ITLA CAPITAL CORP
Form 10-K
March 31, 2003

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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, 2002

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 0-26960

ITLA CAPITAL CORPORATION

(Exact Name of Registrant as Specified in its Charter)

Delaware	**95-4596322**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
888 Prospect Street, Suite 110, La Jolla, California	
(Address of Principal Executive Offices)	**92037**
	(Zip Code)

Registrant s Telephone Number, Including Area Code: **(858) 551-0511**

Securities Registered Pursuant to Section 12(b) of the Act:
None

Securities Registered Pursuant to Section 12(g) of the Act:
Common Stock, $.01 Par Value
(Title of Class)

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

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes [X] No [ ].

As of March 21, 2003, there were issued and outstanding 6,061,575 shares of the Registrant s Common Stock. 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 as of June 28, 2002, was $180.5 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.)

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FORM 10-K

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002

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Forward-Looking Statements

Safe Harbor statement under the Private Securities Litigation Reform Act of 1995: This Form 10-K contains forward-looking statements that are subject to risks and uncertainties, including, but not limited to, changes in economic conditions in our market areas, changes in policies by regulatory agencies, the impact of competitive loan products, loan demand risks, the quality or composition of our loan or investment portfolios, fluctuations in interest rates and changes in the relative differences between short and long term interest rates, levels of nonperforming assets and operating results, the impact of terrorist actions and other risks detailed from time to time in our filings with the Securities and Exchange Commission. We caution readers not to place undue reliance on forward-looking statements. We do not undertake and specifically disclaim any obligation to revise any forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements. These risks could cause our actual results for 2003 and beyond to differ materially from those expressed in any forward-looking statements by, or on behalf of, us.

As used throughout this report, the terms we , our , ITLA Capital or the Company refer to ITLA Capital Corporation and its consolidated subsidiaries.

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PART I

Item 1. Business

General

ITLA Capital Corporation is the largest financial services company headquartered in San Diego County, California with consolidated assets of $1.7 billion, consolidated net loans of $1.3 billion, consolidated deposits of $1.1 billion and consolidated shareholders equity of $156.7 million as of December 31, 2002. We conduct and manage our business principally through our wholly-owned subsidiary, Imperial Capital Bank (the Bank), a $1.6 billion institution, with eight offices in California, (San Francisco, Encino, Beverly Hills, Glendale, Century City, Santa Monica, Costa Mesa and Del Mar), one office in Carson City, Nevada (opened in January 2003) and one office in Tempe, Arizona, which will open on April 1, 2003. Effective January 1, 2003, the Bank converted from a California industrial bank to a California-chartered commercial bank, and the Company became a bank holding company. The Bank has been in business for 28 years and was formally known as Imperial Thrift and Loan Association until its name change in January 2000. Our branch offices are primarily used for our deposit services and lending business. The Bank is primarily engaged in:

Originating real estate loans secured by income producing properties for retention in its loan portfolio;

Originating film finance loans, franchise loans, tax refund anticipation loans, private label small business revolving credit loans; and

Accepting customer deposits through the following products: certificates of deposits, money market, passbook accounts and effective January 2003, demand deposit accounts. Our deposit accounts are insured by the Federal Deposit Insurance Corporation (FDIC), up to the appropriate legal limits.

During 2001 and 2000, the Bank was also engaged in the acquisition of pools of single family mortgages in the secondary market for investment purposes. On March 28, 2002, the Bank disposed of virtually all of its residential loan portfolios through the securitization of $86.3 million of its performing single family mortgages and sale of $17.6 million of the remaining single family mortgages in a whole loan sale.

During 2000, we acquired through our subsidiary, Imperial Capital Real Estate Investment Trust (Imperial Capital REIT) all of the equity and certain collateralized mortgage obligations (CMOs) of the ICCMAC Multi-family and Commercial Trust 1999-1 (the ICCMAC Trust). On the date of acquisition, the ICCMAC Trust held assets of $250.5 million as collateral for $205.4 million of investment grade CMOs that had been sold to third party investors by the previous owner. At December 31, 2002 and 2001, real estate loans held in trust, net, for the CMOs totaled $121.9 million and $162.2 million and the CMOs outstanding balance was $69.1 million and $109.6 million, respectively.

During the first quarter of 2002, we completed our acquisition of Asahi Bank of California (Asahi Bank) a wholly-owned subsidiary of Asahi Bank Ltd - Japan (ABLJ), for approximately $14.9 million in cash. On the date of acquisition, Asahi Bank had total assets of approximately $50.0 million, including $35.0 million of commercial real estate and business loans and $15.0 million of cash and securities. Upon completion of the acquisition, Asahi Bank was merged into the Bank.

On October 25, 2002, we acquired the operating assets and the performing film finance loan portfolio of the Lewis Horwitz Organization (LHO), in an all cash transaction valued at approximately $93.0 million. LHO is an internationally recognized lender to the independent film and television production industry. LHO is currently operating as a division of the Bank.

In November 2002, we entered into a strategic business relationship with various subsidiaries of Household International, Inc. (Household) relating to certain tax refund products. In connection with this relationship, the Bank originates tax refund anticipation loans and sells Household a non-recourse participation interest representing substantially all of the outstanding loan balance. Under the agreement, Household supports the Bank s credit administration, compliance and accounting functions with a range of services relating to the origination process, and services the loans on behalf of the Bank. Substantially all of the tax refund lending volume is generated during the first quarter of the year. The tax refund agreement is for a four-year term, with substantial break-up fees to apply in the event that Household terminates the agreement during the first two years of the agreement.

We also entered into an agreement in December 2002 with Household pursuant to which the Bank originates relatively small private label commercial revolving loans to small businesses. This agreement is for a two year term. These loans are used primarily to fund purchases from major retailers. Pursuant to this agreement, the Bank sells Household a non-recourse participation interest representing substantially all of the outstanding loan balance.

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We continuously evaluate business expansion opportunities, including acquisitions or joint ventures with companies that originate or purchase commercial and multi-family real estate loans as well as other types of secured commercial loans. In connection with this activity, we periodically have discussions with and receive financial information about other companies that may or may not lead to the acquisition of the company, a segment or division of that company, or a joint venture opportunity.

