the definitions of what constitutes capital for purposes of calculating those ratios. The proposed new minimum capital ratios would be: (i) a new common equity Tier 1 capital ratio of 4.5%; (ii) a Tier 1 capital ratio of 6% (increased from 4%); (iii) a total capital ratio of 8% (unchanged from current rules); and (iv) a Tier 1 leverage ratio of 4%. The proposed rules would also establish a capital conservation buffer requirement of 2.5% above each of the new regulatory minimum capital ratios to be phased in starting on January 1, 2016 and fully effective on January 1, 2019. An institution would be subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if any of its capital levels fell below the buffer amount.

The proposed rules would also implement other revisions to the current capital rules, such as recognition of all unrealized gains and losses on available for sale debt and equity securities, and provide that instruments that will no longer qualify as capital would be phased out over time.

The agencies also proposed revisions, effective January 1, 2015, to the prompt corrective action framework, which is designed to place restrictions on insured depository institutions if their capital levels show signs of weakness. Under the prompt corrective action requirements, insured depository institutions would be required to meet the following in order to qualify as well-capitalized: (i) a common equity Tier 1 risk-based capital ratio of 6.5%; (ii) a Tier 1 risk-based capital ratio of 8% (increased from 6%); (iii) a total risk-based capital ratio of 10% (unchanged from current rules); and (iv) a Tier 1 leverage ratio of 5% (unchanged from the current rules).

The proposed rules set forth certain changes for the calculation of risk-weighted assets, effective January 1, 2015. In particular, the proposed rules would establish risk-weighting categories generally ranging from 0% for U.S. government and agency securities to 600% for certain equity exposures. Specifics include, among others:

- For residential mortgage exposures, changing the current 50% risk weight for high-quality seasoned mortgages and 100% risk-weight for all other mortgages to risk weights between 35% and 200% depending upon the LTV ratio and other factors (but VA and FHA guaranteed loans would have 0% risk weight).

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- Applying a 150% risk weight instead of a 100% risk weight for certain high volatility commercial real estate acquisition, development and construction loans.

- Assigning a 150% risk weight to exposures (other than residential mortgage exposures) that are 90 days past due.

- Providing for a 20% credit conversion factor for the unused portion of a commitment with an original maturity of one year or less that is not unconditionally cancellable (currently set at 0%).

If adopted, these rules could result in more stringent capital and liquidity requirements for First PacTrust, PacTrust Bank and Beach.

Future Legislation or Regulation

In light of recent conditions in the United States economy and the financial services industry, the Obama administration, Congress, the regulators and various states continue to focus attention on the financial services industry. Additional proposals that affect the industry have been and will likely continue to be introduced. We cannot predict whether any of these proposals will be enacted or adopted or, if they are, the effect they would have on our business, our operations or our financial condition.

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TAXATION

Federal Taxation

General. First PacTrust and its subsidiaries are subject to federal income taxation in the same general manner as other corporations, with some exceptions discussed below. The following discussion of federal taxation is intended only to summarize certain pertinent federal income tax matters and is not a comprehensive description of the tax rules applicable to the Company or the Banks. Gateway Bancorp and its subsidiaries are currently under exam by the Internal Revenue Service for the 2008 and 2009 tax years (years prior to the merger). This exam is currently open. Management is not aware of any material adjustments at this time.

Method of Accounting. For federal income tax purposes, the Company reports its income and expenses on the accrual method of accounting with a December 31 year end.

Minimum Tax. The Internal Revenue Code imposes an alternative minimum tax at a rate of 20% on a base of regular taxable income plus certain tax preferences, called alternative minimum taxable income. The alternative minimum tax is payable to the extent such alternative minimum taxable income is in excess of an exemption amount. Net operating losses can offset no more than 90% of alternative minimum taxable income. Certain payments of alternative minimum tax may be used as credits against regular tax liabilities in future years. The Company has not been subject to the alternative minimum tax, nor does the Company have any such amounts available as credit for carryover.

Net Operating Loss Carryovers. The Company may carryback net federal operating losses to the preceding two taxable years and forward to the succeeding 20 taxable years. At December 31, 2012, the Company had $6.9 million in net operating loss carryforwards for federal income tax purposes and $32.3 million in net operating loss carryforwards for California income tax purposes. The utilization of the net operating loss and other carryforwards are subject to annual limitations set forth in Section 382 of the Internal Revenue Code. The tax attributes acquired in the Beach Business Bank and Gateway Bancorp acquisitions are subject to an annual Section 382 limitation of $1.3 million and $0.5 million, respectively.

State Taxation

First PacTrust and its subsidiaries are subject to various state corporate franchise income taxes. Taxes for each state are assessed at different rates. The majority of the Company s income is sourced to California for state taxation purposes. The California income tax rate is 10.84% for the 2012 tax year. For this purpose, California taxable income generally means federal taxable income subject to certain modifications provided for in the California law.

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Item 1A. Risk Factors

RISK FACTORS

An investment in our securities, including our common stock and our 7.50% Senior Notes due April 15, 2020 (senior notes), is subject to certain risks. These risk factors should be considered by prospective and current investors in our securities when evaluating the disclosures in this Annual Report on Form 10-K. The risks and uncertainties not presently known to us or that we currently deem immaterial also may impair our business operations. If any of the following risks actually occur, our business, results of operations and financial condition could suffer. In that event, the value of our securities could decline, and you may lose all or part of your investment.

Risks Relating to Our Business and Operating Environment

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

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

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

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

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

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

On August 21, 2012, we entered into a definitive agreement to acquire all of the outstanding stock of PBOC. The closing of the transaction is subject to the satisfaction of certain conditions, including the approval of the

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merger by PBOC shareholders and receipt of all necessary or advisable regulatory approvals. No assurance can be given as to when or whether these approvals will be received. The success of our pending acquisition of PBOC will depend on, among other things, our ability to realize anticipated cost savings and to combine our businesses with those of PBOC in a manner that does not materially disrupt existing customer relationships or result in decreased revenues from our respective customers. If we are not able to successfully achieve these objectives, the anticipated benefits of the acquisition may not be realized fully or at all or may take longer to realize than expected.