The executive offices of the Company are located at 888 Prospect Street, Suite 110, La Jolla, California 92037 and its telephone number at that address is (858) 551-0511.

Lending Activities

General. During 2002, we concentrated our lending activities as follows:

Originating and purchasing real estate loans, including construction loans, secured by income producing properties.

Originating and purchasing franchise and film finance loans.

Income Producing Property Loans. We originate and purchase real estate loans secured primarily by first trust deeds on income producing properties. Income property loan collateral consists primarily of the following types of properties:

Apartments
Retail centers
Small office and light industrial buildings
Hotels
Mini-storage facilities
Mobile home parks
Other mixed use or special purpose commercial properties

At December 31, 2002, the Bank had $1.3 billion of income producing property loans outstanding representing 92.1% of its total real estate loans and 81.0% of its gross loan portfolio. Most of the Bank s real estate borrowers are business owners, individual investors, investment partnerships or limited liability corporations. The income producing property lending that the Bank engages in typically involves larger loans to a single borrower and is generally viewed as exposing the lender to a greater risk of loss than one- to four-family residential lending. During 2002, we launched Imperial Capital Express, a new real estate lending platform focusing on originating smaller balance income producing property loans. Income producing property values are also generally subject to greater volatility than residential property values. The liquidation values of income producing properties may be adversely affected by risks generally incident to interests in real property, such as:

Changes or continued weakness in general or local economic conditions;
Changes or continued weakness in specific industry segments;
Declines in real estate values;
Declines in rental, room or occupancy rates in hotels, apartment complexes or commercial properties;
Increases in other operating expenses (including energy costs);
Changes in governmental rules, regulations and fiscal policies, including rent control ordinances, environmental legislation and taxation;
Increases in interest rates, real estate and personal property tax rates; and
Other factors beyond the control of the borrower or the lender.

We originate real estate loans through offices located in San Francisco, Glendale, Santa Monica, Costa Mesa and Del Mar. These offices are staffed by a total of twenty-four loan officers. Loan officers solicit mortgage loan brokers for loan applications that meet our underwriting criteria, and also accept applications directly from borrowers. A majority of the real estate loans funded by us are originated through mortgage loan brokers. Mortgage loan brokers act as intermediaries between us and the property owner in arranging real estate loans and earn a fee based upon the principal amount of each loan funded. Since a large portion of our marketing effort is through the contact of loan officers with mortgage loan brokers, we do not incur significant expenses for advertising our lending services to the general public.

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Income producing property loans are generally made in amounts up to 75% of the appraised value; however, in certain instances, multifamily originations may be made at a loan to value ratio of 80%. Loans are generally made for terms up to ten years, with amortization periods up to 30 years. Depending on market conditions at the time the loan was originated, certain loan agreements may include prepayment penalties. Most real estate loans are subject to a quarterly adjustment of their interest rate based on one of several interest rate indexes.

The interest rates charged on real estate loans generally vary based on a number of factors, including the degree of credit risk, size and maturity of the loan, whether the loan has a fixed or a variable rate, and prevailing market rates for similar types of real estate loans. As of December 31, 2002, 61.5% of the Bank s real estate loan portfolio was indexed to the Six-Month London Interbank Offered Rate; 17.1% was indexed to the reference rate charged by Bank of America; 3.2% was indexed to the one-month London Interbank offered rate; 1.5% was indexed to the Federal Home Loan Bank (FHLB) 11th District Cost of Funds Index; 9.5% was fixed for an initial period and then adjustable; 2.0% was indexed to either the United States Treasury security indexes or the FHLB of San Francisco advance rate; and the balance of 5.2% was fixed rate. Most of the Bank s variable rate real estate loans may not adjust downward below their initial rate, with increases generally limited to maximum adjustments of 2% per year up to 5% for the life of the loan. The inability of the Bank s real estate loans to adjust downward can contribute to increased income in periods of declining interest rates, and also assists the Bank in our efforts to limit the risks to earnings resulting from changes in interest rates, subject to the risk that borrowers may refinance these loans during periods of declining interest rates. At December 31, 2002, 85.9% of the Bank s variable rate and fixed/adjustable loan portfolio contained interest rate floors. The weighted-average minimum interest rate on this portfolio was 7.84%. At that date, 79.5% of the variable rate loans outstanding had a lifetime interest rate cap. The weighted-average lifetime interest rate cap on this portfolio was 10.03%.

In 2002, 2001, and 2000, the Bank purchased income producing real estate loans totaling $83.6 million, $176.9 million, and $110.9 million, respectively. In its commercial real estate loan purchases, the Bank generally reserves the right to reject particular loans from a loan pool being purchased and does so for loans in a pool that do not meet its underwriting criteria.

Construction Loans. We also originate construction loans for income producing properties, as well as for single-family home construction. At December 31, 2002, the Bank had $101.4 million of construction loans outstanding, representing 7.5% of its loans receivable. In addition to the lending risks previously discussed, construction loans also present risks associated with the accuracy of the initial estimate of the property s value upon completion compared to its actual value, the timely completion of construction activities for their allotted costs and the time needed to stabilize income properties or sell residential tract developments. These risks can be affected by a variety of factors, including the oversight of the project, localized costs for labor and materials, and the weather.

Franchise Loans. In 2000, we commenced purchasing franchise loans through relationships with correspondent franchise loan originators. Franchise loans are loans to owners of businesses, both franchisors and franchisees, such as fast food restaurants or gasoline retailers, that are affiliated with nationally or regionally recognized chains and brand names. Various combinations of land, building, business equipment and fixtures may secure these loans, or they may be a general obligation of the borrower based on a valuation of the borrower s business and debt service ability. In each case, the primary source of repayment is the cash flow of the business and not the underlying value of the collateral. During 2002 and 2001, we purchased three loans and 17 loans, with a total commitment of $7.3 million and $53.3 million, respectively. The outstanding balance of these loans as of December 31, 2002 and 2001 was $54.7 million and $57.6 million, respectively. We expect to increase our franchise loan originations in 2003 through the recent opening of our Imperial Capital Franchise Finance lending platform located in Tempe, Arizona.

Film Finance Loans. We acquired LHO in October 2002 and are operating LHO as a division of the Bank. LHO is an internationally recognized commercial finance lender engaged in providing financing for independent motion picture and television production. Typically, LHO lends to independent producers of film and television on a senior secured basis, basing its credit decisions on the creditworthiness and reputation of distributors and sales agents who have contracted to distribute the films. LHO provides loans (with a typical term of 12 to 18 months) and letters of credit for the production of motion pictures and television shows or series that have a predictable market worldwide, and therefore, a predictable level of revenue arising from licensing of the distribution rights throughout the world.

LHO lends to independent producers of film and television, many of which are located in California. LHO also has borrowing clients outside of the United States. Independent producers tend to be those producers that do not have major studio distribution outlets for their product. Large film and television studios generally maintain their own distribution outlets and finance their projects with internally generated financing. In addition to funding production loans against a number of distribution contracts, LHO has pioneered a valuation of selected unsold rights to permit financing of a portion of the production budget. Typically, this unsecured amount does not exceed 10% of the total loan. LHO s lending officers review the quality of the distributors and their contracts, the budget, the schedule of advances, and valuation of all distribution rights when considering a new lending opportunity. All LHO loans require the borrower to provide a completion bond that guarantees the completion of the film or the payoff of the outstanding balance of the loan in the event the film is not completed. After closing, each requested advance is approved by the bonding company on a weekly basis to ensure that LHO is not advancing ahead of an agreed-upon cash flow schedule. The loan documentation grants LHO the right to impose certain penalties on the borrower and exercise certain other rights, including replacing the sales agent, if sales are not consummated within the appropriate time. Loans are repaid principally from revenue received from distribution contracts. In many instances, the distribution contracts provide for multiple payments payable at certain milestones (such as execution of contract, commencement of principal photography or completion of principal photography). The maturity date of the loan is generally six to nine months after completion of the production. Delivery of the completed production is made to the various distributors only upon or after their minimum guarantees have been paid in full. To the extent a distributor fails to make payment upon completion of the film, or the predicted level of revenue is less than expected, the Bank may incur a loss.

LHO typically charges its customers an interest rate ranging from the prime rate to prime plus a margin (exclusive of loan fees) on the outstanding balance of the loan. Loan fees typically range from, 1.00% to 2.50% with an additional fee up to 7.0% depending on the unsecured amount of the production budget being financed.

At December 31, 2002 our film finance portfolio totaled $119.3 million, of which approximately $48.8 million were issued to producers domiciled outside of the United States. These foreign loans were primarily issued to producers in Australia, Canada, and Germany. Approximately $600,000 of interest income was earned during fiscal 2002 in connection with these loans. There were no non-performing assets attributable to the LHO division at December 31, 2002.

Loan Underwriting. Many of the Bank s loans are made to lower credit grade borrowers that have marginal credit histories or the property has other factors such as debt-to-income ratios or property location that prevent the borrower from obtaining a prime interest rate. We attempt to mitigate the risk associated with these loans by charging higher interest rates and through our loan approval and loan purchasing process. The Bank s loan underwriters are responsible for initial reviews of borrowers, collateral, loan terms, and prepare a written presentation on every loan application submitted to its loan committee, which is comprised of the following Bank officers:

Chairman, Chief Executive Officer, President
Vice Chairman and Chief Credit Officer
Senior Managing Director/Chief Banking Officer
Senior Managing Director/Chief Lending Officer
Managing Director/Director of Portfolio Management
Managing Director/Director of Loan Operations
Deputy Managing Director/Production Manager
First Vice President of Business Lending Loan Operations
Vice President/Portfolio Administration

The underwriting standards for loans secured by income producing real estate properties consider the borrower s financial resources and ability to repay and the amount and stability of cash flow, if any, from the underlying collateral, to be comparable in importance to the loan-to-value ratio as a repayment source. Management believes that during 2002, both California and the United States economy continued to experience an economic shock. We believe that a continued decline in economic conditions in California, and in the surrounding states, coupled with the potential threat of a terrorist attack on the United States, could have a material adverse effect on our real estate lending business, including reducing the demand for new loans, limiting the ability of borrowers to pay financed amounts and impairing the value of our real estate collateral.

All real estate secured loans over $2.0 million must be submitted to the loan committee for approval. At least one loan committee member or designee must personally conduct on-site inspections of any property involved in connection with a real estate loan recommendation of $1.0 million or more. Loans up to $750,000 may be approved by any loan committee member. Loans of $750,000 to $1.5 million require approval by any two members of the Bank s loan committee, while loans in excess of $1.5 million require approval of three loan committee members. Additionally, loans over $2.0 million must be approved by the Managing Director/Director of Portfolio Management; loans over $3.0 million require the additional signature of the Vice Chairman and Chief Credit Officer; and individual loans over $5.0 million, loans resulting in an aggregate borrowing relationship to one borrower in excess of $7.5 million, and all purchased loan pools must be approved by the executive committee of the Bank s board of directors.

All franchise and film finance loans must be submitted to the loan committee for approval regardless of the amount of the loan request. Loan amounts up to $2.0 million require the approval of three loan committee members. Loans over $2.0 million must be approved by the First Vice President of Business Lending Operations and loans over $3.0 million must be approved by the Vice Chairman and Chief Credit Officer.

Our loans are originated on both a non-recourse and full recourse basis and we generally seek to obtain personal guarantees from the principals of borrowers which are single asset or limited liability entities (such as partnerships, corporations or trusts).

The maximum size of a single loan made by the Bank is limited by California law to 25% of the Bank s equity capital. At December 31, 2002, that limit was approximately $47.1 million. The Bank s largest combined credit extension to related borrowers was $14.5 million at December 31, 2002. At December 31, 2002, the Bank had a total of 218 extensions of credit, with a combined outstanding principal balance of $730.8 million, that were over $2.0 million to a single borrower or related borrowers. All combined extensions of credit over $2.0 million were performing in accordance with their repayment terms. At December 31, 2002, the Bank had 1,524 secured real estate loans outstanding, with an average balance per loan of approximately $884,000.