The Company and PBOC have operated and, until the completion of the merger, will continue to operate, independently. The success of the merger, including anticipated cost savings, will depend, in part, on our ability to successfully combine the businesses of the Company and PBOC. To realize these anticipated benefits, after the completion of the merger, we expect to integrate PBOC s business into our own. It is possible that the integration process could result in the loss of key employees, the disruption of each company s ongoing businesses or inconsistencies in standards, controls, procedures and policies that adversely affect the combined company s ability to maintain relationships with clients, customers, depositors and employees or to achieve the anticipated benefits of the merger. The loss of key employees could adversely affect our ability to successfully conduct our business in the markets in which PBOC now operates, which could adversely affect us. If we experience difficulties with the integration process, the anticipated benefits of the merger may not be realized fully or at all, or may take longer to realize than expected. As with any merger of financial institutions, there also may be business disruptions that lead PBOC customers to move their business to competing financial institutions. Integration efforts between the two companies will also divert management attention and resources. These integration matters could have an adverse effect on us for an undetermined period after completion of the merger. In addition, the actual cost savings of the merger could be less than anticipated.

Our recent acquisitions of Beach and Gateway may present certain risks to our business and operations.

We completed our acquisition of Beach on July 1, 2012 and our acquisition of Gateway on August 17, 2012. Difficulties in capitalizing on the opportunities presented by the Beach and Gateway acquisitions may prevent us from fully achieving the expected benefits from the acquisitions, or may cause the achievement of such expected benefits to take longer than expected.

Further, the assimilation of PacTrust Bank s, Beach s and Gateway s customers and markets could result in higher than expected deposit attrition, loss of key employees, disruption of our businesses, including the businesses of PacTrust Bank, Beach and Gateway or otherwise adversely affect our ability to maintain relationships with customers and employees or achieve the anticipated benefits of the acquisitions. These matters could have an adverse effect on First PacTrust for an undetermined period. We will be subject to similar risks and difficulties in connection with any future acquisitions, including the pending acquisition of PBOC.

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

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

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

- demand for our products and services may decline;
- loan and lease delinquencies, problem assets and foreclosures may increase;
- collateral for our loans and leases may further decline in value; and
- the amount of our low-cost or non-interest-bearing deposits may decrease.

We cannot accurately predict the effect of the weakness in the national economy on our future operating results or the market price of the notes.

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

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

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

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

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

- an ongoing review of the quality, size and diversity of the loan and lease portfolio;

- evaluation of non-performing loans and leases;
- historical default and loss experience;
- historical recovery experience;
- existing economic conditions;
- risk characteristics of the various classifications of loans and leases; and
- the amount and quality of collateral, including guarantees, securing the loans and leases.

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

The determination of the appropriate level of the allowance for loan and lease losses inherently involves a high degree of subjectivity and requires us to make various assumptions and judgments about the collectability of our loan and lease portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of our loans and leases. In determining the amount of the allowance for loan and lease losses, we review our loans and leases and the loss and delinquency experience, and evaluate economic conditions and make significant estimates of current credit risks and future trends, all of which may undergo material changes. If our estimates are incorrect, the allowance for loan and lease losses may not be sufficient to cover losses inherent in our loan and lease portfolio, resulting in the need for additions to our allowance through an increase in the provision for loan and lease losses. Continuing deterioration in economic conditions affecting borrowers, new information regarding existing loans and leases, identification of additional problem loans and leases and other factors, both within and outside of our control, may require an increase in the allowance for loan and lease losses. Our allowance for loan and lease losses was 1.16% of gross originated loans and leases held for investment and 62.84% of originated nonperforming originated loans at December 31, 2012. In addition, bank regulatory agencies periodically review our allowance for loan and lease losses and may require an increase in the provision for loan and lease losses or the recognition of further charge-offs, based on judgments different than that of management. If charge-offs in future periods exceed the allowance for loan and lease losses, we will need additional provisions to increase the allowance for loan and lease losses. Any increases in the provision for loan and lease losses will result in a decrease in net income and may have a material adverse effect on our financial condition and results of operations.

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

At December 31, 2012, $658.6 million, or 52.8% of our total gross loan and lease portfolio, was secured by single-family mortgage loans and home equity lines of credit. This type of lending is generally sensitive to regional and local economic conditions that significantly impact the ability of borrowers to meet their loan payment obligations, making loss levels difficult to predict. The decline in residential real estate values as a result of the downturn in the California housing markets has reduced the value of the real estate collateral securing these types of loans and increased the risk that we would incur losses if borrowers default on their loans. Residential loans with high combined loan-to-value ratios generally will be more sensitive to declining property values than those with lower combined loan-to-value ratios and therefore may experience a higher incidence of default and severity of losses. In addition, if the borrowers sell their homes, the borrowers may be unable to repay their loans in full from the sale proceeds. As a result, these loans may experience higher rates of delinquencies, defaults and losses, which will in turn adversely affect our financial condition and results of operations.

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

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

Our underwriting practices may not protect us against losses in our loan portfolio.

We seek to mitigate the risks inherent in our loan portfolio by adhering to specific underwriting practices, including: analyzing a borrower s credit history, financial statements, tax returns and cash flow projections; valuing collateral based on reports of independent appraisers; and verifying liquid assets. Although we believe that our underwriting criteria are, and historically have been, appropriate for the various kinds of loans we make, we have incurred losses on loans that have met these criteria, and may continue to experience higher than expected losses depending on economic factors and consumer behavior. In addition, our ability to assess the creditworthiness of our customers may be impaired if the models and approaches we use to select, manage, and underwrite our customers become less predictive of future behaviors. Finally, we may have higher credit risk, or experience higher credit losses, to the extent our loans are concentrated by loan type, industry segment, borrower type, or location of the borrower or collateral. Our residential loan portfolio is largely jumbo loans that exceed loan size limit of Fannie Mae and Freddie Mac and therefore have a more limited secondary market demand than that of conforming loans. At December 31, 2012, 73.5% of our commercial real estate loans and 97.4% of our residential mortgages were secured by collateral in Southern California. Deterioration in real estate values and underlying economic conditions in Southern California could result in significantly higher credit losses to our portfolio.

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

Many of the residential mortgage loans we have originated for investment consisted of non-traditional single family loans that do not conform to Fannie Mae or Freddie Mac underwriting guidelines as a result of characteristics of the borrower or property, the loan terms, loan size or exceptions from agency underwriting guidelines.