Servicing and Collections. Real estate and construction loans held by the Bank are serviced by the Bank s loan servicing department, which is designed to provide prompt customer service, and accurate and timely information for account follow-up, financial reporting and management review. Film finance loans, are serviced by LHO personnel using the Bank s servicing platform. Servicing of substantially all of the franchise loan portfolio and loans held in the ICCMAC Trust is performed by third party servicers. The Bank monitors its loans to ensure that projects are performing as underwritten. This monitoring allows the Bank to take a proactive approach to addressing projects that do not perform as planned. When payments are not received by their contractual due date, collection efforts begin on the fifth day of delinquency with a telephone contact, and proceed to written notices that progress from reminders of the borrower s payment obligation to an advice that a notice of default may be forthcoming. Accounts delinquent for more than 30 days are generally transferred to the Bank s asset management department which, following a review of the account and management approval, implements a collection or restructure plan, or a disposition strategy, and evaluates any potential loss exposure on the asset.

Competition. Our competition in originating real estate, construction, franchise and film finance loans is principally from community banks, savings and loan associations, industrial banks, real estate financing conduits, specialty finance companies, small insurance companies, and larger banks. Many of these entities enjoy competitive advantages over us relative to a potential borrower in terms of a prior business relationship, wider geographic presence or more accessible branch office locations, the ability to offer additional services or more favorable pricing alternatives, or a lower cost of funds structure. We attempt to offset the potential effect of these factors by providing borrowers with greater individual attention and a more flexible and time-sensitive underwriting, approval and funding process than they might obtain elsewhere.

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Household Strategic Alliance

Tax Refund Lending. In November 2002, we entered into a strategic business relationship with various subsidiaries of Household relating to certain tax refund anticipation loans. In connection with this relationship, the Bank originates tax refund anticipation loans, and sells to Household a non-recourse participation interest representing substantially all of the outstanding loan balance. The tax refund agreement with Household is for a four year term, with substantial break-up fees to apply in the event that Household terminates the agreement during the initial two year period. Household, a leader in the structuring and implementation of tax refund lending programs, supports our credit administration, compliance, treasury and accounting functions with a range of services relating to the administration of this lending program. The Bank would not originate these loans without the involvement of Household.

Pursuant to our agreement with Household, the Bank offers tax refund anticipation loans (RALs) to taxpayers who have filed their returns electronically with the IRS and do not want to wait for the IRS to send them their refund check. For this product, a taxpayer requests a loan through a tax preparer, with the anticipated tax refund as the source of repayment. The taxpayer s application is then subjected to an automated credit review process. If the application passes this review, the Bank advances to the taxpayer the amount of the refund due on the taxpayer s return up to specified amounts based on certain criteria, less a pre-paid finance charge and certain other fees. Each taxpayer signs an agreement permitting the IRS to send their refund directly to the Bank instead of to the taxpayer. The refund received from the IRS is used to pay off the loan. Any amount due the taxpayer above the amount of the RAL is then sent to the taxpayer. The Bank also provides refund transfers to customers who do not want or do not qualify for loans. The transfer product facilitates the receipt of the refund by the customer by authorizing the customer s tax preparer to print a check for the customer after the refund has been received by the Bank from the IRS (RACs). Because of the mid-April tax-filing deadline, almost all of the loans and transfers are made and repaid during the first quarter of the year. The Bank s revenue, under the program, consists of RAL and RAC transaction fees and the earnings stream from RALs originated under the program to the extent of its retained interest in such RALs.

There is a higher credit risk associated with refund loans than with other types of loans because (1) the Bank does not have personal contact with the customers of this product; and (2) the customers conduct no business with the Bank other than this once a year transaction. Much of this risk is eliminated due to the immediate sale by the Bank to Household, of a participation interest representing virtually all of the RAL outstanding balance.

Because these programs relate to the filing of income tax returns, activity is concentrated in the first quarter of each year. This causes first quarter net income to become a greater percentage of each year s net income. This seasonality impacts a number of performance ratios, including return on assets (ROA), return on equity (ROE) and the operating efficiency ratio. These impacts should be apparent in both the first quarter of 2003 and the year-to-date ratios in subsequent quarters.

Private Label Commercial Revolving Credit Loans. We also entered into an agreement in December, 2002 with Household pursuant to which the Bank originates private label small commercial revolving loans to small businesses. This agreement is for a two year term. These loans are used primarily for purchases from major retailers. Pursuant to this agreement, the Bank sells Household a non-recourse participation interest representing substantially all of the outstanding loan balance. The Bank participates in the earnings stream from the loans originated under the program to the extent of its retained interest in such loans. At December 31, 2002, our retained interest in commercial revolving credit loans aggregated $4.2 million.

Imperial Capital Real Estate Investment Trust

During 2000, we acquired all of the equity and certain CMOs of the ICCMAC Trust through our real estate investment trust subsidiary, Imperial Capital REIT. At December 31, 2002, the ICCMAC Trust held real estate loans of $121.9 million, comprised of approximately 74 percent and 26 percent of multifamily and commercial loans, respectively, with over 50 percent of the loans secured by property located in California. Over two-thirds of the loans are adjustable rate mortgages. At December 31, 2002, the ICCMAC Trust s real estate loans were held as collateral for $69.1 million of investment grade CMOs sold to third party investors. The cash flow from the ICCMAC Trust s loan pool pays principal and interest on the CMOs, and also provides cash flow on a monthly basis to ITLA Capital. ITLA Capital recorded $7.9 million of pre-tax income from its investment in the ICCMAC Trust during the year ended December 31, 2002.

Servicing of the ICCMAC Trust loans is performed by Orix Capital Markets, LLC (Orix), a Delaware limited liability company. Under the servicing agreement, Orix is required to service and administer the commercial mortgage loans held in trust solely for the benefit of the holders of the CMOs in accordance with the terms of the servicing agreement and the commercial mortgage loans.

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Orix is required to perform other customary functions of a servicer of comparable loans, including monitoring insurance coverage; maintaining escrow or impoundment accounts of borrowers for payment of taxes, insurance and other items required to be paid pursuant to the loan agreement; processing assumptions or substitutions in those cases where the loan servicer has determined not to enforce any applicable due-on-sale clause; demanding that the borrower cure delinquencies; inspecting and managing commercial mortgaged properties under certain circumstances; and maintaining records relating to the commercial mortgage loans.

Nonperforming Assets and Other Loans of Concern

At December 31, 2002, nonperforming assets totaled $18.5 million or 1.07% of total assets. Nonperforming assets consisted of $5.9 million of nonaccrual loans and $12.6 million of other real estate owned. Two of our nonperforming loans had an outstanding balance greater than $1.0 million. For additional information regarding nonperforming assets see Item 7: Management s Discussion and Analysis of Financial Condition and Results of Operations-Credit Risk Elements .

The following is a brief discussion of the non-accrual loans where the remaining principal balance of the loan at December 31, 2002, exceeded $1.0 million.

Loan Secured by 4 Office Buildings Nevada. This loan was originated by the Bank in May 2000 with an original commitment of $4.2 million, which included funds to finish the construction of one of the buildings. One building and 2 vacant lots were released for consideration during the loan s history. No payments have been received since June 2002. The loan balance as of December 31, 2002 was $3.0 million. The property was 78% occupied as of December 2002. A notice of default has been filed and the loan is currently in foreclosure.

Loan Secured by a Truck Stop Texas. This loan was purchased by the Bank in June 2001 with an original commitment of $2.0 million, which included funds to repave the collateral site. The loan balance as of December 31, 2002 was $2.0 million. The operation has been under-performing, with cash flows insufficient to make its debt service payments. A notice of default has been filed and the loan is currently in foreclosure.

As of December 31, 2002, we had loans with an aggregate outstanding balance of $35.5 million with respect to which known information concerning possible credit problems with the borrowers or the cash flows of the properties securing the respective loans has caused management to be concerned about the ability of the borrowers to comply with present loan repayment terms, which may result in the future inclusion of such loans in the non-accrual loan category. All of these loans are classified as substandard pursuant to the regulatory guidelines discussed below. The following is a brief discussion of our other loans of concern where the remaining principal balance of the loan at December 31, 2002 exceeded $2.0 million.

Loan Secured by Office Building Missouri. This loan was originated by the Bank in June 1999 with an original commitment of $10.2 million to refinance a 20-story office tower. The outstanding principal balance at December 31, 2002 was $9.8 million. The property has suffered from high market vacancy and the cash flow is currently insufficient to cover the debt service on our loan. The property was 55% occupied and the loan was performing in accordance with its payment terms, as of December 31, 2002. On February 21, 2003 the loan was placed on nonaccrual status and a notice of default was filed. See Item 8. Financial Statements and Supplementary Data Notes to Consolidated Financial Statements Note 23.

Loan Secured by Office with Retail Building California. This loan was originated by the Bank in July 2001 with an original commitment of $8.4 million. The outstanding principal balance at December 31, 2002 was $7.8 million. The loan has paid as agreed since inception, however, the occupancy has declined to 63% as of December 2002. We continue to monitor the borrowers efforts to improve the occupancy.

Loan Secured by Hotel Arizona. This loan was originated by the Bank in July 1998 with an original commitment of $4.0 million secured by a 99-unit hotel. The outstanding principal balance at December 31, 2002 was $2.8 million. The loan is current pursuant to the repayment terms of its forbearance agreement. The cash flow from the operations of the collateral has been less than the debt service on our loan for the last four years. We continue to monitor the borrowers efforts to improve the cash flow of the hotel.

Loan Secured by a Hotel Washington. This loan was originated by the Bank in February 1998 with an original commitment of $3.7 million secured by a 123-unit hotel. The outstanding principal balance at December 31, 2002 was $2.8 million. The loan has paid as agreed since inception, however, the cash flow from the operations of the collateral has been less than the debt service on our loan. A demand for payoff has been issued. In January 2003, the loan was paid off and resulted in a loss of approximately $200,000.

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Classified Assets

Management uses a loan classification system consistent with the classification system used by bank regulatory agencies to help it evaluate the risks inherent in its real estate loan portfolio. Loans are identified as pass , substandard , doubtful or loss based upon consideration of all sources of repayment, underlying collateral values, current and anticipated economic conditions, trends and uncertainties, and historical experience. Pass loans are further divided into four additional sub-categories, based on the borrower s financial strength and ability to service the debt and/or the value and debt service coverage of the underlying collateral. Underlying collateral values for real estate dependent loans are supported by property appraisals or evaluations. We review our loan classifications on at least a quarterly basis. At December 31, 2002, we classified $41.4 million of loans as substandard , none as doubtful and none as loss . $5.9 million of these classified loans were included in the nonperforming assets table in Item 7. Management s Discussion and Analysis of Results of Financial Condition and Operations - Credit Risk Elements , and the balance was included in the $35.5 million of other loans of concern , discussed above.

Funding Sources

The primary source of funding for the Bank s lending operations and investments are deposits. The Bank s deposits are federally insured by the FDIC to the maximum extent permitted by law. Approximately 83.3% of the Bank s deposits are term deposits that pay fixed rates of interest for periods ranging from 90 days to five years. The remaining 16.7% of the Bank s deposits are variable rate passbook accounts and variable rate money market accounts with limited checking features.

The Bank s strategy with all deposit accounts is to offer rates significantly above those customarily offered by other financial institutions in its market. The Bank has generally accumulated deposits by relying on renewals of term accounts by existing depositors, participating in deposit rate surveys which promote the rate offered by the Bank on its deposit products, and periodically advertising in various local market newspapers and other media. The Bank is able to pursue this strategy by operating a savings branch system offering fewer products and services than many institutions. Because the Bank does not provide safe deposit boxes, money orders, trust services, and various other retail banking services, management believes its staffing and overhead costs are significantly lower than banks and savings institutions. Management further believes that its deposits are a reliable funding source and that the cost of funds resulting from the Bank s deposit gathering strategy is comparable to those of other banks pursuing a similar strategy. However, because the Bank competes for deposits primarily on the basis of rates, the Bank could experience difficulties in attracting deposits if it could not continue to offer deposit rates at levels above those of other financial institutions. Management also believes that any efforts to significantly increase the size of its deposit base may require greater marketing efforts and/or increases in deposit rates. At December 31, 2002, the Bank had $103.6 million of brokered deposits.