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

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

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

If we foreclose on a commercial or multi-family real estate loan, our holding period for the collateral typically is longer than for residential mortgage loans because there are fewer potential purchasers of the collateral. Additionally, commercial and multi-family real estate loans generally have relatively large balances to single borrowers or related groups of borrowers. Accordingly, if we make any errors in judgment in the collectability of our commercial and multi-family real estate loans, any resulting charge-offs may be larger on a per loan basis than those incurred with our residential or consumer loan portfolios. As of December 31, 2012, our commercial and multi-family real estate loans totaled $453.6 million, or 36.4% of our total gross loan portfolio.

Our portfolio of Green Loans subjects us to greater risks of loss.

We have a portfolio of Green Account home equity loans which generally have a fifteen year draw period with interest-only payment requirements, and a balloon payment requirement at the end of the draw period. The Green Loans include an associated clearing account that allows all types of deposit and withdrawal transactions to be performed by the borrower during the term. We ceased originating new Green Loans in 2011; however, existing Green Loan borrowers are entitled to continue to draw on their Green Loan, and at December 31, 2012, the balance of Green Loans in our portfolio totaled $206.0 million.

In 2011, we implemented an information reporting system which allowed us to capture more detailed information than was previously possible, including transaction level data concerning our Green Loans. Although such transaction level data would have enabled us to more closely monitor trends in the credit quality of our Green Loans, we do not possess the enhanced transaction level data relating to the Green Loans for periods prior to the implementation of those enhanced systems. Although we do not believe that the absence of such historical data itself represents a material impediment to our current mechanisms for monitoring the credit quality of the Green Loans, until we compile sufficient transaction level data going forward we are limited in our ability to use historical information to monitor trends in the portfolio that might assist us in anticipating credit problems. Green Loans expose us to greater credit risk than other residential mortgage loans because they are non-amortizing and contain large balloon payments upon maturity. Although the loans require the borrower to make monthly interest payments, we are also subject to an increased risk of loss in connection with the Green Loans because payments due under the loans can be made by means of additional advances drawn by the borrower, up to the amount of the credit limit, thereby increasing our overall loss exposure due to negative amortization. The balloon payment due on maturity may require the borrower to either sell or refinance the underlying property in order to make the payment, which may increase the risk of default or non-payment. Our ability to take remedial actions in response to these additional risks of loss is limited by the terms and conditions of the Green Loans and our alternatives consist primarily of the ability to curtail additional borrowing when we determine that either the collateral value of the underlying real property or the credit worthiness of the borrower no longer supports the level of credit originally extended. Additionally, many of our Green Loans have larger balances than traditional residential mortgage loans, and accordingly, if the loans go into default either during the draw period or at maturity, any resulting charge-offs may be larger on a per loan basis than those incurred with traditional residential loans.

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

We obtain updated valuations in the form of appraisals and broker price opinions when a loan has been foreclosed upon and the property is taken in as other real estate owned (OREO), and at certain other times during the asset s holding period. Our net book value (NBV) in the loan at the time of foreclosure and thereafter is compared to the updated market value (fair value) of the foreclosed property less estimated selling costs. A charge-off is recorded for any excess in the asset s NBV over its fair value. If our valuation process is incorrect, the fair value of our investments in other real estate owned may not be sufficient to recover our NBV in such assets, resulting in the need for additional write-downs. Additional material write-downs to our investments in other real estate owned could have a material adverse effect on our financial condition and results of operations. Our bank regulators periodically review our OREO and may require us to recognize further write-downs. Any increase in our write-downs, as required by such regulator, may have a material adverse effect on our financial condition and results of operations.

Our portfolio of re-performing loans subjects us to a greater risk of loss.

We have a portfolio of re-performing residential mortgage loans which we purchased in several large pools at a discount to the outstanding principal balance on the loans. These re-performing loans were discounted because either (i) the borrower was delinquent at the time of the loan purchase or had previously been delinquent and had become current prior to our purchase of the loan, or (ii) because the loan had been modified from its

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original terms. We purchased the loans because we believe that we can successfully service the loans and have the borrowers consistently meet their obligations under the loan, which will increase the value of the loans. However, re-performing loans expose us to greater credit risk than other residential mortgage loans because they have a higher risk of delinquency, default and foreclosure than other residential mortgage loans and may result in higher levels of realized losses.

Repayment of our commercial and industrial loans is often dependent on the cash flows of the borrower, which may be unpredictable, and the collateral securing these loans may not be sufficient to repay the loan in the event of default.

We make our commercial and industrial loans primarily based on the identified cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. Collateral securing commercial and industrial loans may depreciate over time, be difficult to appraise and fluctuate in value. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect the amounts due from its customers. Accordingly, we make our commercial and industrial loans primarily based on the historical and expected cash flow of the borrower and secondarily on underlying collateral provided by the borrower. As of December 31, 2012, our commercial and industrial loans totaled $80.4 million, or 6.4% of our total gross loan portfolio.

We rely on communications, information, operating and financial control systems technology from third-party service providers, and we may suffer an interruption in those systems.

We rely heavily on third-party service providers for much of our communications, information, operating and financial control systems technology, including our online banking services and data processing systems. Any failure or interruption, or breaches in security, of these systems could result in failures or interruptions in our customer relationship management, general ledger, deposit, servicing and/or loan origination systems and, therefore, could harm our business, operating results and financial condition. Additionally, interruptions in service and security breaches could lead existing customers to terminate their banking relationships with us and could make it more difficult for us to attract new banking customers.

We are exposed to risk of environmental liabilities with respect to real properties which we may acquire.

Due to the continued weakness of the U.S. economy and, more specifically, the California economy, including higher levels of unemployment than the nationwide average and continuing declines in real estate values, many borrowers have been unable to meet their loan repayment obligations and, as a result, we have had to initiate foreclosure proceedings with respect to and take title to an increased number of real properties that had collateralized their loans. Moreover, if the economic conditions remain weak or worsen, we may have to continue to foreclose and take title to additional real properties. As an owner of such properties, we could become subject to environmental liabilities and incur substantial costs for any property damage, personal injury, investigation and clean-up that may be required due to any environmental contamination that may be found to exist at any of those properties, even though we did not engage in the activities that led to such contamination. In addition, if we are the owner or former owner of a contaminated site, we may be subject to common law claims by third parties seeking damages for environmental contamination emanating from the site. If we were to become subject to significant environmental liabilities or costs, our business, financial condition, results of operations and prospects could be adversely affected.

The expansion of our single family residential mortgage loan originations could adversely affect our business, financial condition and results of operations.