We intend to begin offering our customers in 2003 commercial banking products and services, including consumer and business checking accounts. As the Bank acquires non-interest bearing checking account balances, it anticipates that its dependence on interest rate sensitive certificates of deposit as a funding source will slowly diminish.

For information concerning overall deposits outstanding during the periods indicated and the rates paid thereon, see Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Net Interest Income .

The Bank has also used advances from the FHLB of San Francisco as a funding source. FHLB advances are collateralized by pledges of qualifying cash equivalents, investment securities, mortgage-backed securities and whole loan collateral. At December 31, 2002, FHLB advances outstanding totaled $338.7 million, and the remaining available borrowing capacity, based on the loans and securities pledged as collateral, totaled $65.2 million, net of the $3.4 million of additional FHLB Stock that we would be required to purchase to support the additional borrowings. Additionally, the Bank also has uncommitted, unsecured lines of credit with other banks renewable daily in the amount of $30.0 million. In connection with our tax refund lending business, ITLA Capital had a $35.0 million revolving credit facility with a bank commencing on January 24, 2003, and matured on March 31, 2003. See Item 8. Financial Statements and Supplementary Data Notes to Consolidated Financial Statements Notes 3, 4, 8, and 9 .

Regulation

On January 1, 2003, the Bank converted from a California industrial bank to a California-chartered commercial bank, and the Company became a bank holding company. As a result, the Company is now regulated by the Board of Governors of the Federal Reserve System (the Federal Reserve Board). The Bank continues to be regulated by the California Department of Financial Institutions (the DFI) and the Federal Deposit Insurance Corporation (the FDIC). Due to legislation which became effective in October 2000, California industrial banks are now generally subject to the same California banking laws as California commercial banks. Accordingly, the regulatory oversight to which the Bank is now subject as a commercial bank is not significantly different from the regulatory oversight to which it was subject as an industrial bank.

Holding Company Regulation. Bank holding companies are subject to comprehensive regulation by the Federal Reserve Board under the Bank Holding Company Act of 1956, and the regulations of the Federal Reserve Board. As a bank holding company, the Company is required to file reports with the Federal Reserve Board and such additional information as the Federal Reserve Board may require, and the Company and its non-bank subsidiaries are subject to examination by the Federal Reserve Board. The Federal Reserve Board also has extensive enforcement authority over bank holding companies, including, among other things, the ability to assess civil money penalties, to issue cease and desist or removal orders and to require that a bank holding company divest subsidiaries, including its bank subsidiaries. In general, enforcement actions may be initiated for violations of law and regulation as well as unsafe or unsound practices.

Under Federal Reserve Board policy, a bank holding company must serve as a source of strength for its subsidiary banks. Under this policy, the Federal Reserve Board may require, and has required in the past, bank holding companies to contribute additional capital to undercapitalized subsidiary banks.

Under the Bank Holding Company Act of 1956, a bank holding company must obtain Federal Reserve Board approval before, among other matters:

acquiring, directly or indirectly, ownership or control of any voting shares of another bank or bank holding company if, after the acquisition, it would own or control more than 5% of these shares (unless it already owns or controls a majority of these shares);

acquiring all or substantially all of the assets of another bank or bank holding company; or

merging or consolidating with another bank holding company.

This statute also prohibits a bank holding company, with certain exceptions, 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 Federal Reserve Board regulation or order, have been identified as activities closely related to the business of banking or managing or controlling banks.

Dividends. The Federal Reserve Board has issued a policy statement on the payment of cash dividends by bank holding companies, which expresses the Federal Reserve Board s view that 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 bank holding company s capital needs, asset quality and overall financial condition. Furthermore, under the prompt corrective action regulations adopted by the Federal Reserve Board, the Federal Reserve Board may prohibit a bank holding company from paying any dividends if any of the holding company s bank subsidiaries are classified as undercapitalized.

Repurchase or Redemption of Equity Securities. A bank holding company is required to give the Federal Reserve Board prior written notice of any purchase or redemption of its outstanding equity securities if the gross consideration for the purchase or redemption, when combined with the net consideration paid for all such purchases or redemptions during 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 constitute an unsafe or unsound practice or would violate any law, regulation, Federal Reserve Board order, or any condition imposed by, or written agreement with, the Federal Reserve Board. This notification requirement does not apply to any company that meets the well-capitalized standard for commercial banks, has a safety and soundness examination rating of at least a 2 and is not subject to any unresolved supervisory issues.

Capital Requirements. The Federal Reserve Board has established capital requirements for bank holding companies that generally parallel the capital requirements for insured depository institutions. The Company was not subject to any minimum capital requirements prior to becoming a bank holding company. The Company currently is deemed well capitalized under the Federal Reserve Board capital requirements.

Bank Regulation California Law

The regulations of the DFI govern most aspects of the Bank s businesses and operations, including, but not limited to, the scope of its business, investments, the nature and amount of any collateral for loans, the issuance of securities, the payment of dividends, bank expansion and bank activities. The DFI s supervision of the Bank includes comprehensive reviews of all aspects of the Bank s business and condition, and the DFI possesses broad remedial enforcement authority to influence the Bank s operations, both formally and informally.

Bank Regulation — Federal Law

Because our deposits are insured by the Bank Insurance Fund of the FDIC, the FDIC, in addition to the DFI, also broadly regulates the Bank. As an insurer of deposits, the FDIC issues regulations, conducts examinations, requires the filing of reports, and generally supervises the operations of institutions to which it provides deposit insurance. The FDIC is also the federal agency charged with regulating state-chartered banks that are not members of the Federal Reserve System, such as the Bank. Insured depository institutions, and their institution-affiliated parties, may be subject to potential enforcement actions by the FDIC and the DFI for unsafe or unsound practices in conducting their businesses or for violations of any law, rule, regulation or any condition imposed in writing by the agency or any written agreement with the agency. Management is not aware of any pending or threatened enforcement actions against the Bank.

Regulatory Capital Requirements. Federally-insured, state-chartered banks such as the Bank, are required to maintain minimum levels of regulatory capital as specified in the FDIC's capital maintenance regulations. The FDIC also is authorized to impose capital requirements in excess of these standards on individual banks on a case-by-case basis.

The Bank is required to comply with three separate minimum capital requirements: a "tier 1 capital ratio" and two "risk-based" capital requirements. "Tier 1 capital" generally includes common shareholders' equity, including retained earnings, qualifying noncumulative perpetual preferred stock and any related surplus, and minority interests in the equity accounts of fully consolidated subsidiaries, less intangible assets, other than properly valued purchased mortgage servicing rights up to certain specified limits and less net deferred tax assets in excess of certain specified limits.

Tier 1 Capital Ratio. FDIC regulations establish a minimum 3.0% ratio of Tier 1 capital to total average assets for the most highly-rated state-chartered, FDIC-supervised banks. All other FDIC supervised banks must maintain at least a 4.0% tier 1 capital ratio. At December 31, 2002, the Bank's required tier 1 capital ratio was 4.0% and its actual tier 1 capital ratio was 13.0%.

Risk-Based Capital Requirements. The risk-based capital requirements generally require the Bank to maintain a ratio of tier 1 capital to risk-weighted assets of at least 4.0% and a ratio of total risk-based capital to risk-weighted assets of at least 8.0%. To calculate the amount of capital required, assets are placed in one of four categories and given a percentage weight (0%, 20%, 50% or 100%) based on the relative risk of the category. For example, United States Treasury Bills and Ginnie Mae securities are placed in the 0% risk category. Fannie Mae and Freddie Mac securities are placed in the 20% risk category, loans secured by one-to four-family residential properties and certain privately-issued mortgage-backed securities are generally placed in the 50% risk category, and commercial and consumer loans and other assets are generally placed in the 100% risk category. In addition, certain off-balance-sheet items are converted to balance sheet credit equivalent amounts and each amount is then assigned to one of the four categories.

For purposes of the risk-based capital requirements, "total capital" means tier 1 capital plus supplementary or tier 2 capital, so long as the amount of supplementary or tier 2 capital that is used to satisfy the requirement does not exceed the amount of tier 1 capital. Tier 2 capital includes cumulative or other perpetual preferred stock, mandatory convertible subordinated debt and perpetual subordinated debt, mandatory redeemable preferred stock, intermediate-term preferred stock, mandatory convertible subordinated debt and subordinated debt, and the allowance for loan losses up to a maximum of 1.25% of risk-weighted assets. At December 31, 2002 the Bank's tier 1 risk-based and total capital ratios were 13.2% and 14.4%, respectively.

The federal banking agencies have adopted regulations specifying that the agencies will include, in their evaluation of a bank's capital adequacy, an assessment of the exposure to declines in the economic value of the bank's capital due to changes in interest rates. The FDIC and the other federal banking agencies have also promulgated final amendments to their respective risk-based capital requirements which identify concentration of credit risk and certain risks arising from nontraditional activities, and the management of such risk, as important factors to consider in assessing an institution's overall capital adequacy. The FDIC may require higher minimum capital ratios based on certain circumstances, including where the institution has significant risks from concentration of credit or certain risks arising from nontraditional activities.

Prompt Corrective Action Requirements. The FDIC has implemented a system requiring regulatory sanctions against state-chartered banks (which, for this purpose, includes the Bank) that are not adequately capitalized, with the sanctions growing more severe the lower the institution's capital. The FDIC has established specific capital ratios for five separate capital categories: "well capitalized", "adequately capitalized", "undercapitalized", "significantly undercapitalized", and "critically undercapitalized".

An institution is treated as "well capitalized" if its total risk based capital ratio is 10.0% or more, its tier 1 risk-based ratio is 6.0% or more, its tier 1 capital ratio is 5.0% or greater, and it is not subject to any order or directive by the FDIC to meet a specific capital level. The Bank exceeded these requirements at December 31, 2002.

The FDIC is authorized and, under certain circumstances, required to take certain actions against institutions that fail to meet their capital requirements. The FDIC is generally required to take action to restrict the activities of an undercapitalized institution. Any such institution must submit a capital restoration plan and, until such plan is approved by the FDIC, may not increase its assets, acquire another institution, establish a branch or engage in any new activities, and generally may not make capital distributions.

In addition, the FDIC must appoint a receiver or conservator for an institution, with certain limited exceptions, within 90 days after it becomes critically undercapitalized . Any undercapitalized institution is also subject to the general enforcement authority of the FDIC, including the appointment of a conservator or a receiver.

The FDIC is also generally authorized to reclassify an institution into a lower capital category and impose the restrictions applicable to such category if the institution is engaged in unsafe or unsound practices or is in an unsafe or unsound condition.

Community Reinvestment Act and Fair Lending Requirements. The Bank is subject to certain fair lending requirements and reporting obligations involving lending operations and Community Reinvestment Act activities. Federal banking agencies are required to evaluate the record of financial institutions in meeting the credit needs of their local communities, including low and moderate income neighborhoods. In addition to substantial penalties and corrective measures that may be required for a violation of certain fair lending laws, the federal banking agencies may take compliance with such laws into account when regulating and supervising other activities such as mergers and acquisitions. In its most recent examination, the FDIC rated the Bank satisfactory in complying with its Community Reinvestment Act obligations.

Fiscal and Monetary Policies. Our business and earnings are affected significantly by the fiscal and monetary policies of the federal government and its agencies. We are particularly affected by the policies of the Federal Reserve Board, which regulates the supply of money and credit in the United States. Among the instruments of monetary policy available to the Federal Reserve Board are (a) conducting open market operations in United States government securities; (b) changing the discount rates of borrowings of depository institutions, (c) imposing or changing reserve requirements against depository institutions deposits, and (d) imposing or changing reserve requirements against certain borrowings by banks and their affiliates. These methods are used in varying degrees and combinations to directly affect the availability of bank loans and deposits, as well as the interest rates charged on loans and paid on deposits. The policies of the Federal Reserve Board may have a material effect on the Company s business, results of operations and financial condition.