A significant portion of our loan originations business consists of providing purchase money loans to homebuyers and refinancing existing loans. The origination of purchase money mortgage loans is greatly influenced by independent third parties involved in the home buying process such as realtors and builders. As a result, our ability to secure relationships with such independent third parties will affect our ability to grow our

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purchase money mortgage loan volume and, thus, our loan originations business. Our retail branches and retail call center also originates refinances of existing mortgage loans, which is very sensitive to increases in interest rates, and may decrease significantly if interest rates rise.

Our wholesale originations business operates largely through third party mortgage brokers who are not contractually obligated to do business with us. Further, our competitors also have relationships with our brokers and actively compete with us in our efforts to expand our broker networks. Accordingly, we may not be successful in maintaining our existing relationships or expanding our broker networks.

We have made substantial investments to grow our residential mortgage lending business in recent quarters, including adding experienced mortgage loan officers and administrators and management, leasing additional space at our headquarters, opening additional loan production offices, and investing in technology. Our residential mortgage lending business may not generate sufficient revenues to enable us to recover our substantial investment in our residential mortgage lending business, or may not grow sufficiently to contribute to earnings in relation to our investment. Moreover, we may be unable to sell the mortgage loans we originate into the secondary mortgage market at a profit due to changes in interest rates or a reduction in the demand for mortgage loans in the secondary mortgage market. Accordingly, our investment in and expansion of our residential mortgage lending business could adversely affect our business, financial condition and results of operations.

An increase in interest rates, change in the programs offered by governmental sponsored entities (GSE) or our ability to qualify for such programs may reduce our mortgage revenues, which would negatively impact our non-interest income.

Our mortgage banking operations, which are conducted through the Mission Hills Mortgage Bankers division acquired in connection with our acquisition of Gateway, provide a significant portion of our non-interest income. We generate mortgage revenues primarily from gains on the sale of single-family residential loans pursuant to programs currently offered by Fannie Mae, Freddie Mac and other investors on a servicing released basis. These entities account for a substantial portion of the secondary market in residential mortgage loans. Any future changes in these programs, our eligibility to participate in such programs, the criteria for loans to be accepted or laws that significantly affect the activity of such entities could, in turn, materially adversely affect our results of operations. Further, in a rising or higher interest rate environment, our originations of mortgage loans may decrease, resulting in fewer loans that are available to be sold to investors. This would result in a decrease in mortgage revenues and a corresponding decrease in non-interest income. In addition, our results of operations are affected by the amount of non-interest expense associated with mortgage banking activities, such as salaries and employee benefits, occupancy, equipment and data processing expense and other operating costs. During periods of reduced loan demand, our results of operations may be adversely affected to the extent that we are unable to reduce expenses commensurate with the decline in loan originations.

Secondary mortgage market conditions could have a material adverse impact on our financial condition and earnings.

In addition to being affected by interest rates, the secondary mortgage markets are also subject to investor demand for single-family residential loans and mortgage-backed securities and increased investor yield requirements for those loans and securities. These conditions may fluctuate or even worsen in the future. We believe our ability to retain mortgage loans is limited. As a result, a prolonged period of secondary market illiquidity may reduce our loan production volumes and could have a material adverse impact on our future earnings and financial condition.

Any breach of representations and warranties made by us to our residential mortgage loan purchasers or credit default on our loan sales may require us to repurchase residential mortgage loans we have sold.

We sell a majority of the residential mortgage loans we originate in the secondary market pursuant to agreements that generally require us to repurchase loans in the event of a breach of a representation or warranty made by us to the loan purchaser. Any fraud or misrepresentation during the mortgage loan origination process, whether by us, the borrower, mortgage broker, or other party in the transaction, or, in some cases, upon any early payment default on such mortgage loans, may require us to repurchase such loans.

We believe that, as a result of the increased defaults and foreclosures during the past several years resulting in increased demands for repurchases and indemnifications in the secondary market, many purchasers of residential mortgage loans are particularly aware of the conditions under which originators must indemnify or repurchase loans and would benefit from enforcing any repurchase remedies they may have. We believe that our exposure to repurchases under our representations and warranties includes the current unpaid balance of all loans we have sold, including loans originated and sold by Gateway prior to our acquisition. Gateway previously originated loans that had more flexible underwriting guidelines than our current guidelines, and we believe, a higher risk of loss. From 2004 through the time of our acquisition of Gateway in 2012, Gateway sold an aggregate of $8.0 billion of residential loans. To recognize the potential loan repurchase or indemnification losses from those loans, we have recorded a reserve of $3.5 million as of December 31, 2012. During 2012, we sold an aggregate of $547.5 million of residential loans. A deterioration in the economy, an increase in interest rates or a decrease in home values could increase customer defaults on residential loans we sold and increase demands for repurchases and indemnification and increase our losses from loan repurchases and indemnifications. If we are required to indemnify or repurchase loans that we originate and sell that result in losses that exceed our reserve, this could adversely affect our business, financial condition and results of operations. In addition, any claims asserted against us in the future by one of our loan purchasers may result in liabilities or legal expenses that could have a material adverse effect on our results of operations and financial condition.

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

As of December 31, 2012, the Company s investment securities portfolio consisted of 85 securities, 40 of which were in an unrealized loss position. The majority of unrealized losses are related to the Company s private label residential mortgage-backed securities, as discussed below.

The Company s private label residential mortgage-backed securities that are in a loss position had a fair value of $12.3 million with unrealized losses of approximately $128 thousand at December 31, 2012. The Company s agency residential mortgage-backed securities that are in a loss position had a fair value of $37.4 million with unrealized losses of approximately $234 thousand. These residential mortgage-backed securities were rated AA or above at purchase and are not within the scope of ASC 325. The Company monitors to ensure it has adequate credit support and as of December 31, 2012, the Company believes there is no other than temporary impairment (OTTI) and did not have the intent to sell these securities and it is likely that it will not be required to sell the securities before their anticipated recovery.

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

Rising interest rates may hurt our profits.

To be profitable, we have to earn more money in interest that we receive on loans and investments than we pay to our depositors and lenders in interest. If interest rates rise, our net interest income and the value of our assets could be reduced if interest paid on interest-bearing liabilities, such as deposits and borrowings, increases more quickly than interest received on interest-earning assets, such as loans, other mortgage-related investments and investment securities. This is most likely to occur if short-term interest rates increase at a faster rate than

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long-term interest rates, which would cause net income to go down. In addition, rising interest rates may hurt our income, because they may reduce the demand for loans and the value of our securities. In a rapidly changing interest rate environment, we may not be able to manage our interest rate risk effectively, which would adversely impact our financial condition and results of operations.

We face significant operational risks.

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

Managing reputational risk is important to attracting and maintaining customers, investors and employees.

Threats to our reputation can come from many sources, including adverse sentiment about financial institutions generally, unethical practices, employee misconduct, failure to deliver minimum standards of service or quality, compliance deficiencies and questionable or fraudulent activities of our customers. We have policies and procedures in place to promote ethical conduct and protect our reputation. However, these policies and procedures may not be fully effective. Negative publicity regarding our business, employees, or customers, with or without merit, may result in the loss of customers, investors and employees, costly litigation, a decline in revenues and increased governmental oversight.

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

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

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

We are required by federal regulatory authorities to maintain adequate levels of capital to support our operations. At some point, we may need to raise additional capital to support continued growth, both organically and through acquisitions.

Our ability to raise additional capital, if needed, will depend on conditions in the capital markets, economic conditions and a number of other factors, many of which are outside our control, and on our financial performance. Accordingly, we cannot assure you of our ability to raise additional capital if needed or on terms acceptable to us. If we cannot raise additional capital when needed, our ability to further expand our operations through organic growth and acquisitions could be materially impaired and our financial condition and liquidity could be materially and adversely affected.

We depend on our key employees.

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

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

At December 31, 2012, we held $18.7 million of bank-owned life insurance (BOLI) on certain key and former employees and executives, with a cash surrender value of $18.7 million. The eventual repayment of the cash surrender value is subject to the ability of the various insurance companies to pay death benefits or to return the cash surrender value to us if needed for liquidity purposes. We continually monitor the financial strength of the various companies with whom we carry these policies. However, any one of these companies could experience a decline in financial strength, which could impair its ability to pay benefits or return our cash surrender value. If we need to liquidate these policies for liquidity purposes, we would be subject to taxation on the increase in cash surrender value and penalties for early termination, both of which would adversely impact earnings.

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

At December 31, 2012, we owned $8.4 million in Federal Home Loan Bank (FHLB) stock. We are required to own this stock to be a member of and to obtain advances from our FHLB. This stock is not marketable and can only be redeemed by our FHLB. Our FHLB s financial condition is linked, in part, to the eleven other members of the FHLB System and to accounting rules and asset quality risks that could materially lower their capital, which would cause our FHLB stock to be deemed impaired, resulting in a decrease in our earnings and assets.

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

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

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

We are subject to extensive regulation and supervision by the Federal Reserve Board, the OCC, the FDIC and DFI. The Federal Reserve Board regulates the supply of money and credit in the United States. Its fiscal and monetary policies determine in a large part our cost of funds for lending and investing and the return that can be earned on those loans and investments, both of which affect our net interest margin. Federal Reserve Board policies can also materially affect the value of financial instruments that we hold, such as debt securities, certain mortgage loans held for sale and mortgage servicing rights (MSRs). Its policies also can affect our borrowers, potentially increasing the risk that they may fail to repay their loans or satisfy their obligations to us. Changes in policies of the Federal Reserve Board are beyond our control and the impact of changes in those policies on our activities and results of operations can be difficult to predict.

The Company and its bank subsidiaries are heavily regulated at the federal and state levels. This regulation is to protect depositors, federal deposit insurance funds and the banking system as a whole. These regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities, including the ability to impose restrictions on a bank s operations, reclassify assets, determine the adequacy of a bank s allowance for loan and lease losses and determine the level of deposit insurance premiums assessed.

The federal banking regulatory agencies have proposed rules to implement a new global regulatory standard on bank capital adequacy referred to as Basel III, as well as to implement new capital requirements under the Dodd-Frank Act. The proposed rules would increase minimum capital ratios, add a new minimum common equity ratio, add a new capital conservation buffer, and would change the risk-weightings of certain assets. The proposed changes, if implemented, would be phased in over several years from 2013 through 2019.

Congress and state legislatures and federal and state agencies continually review banking laws, regulations and policies for possible changes. Any change in such regulation and oversight, whether in the form of regulatory policy, new regulations or legislation or additional deposit insurance premiums could have a material adverse impact on our operations. Because our business is highly regulated, the laws and applicable regulations are subject to frequent change. Any new laws, rules and regulations could make compliance more difficult or expensive or otherwise adversely affect our business, financial condition or growth prospects. Such changes could subject us to additional costs, limit the types of financial services and products we may offer and/or increase the ability of non-banks to offer competing financial services and products, among other things.

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

The Dodd-Frank Act provides for, among other things, new restrictions and an expanded framework of regulatory oversight for financial institutions and their holding companies. Under the Dodd-Frank Act, PacTrust Bank s former primary regulator, the OTS, was eliminated and existing federal thrifts, including PacTrust Bank, became subject to regulation and supervision by the OCC, which also supervises and regulates all national banks. In addition, on July 21, 2011, all savings and loan holding companies, including First PacTrust at that time, became subject to regulation and supervision by the Federal Reserve Board, which also supervises and regulates all bank holding companies. In addition, upon our acquisition of Beach on July 1, 2012, First PacTrust became a bank holding company and subject to capital requirements at the holding company level. These changes may result in additional restrictions on investments and other holding company activities. Effective July 21, 2011, financial institutions have been allowed to pay interest on demand deposits, which has increased our interest expense.

Recently proposed rules under the Dodd-Frank Act significantly impact our operations, and we expect to continue to face increased regulation. These regulations may affect the manner in which we do business and the products and services that we provide, affect or restrict our ability to compete in our current businesses or our ability to enter into or acquire new businesses, reduce or limit our revenue or impose additional fees, assessments or taxes on us, intensify the regulatory supervision of us and the financial services industry, and adversely affect our business operations. The Dodd-Frank Act, among other things, established a Consumer Financial Protection Bureau (the CFPB) with broad authority to administer and enforce a new federal regulatory framework of consumer financial regulation. The Dodd-Frank Act enhanced the regulation of mortgage banking and gave authority to the new CFPB to implement mortgage regulations. Proposed and anticipated mortgage rules could dramatically alter our residential mortgage business, from application, to underwriting, to closing, and servicing. In addition, many of the other provisions of the Dodd-Frank Act have extended implementation periods and require extensive additional rulemaking, guidance and interpretation by various regulatory agencies. We expect that the Dodd-Frank Act, including current and future rules implementing its provisions and the interpretations of those rules, will reduce our revenues, increase our expenses, require us to change certain of our business practices, increase the regulatory supervision of us, increase our capital requirements and impose additional assessments and costs on us, and otherwise adversely affect our business.

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

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

As required by the Dodd-Frank Act, the FDIC has adopted final regulations that became effective April 1, 2011, under which insurance premiums are based on an institution s total assets minus its tangible equity instead of its deposits. Although our FDIC insurance premiums were initially reduced by these regulations, it is possible that our future insurance premiums will increase under the final regulations.

We rely on dividends from PacTrust Bank and Beach for substantially all of First PacTrust s revenue.

The Company s primary source of revenue at the holding company level is earnings of available cash and securities and dividends from PacTrust Bank and Beach. The OCC, in the case of PacTrust Bank, and the DFI, in the case of Beach, regulate and, in some cases, must approve the amounts PacTrust Bank and Beach pay as dividends to First PacTrust. If PacTrust Bank or Beach is unable to pay dividends, First PacTrust may not be able to service its debt, including its senior notes, pay its other obligations or pay dividends on its preferred and common stock which could have a material adverse impact on our financial condition or your investment in our securities.

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

The Company has a significant deferred tax asset (DTA) and cannot assure that it will be fully realized. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between the carrying amounts and the tax basis of assets and liabilities computed using enacted tax rates. If we determine that we will not achieve sufficient future taxable income to realize our net deferred tax asset, we are required under generally accepted accounting principles to establish a full or partial valuation allowance. If we determine that a valuation allowance is necessary, we are required to incur a charge to operations. We regularly assess available positive and negative evidence to determine whether it is more likely than not that our net deferred tax asset will be realized. Realization of a deferred tax asset requires us to apply significant judgment and is inherently speculative because it requires estimates that cannot be made with certainty. At December 31, 2012, the Company had a net deferred tax asset of $7.6 million, net of a deferred tax asset valuation allowance of $8.4 million. Although realization is not assured, the Company believes that the realization of the recognized net deferred tax asset at December 31, 2012 is more likely than not based upon available tax planning strategies and expectations as to future taxable income.

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

As of December 31, 2012, the Company had recognized net DTAs of approximately $7.6 million, which are included in our tangible common equity. The Company s ability to utilize its DTAs to offset future taxable income may be significantly limited if the Company experiences an ownership change as defined in Section 382 of the Internal Revenue Code of 1986, as amended, referred to herein as the Code. In general, an ownership change will occur if there is a cumulative change in the Company s ownership by 5-percent or more shareholders (as defined in the Code) that exceeds 50 percentage points over a rolling three-year period. If this were to occur, the Company would be subject to an annual limitation on its pre-ownership change DTAs equal to the value of the corporation immediately before the ownership change, provided that the annual limitation would be increased each year to the extent that there is an unused limitation in a prior year.

Changes in accounting standards may affect our performance.

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

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

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

Anti-takeover provisions could negatively impact our shareholders.

Provisions in our charter and bylaws, the corporate law of the State of Maryland and federal regulations could delay, defer or prevent a third party from acquiring us, despite the possible benefit to our shareholders, or otherwise adversely affect the market price of any class of our equity securities, including our common stock. These provisions include: a prohibition on voting shares of common stock beneficially owned in excess of 10% of total shares outstanding, supermajority voting requirements for certain business combinations with any person who beneficially owns more than 10% of our outstanding common stock; the election of directors to staggered terms of three years; advance notice requirements for nominations for election to our Board of Directors and for proposing matters that stockholders may act on at stockholder meetings, a requirement that only directors may fill a vacancy in our Board of Directors, supermajority voting requirements to remove any of our directors and the other provisions of our charter. Our charter also authorizes our Board of Directors to issue preferred stock, and preferred stock could be issued as a defensive measure in response to a takeover proposal. In addition, pursuant to federal banking regulations, as a general matter, no person or company, acting individually or in concert with others, may acquire more than 10% of our common stock without prior approval from the our federal banking regulator.

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

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

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

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

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

As of December 31, 2012, we had $75.0 million of long-term debt in the form of advances from the Federal Home Loan Bank in addition to the senior notes. As of December 31, 2012, in addition to $81.8 million in Senior Notes, we also had 32,000 shares of SBLF Preferred Stock, with a liquidation preference of $1,000 per share, issued and outstanding.

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

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

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

The Company conducts its operations from its main and executive offices, branch offices, and Mission Hills Mortgage Bankers offices. We lease our principal executive offices located in Irvine, California. In December, 2012, the Company sold its office building located at 610 Bay Boulevard, Chula Vista, resulting in a gain of $407 thousand. See further discussion in Note 13 Premises and Equipment in the notes to the consolidated financial statements contained in Item 8 of this report.

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The following table provides a list of the Company s offices and indicates whether the properties are owned or leased:

Location	Owned or Leased	Lease Expiration Date	Net Book Value at December 31, 2012 (Dollars in Thousands)	
MAIN AND EXECUTIVE OFFICES:				
18500 Von Karman Avenue Irvine, CA 92612(1)	Leased	December, 2017		N/A
610 Bay Boulevard Chula Vista, CA 91910(1)	Leased	March, 2013		N/A
350 S. Figueroa Street Los Angeles, CA 90071	Leased	December, 2012		N/A
9595 Wilshire Boulevard Beverly Hills, CA 90212	Leased	December, 2017		N/A
BRANCH OFFICES:				
279 F Street Chula Vista, CA 91912	Owned	N/A	$	776
850 Lagoon Drive Chula Vista, CA 91910	*	N/A		N/A
350 Fletcher Parkway El Cajon, CA 91910	Leased	December, 2014		N/A
5508 Balboa Avenue San Diego, CA 92111	Leased	October, 2021		N/A
27425 Ynez Road Temecula, CA 92591	Owned	N/A	$	1,252
8200 Arlington Avenue Riverside, CA 92503	*	N/A		N/A
5030 Arlington Avenue Riverside, CA 92503	Owned	N/A	$	406
7877 Ivanhoe Street La Jolla, CA 92037	Owned	N/A	$	2,155
7877 Ivanhoe Street (land lease) La Jolla, CA 92037(3)	Leased	October, 2017		N/A

1642 West San Marcos Boulevard San Marcos, CA 92078	Owned	N/A	$ 1,964
1880 Century Park East Los Angeles, CA 90067	Leased	July, 2021	N/A
2635 Wilshire Boulevard Santa Monica, CA 90403	Leased	September, 2021	N/A
13031 Newport Avenue Tustin, CA 92780	Leased	January, 2022	N/A
1230 Rosecrans Avenue, Suite 100 Manhattan Beach, CA 90266	Leased	January, 2019	N/A

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Location	Owned or Leased	Lease Expiration Date	Net Book Value at December 31, 2012 (Dollars in Thousands)
180 E Ocean Boulevard, Lobby Level Long Beach, CA 90802	Leased	January, 2016	N/A
650 Town Center Drive, Suite 150 Costa Mesa, CA 92626	Leased	February, 2018	N/A
23601 Moulton Parkway, Suite E Laguna Hills, CA 92653	Leased	November, 2014	N/A
4146 Woodruff Avenue Lakewood, CA 90713	Leased	April, 2013	N/A
500 Newport Center Drive Suite 125 Costa Mesa, CA 92626	Leased	August, 2020	N/A
16840 Bernardo Center Drive San Diego, CA 92128	Leased	October, 2021	N/A
600 South Lake Avenue Pasadena, CA 91106	Leased	December, 2022	N/A
MISSION HILLS MORTGAGE BANKERS OFFICES:			
5200 E. Cortland Blvd. Suite B6 Flagstaff, Arizona 86004	Leased	January, 2013	N/A
1955 Commerce Center Circle, Suite D Prescott, Arizona 86301	Leased	May, 2013	N/A
535 Wall Street Chico, California 95928	Leased	Month-to-Month	N/A
4071 Port Chicago Highway, Suite 130 Concord, California 94520	Leased	August, 2014	N/A
1312 E. Shaw Avenue, Suite 101 Fresno, California 93710	Leased	September, 2014	N/A
29995 Technology Drive, Suite 105 Murrieta, California 92563	Leased	April, 2013	N/A
2143 Convention Center Way, #170 Ontario, California 91764	Leased	December, 2012	N/A
1655 Montgomery St	Leased	April, 2013	N/A

Oroville, California 95965			
44-300 Monterey Avenue, Suite A Palm Desert, California 92260	Leased	February, 2016	N/A
1301 Redwood Way Suite 230 Petaluma, California 94954	Leased	February, 2016	N/A
2811 Bechelli Lane Redding, California 96002	Leased	Month-to-Month	N/A
1403 N. Tustin Avenue, Suite 220 Santa Ana, California 92705	Leased	February, 2016	N/A

Location	Owned or Leased	Lease Expiration Date	Net Book Value at December 31, 2012 (Dollars in Thousands)
3510 Unocal Place, Suite 105 Santa Rosa, California 95403	Leased	July, 2013	N/A
822 Broadway Sonoma, California 95476	Leased	Month-to-Month	N/A
1252 Airport Park Blvd, Suite D3 Ukiah, California 95482	Leased	Month-to-Month	N/A
1810 S. Central, Suite A Visalia, California 93277	Leased	Month-to-Month	N/A
1600 Rivera Avenue Walnut Creek, California 94596	Leased	October, 2013	N/A
2225 Pacific Blvd. S.E., Suite 205 Albany, Oregon 97321	Leased	Month-to-Month	N/A
1580-A N.E. 7th Street Grants Pass, Oregon 97526	Leased	Month-to-Month	N/A
3815 South 6th Street, Suite 140 Klamath Falls, Oregon 97603	Leased	Month-to-Month	N/A
830 Alder Creek, Suite B Medford, Oregon 97504	Leased	Month-to-Month	N/A
10515 20th St SE, Suite 101 Lake Stevens, Washington 98258	Leased	August, 2013	N/A

* These sites, which are on Goodrich Aerostructures facilities, are provided to the Company at no cost as an accommodation to Goodrich Aerostructures employees.

(1) On March 5, 2012, the Company relocated the corporate office from Chula Vista, CA to Irvine, CA.

(2) The La Jolla branch leases the land on which it resides.

Item 3. Legal Proceedings

From time to time we are involved as plaintiff or defendant in various legal actions arising in the normal course of business. We do not anticipate incurring any material liability as a result of such currently pending litigation.

On December 14, 2011, CMG Financial Services, Inc. (CMG) initiated a patent lawsuit against PacBank in the United States District Court for the Central District of California (styled *CMG Financial Services, Inc. v. Pacific Trust Bank, F.S.B., et al.*, Case No. 2:11-cv-10344-PSG-MRW) (the Action) alleging infringement of U.S. Patent No. 7,627,509 (the 509 Patent) of limited number of financial products previously offered by PacTrust Bank. The 509 Patent relates to the origination and servicing of loans with characteristics similar to the Bank s Green Loans. The Company and its counsel believe the asserted claim is without merit and the resolution of the matter is not expected to have a material impact on the Company s business, financial condition or results of operations, though no assurance can be given in this regard.

Item 4. Mine Safety Disclosures

Not applicable.

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PART II

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

The Company s voting common stock is traded on the NASDAQ Stock Market under the symbol BANC. The Company s Class B Non-Voting Common Stock is not listed or traded on any national securities exchange or automated quotation system, and there currently is no established trading market for such stock. The approximate number of holders of record of the Company s common stock as of December 31, 2012 was 317. Certain shares are held in nominee or street name and accordingly, the number of beneficial owners of such shares is not known or included in the foregoing number. At December 31, 2012 there were 10,780,427 shares of voting common stock and 1,112,188 shares of Class B non-voting common stock issued and outstanding. The following table presents quarterly market information for the Company s voting common stock for the two years ended December 31, 2012 and December 31, 2011.

	Market Price Range		
2012	**High**	**Low**	**Dividends**
Quarter Ended			
December 31, 2012	$ 12.45	$ 10.92	$ 0.12
September 30, 2012	$ 12.64	$ 11.01	$ 0.12
June 30, 2012	$ 12.27	$ 10.09	$ 0.12
March 31, 2012	$ 12.90	$ 10.73	$ 0.12
			$ 0.48

	Market Price Range		
2011	**High**	**Low**	**Dividends**
Quarter Ended			
December 31, 2011	$ 13.21	$ 10.09	$ 0.12
September 30, 2011	$ 15.52	$ 10.37	$ 0.12
June 30, 2011	$ 16.61	$ 13.93	$ 0.11
March 31, 2011	$ 16.59	$ 13.53	$ 0.11
			$ 0.46

DIVIDEND POLICY

The timing and amount of cash dividends paid to the Company s common shareholders depends on the Company s earnings, capital requirements, financial condition and other relevant factors. The ability of First PacTrust to pay cash dividends to common stockholders depends, in large part, upon its receipt of dividends from the Banks, because First PacTrust has limited sources of income other than dividends from the Banks. There were no dividends paid from the Banks to First PacTrust during 2012. For a description of the regulatory restrictions on the ability of the Banks to pay dividends to First PacTrust, and on the ability of First PacTrust to pay dividends to its stockholders, see Item 1. Business How We Are Regulated.

The terms of the SBLF Preferred Stock impose limits on the ability of the Company to pay dividends and repurchase shares of common stock. Under the terms of the SBLF Preferred Stock, no repurchases may be effected, and no dividends may be declared or paid on preferred shares ranking pari passu with the SBLF Preferred Stock, junior preferred shares, or other junior securities (including the common stock) during the current quarter and for the next three quarters following the failure to declare and pay dividends on the SBLF Preferred Stock, except that, in any such quarter in which the dividend is paid, dividend payments on shares ranking pari passu may be paid to the extent necessary to avoid any resulting material covenant breach.

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Under the terms of the SBLF Preferred Stock, the Company may only declare and pay a dividend on the common stock or other stock junior to the SBLF Preferred Stock, or repurchase shares of any such class or series of stock, if, after payment of such dividend, or after giving effect to such repurchase, (i) the dollar amount of the Company s Tier 1 Capital would be at least equal to the Tier 1 Dividend Threshold and (ii) full dividends on all outstanding shares of SBLF Preferred Stock for the most recently completed dividend period have been or are contemporaneously declared and paid. As of December 31, 2012, we satisfied this condition.

The Tier 1 Dividend Threshold means 90% of (A) $159,588,000 (the Company s consolidated Tier 1 capital as of June 30, 2011) plus (B) $32,000,000 (the aggregate liquidation amount of the SBLF Preferred Stock issued) minus (C) the net amount of loans and leases charged off by the Banks since August 30, 2011. The Tier 1 Dividend Threshold is subject to reduction, beginning on the first day of the eleventh dividend period following the date of issuance of the SBLF Preferred Stock, by $3,200,000 (ten percent of the aggregate liquidation amount of the Series A Preferred Stock initially issued, without regard to any subsequent partial redemptions) for each one percent increase in qualified small business lending from the adjusted baseline level under the terms of the SBLF Preferred Stock (i.e., $19,469,000) to the ninth dividend period.

ISSUER PURCHASES OF EQUITY SECURITIES

The following table sets forth information for the twelve months ended December 31, 2012 with respect to repurchases by the Company of its common stock:

Period	Total # of shares Purchased	Average price paid per share	Total # of shares purchased as part of a publicly announced program	Maximum # of shares that may yet to be purchased
1/1/12-3/31/12	228	$ 12.15		1,000,000
4/1/12-6/30/12	200	17.00		1,000,000
7/1/12-9/30/12	42,265	12.39	12,544	987,456
10/1/12-12/31/12	15,665	11.68		
Total	58,358	$ 17.74	12,544	

In 2011, the Board of Directors of the Company authorized the repurchase of up to 1,000,000 shares of its common stock, or approximately 8.6% of its outstanding shares, in the open market. The repurchase program, which expired in 2012, was funded through the Company s existing cash.

The Company has as a practice to buy back stock for tax purposes pertaining to employee benefit plans, and does not count toward the allotment of the shares.

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STOCK PERFORMANCE GRAPH

The following graph and related discussion are being furnished solely to accompany this Annual Report on Form 10-K pursuant to Item 201(e) of Regulation S-K and shall not be deemed to be soliciting materials or to be filed with the SEC (other than as provided in Item 201) nor shall this information be incorporated by reference into any future filing under the Securities Act or the Exchange Act, whether made before or after the date hereof and irrespective of any general incorporation language contained therein, except to the extent that the Company specifically incorporates it by reference into a filing.

The following graph shows a comparison of stockholder return on First PacTrust s common stock with the cumulative total returns for: 1) the Nasdaq Composite® (U.S.) Index; 2) the Standard and Poor s (S&P) 500 Financials Index; and 3) the SNL Bank $1B-$5B Index, which was compiled by SNL Financial LC of Charlottesville, Virginia. The graph assumes an initial investment of $100 and reinvestment of dividends. The graph is historical only and may not be indicative of possible future performance.

	Period Ending					
Index	**12/31/07**	**12/31/08**	**12/31/09**	**12/31/10**	**12/31/11**	**12/31/12**
First Pactrust Bancorp	100.00	56.29	32.52	82.89	66.22	82.54
NASDAQ Composite	100.00	60.02	87.24	103.08	102.26	120.42
S&P 500 Financials	100.00	44.68	52.38	58.73	48.71	62.75
SNL Thrift $1B-$5B Index	100.00	85.31	71.61	79.53	77.29	97.78

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Item 6. Selected Financial Data

SELECTED FINANCIAL AND OTHER DATA

The following table sets forth certain consolidated financial and other data of the Company at the dates and for the periods indicated. The information set forth below should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations included herein at Item 7 and the consolidated financial statements and notes thereto included herein at Item 8.

	December 31, 2012	2011	2010	2009	2008
	(In thousands, except per share data)				
Selected Financial Condition Data:					
Total assets	$ 1,682,702	$ 999,041	$ 861,621	$ 893,921	$ 876,520
Cash and cash equivalents	108,643	44,475	59,100	34,596	19,237
Loans and leases receivable, net excluding loans held for sale	1,234,023	775,609	678,175	748,303	793,045
Loans held for sale	113,158				
Real estate owned, net	4,527	14,692	6,562	5,680	158
Securities available-for-sale	121,419	101,616	64,790	52,304	17,565
Bank owned life insurance	18,704	18,451	18,151	17,932	17,565
Other investments (interest-bearing term deposit)	5,027				893
FHLB and other bank stock	8,842	6,972	8,323	9,364	9,364
Deposits	1,306,342	786,334	646,308	658,432	598,177
Total borrowings	156,935	20,000	75,000	135,000	175,000
Total equity	188,757	184,495	136,009	97,485	98,723
Selected Operations Data:					
Total interest income	$ 55,031	$ 35,177	$ 40,944	$ 46,666	$ 45,896
Total interest expense	8,479	6,037	10,788	17,976	23,021
Net interest income	46,552	29,140	30,156	28,690	22,875
Provision for loan losses					