Privacy Provisions of the Gramm-Leach-Bliley Act. Federal banking regulators, as required under the Gramm-Leach-Bliley Act (the GLB Act), have adopted rules limiting the ability of banks and other financial institutions to disclose nonpublic information about consumers to nonaffiliated third parties. The rules require disclosure of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to nonaffiliated third parties. The privacy provisions of the GLB Act will affect how consumer information is transmitted through diversified financial service companies and conveyed to outside vendors. In California, the attempt in the state legislature to pass a California version of a privacy bill failed in 2001, but it is expected that the proponents of such privacy proposals will re-introduce financial privacy bills in the next session in 2003. The GLB Act permits states to enact their own privacy rules which may be stricter than those under the GLB Act. We cannot predict at this time what terms will be considered in any proposed California privacy legislation, whether any such proposed legislation will be enacted and if so, when such legislation may become effective. Therefore, it is not possible at this time to assess fully the impact of the privacy provisions on our business, results of operations or financial condition.

Future Legislation. Various legislation, including proposals to change substantially the financial institution regulatory system, is from time to time introduced in Congress. This legislation may change banking statutes and our operating environment in substantial and unpredictable ways. If enacted, this legislation could increase or decrease the cost of doing business, limit or expand permissible activities or affect the competitive balance among banks, savings associations, credit unions, and other financial institutions. We cannot predict whether any of this potential legislation will be enacted and, if enacted, the effect that it, or any implementing regulations, would have on our business, results of operations or financial condition.

Employees

As of December 31, 2002, we had 178 employees. Management believes that its relations with employees are satisfactory. We are not subject to any collective bargaining agreements.

Segment Reporting

Financial and other information regarding our operating segments is contained in Note 21 to our audited consolidated financial statements included in Item 8 of this report.

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Internet Website

We maintain a website with the address www.itlacapital.com. The information contained on our website is not included as a part of, or incorporated by reference into, this Annual Report on Form 10-K. Other than an investor s own Internet access charges, we make available free of charge through our website our Annual Report on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and amendments to these reports, as soon as reasonably practicable after we have electronically filed such material with, or furnished such material to, the Securities and Exchange Commission.

Item 2. Properties

ITLA Capital leases approximately 74,500 square feet of office space for its operations as shown below.

Locations	Office Uses	Square Footage	Year Current Lease Term Expires
La Jolla, CA	Corporate Headquarters	16,403	2008
La Jolla, CA	Audit and Marketing	2,325	2006
Glendale, CA	Loan Operations Division/Real Estate Lending	8,932	2005
San Francisco, CA	Retail Deposit Branch/Real Estate Lending	5,005	2007
Beverly Hills, CA	Retail Deposit Branch	2,218	2005
Costa Mesa, CA	Retail Deposit Branch/Money Desk Operations/Real Estate Lending	3,609	2006
Del Mar, CA	Retail Deposit Branch/Savings Operations Division/Real Estate Lending	2,847	2004
Encino, CA	Retail Deposit Branch	5,298	2004
Santa Monica, CA	Loan Operations/Imperial Capital Express	4,991	2004
Encino, CA	Operations Support	3,170	2004
Glendale, CA	Retail Deposit Branch/Loan Administration Division	6,257	2006
Century City, CA	Lewis Horwitz Organization 2003	7,003	2003
Carson City, NV	Savings Branch/Tax Refund Lending/ Private Label Credit Card	2,500	2003
Tempe, AZ	Loan Operations/Imperial Capital Franchise Finance	3,920	2006

For additional information regarding our premises, see Item 8. Financial Statements and Supplementary Data Notes to Consolidated Financial Statements - Note 17 .

Management believes that ITLA Capital s present facilities are adequate for its current needs, and that alternative or additional space, if necessary, will be available on reasonable terms.

Item 3. Legal Proceedings

We are party to certain legal proceedings incidental to our business. Management believes that the outcome of such proceedings, in the aggregate, will not have a material effect on our business, financial condition or results of operations.

Item 4. Submission of Matters to a Vote of Security Holders

No matter was submitted to a vote of security holders, through the solicitation of proxies or otherwise, during the quarter ended December 31, 2002.

PART II

Item 5. Market for Registrant s Common Equity and Related Stockholder Matters

Our common stock is traded on the NASDAQ national market system under the symbol ITLA . As of December 31, 2002, there were nine holders of record of our common stock representing an estimated 1,000 beneficial shareholders with a total of 6,061,575 shares outstanding. We have not paid any cash dividends since our holding company reorganization in 1996.

The following table sets forth, for the periods indicated, the range of high and low trade prices for our common stock. Stock price data on NASDAQ reflects inter-dealer prices, without retail mark-up, mark-down or commission.

	Market Price			
	High	Low	Close	Average Daily Closing Price
2002				
4th Quarter	$36.25	$26.37	$33.23	$31.36
3rd Quarter	31.25	27.18	30.19	29.66
2nd Quarter	31.15	25.05	29.69	29.25
1st Quarter	20.75	20.25	24.75	22.39
2001				
4th Quarter	$21.05	$17.86	$20.96	$19.20
3rd Quarter	20.25	17.57	20.25	18.22
2nd Quarter	19.75	15.90	18.00	17.55
1st Quarter	20.00	18.75	20.00	19.56

The following table includes supplementary quarterly operating results and per share information for the past two years. The data presented should be read along with Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations and with Item 8. Financial Statements and Supplementary Data included elsewhere in this report.

Quarterly Operations (Unaudited)

	For the Quarter Ended			
	March 31	June 30	September 30	December 31
	(in thousands except per share amounts)			
2002				
Interest income	$27,035	$26,570	$27,380	$29,623
Interest expense	10,489	9,076	8,800	8,957
Net interest income before provision for loan losses	16,546	17,494	18,580	20,666
Provision for loan losses	1,325	2,100	2,700	2,905
Non-interest income	125	102	(54)	200
General and administrative expense	6,318	6,312	6,459	7,943
Total real estate owned expense, net	467	508	71	277
Provision for income taxes	3,043	3,074	3,326	3,345
Net income	4,719	4,805	5,155	5,326
Basic earnings per share	$ 0.79	$ 0.80	$ 0.86	$ 0.89
Diluted earnings per share	$ 0.74	$ 0.75	$ 0.80	$ 0.84
2001				
Interest income	$32,266	$31,428	$29,633	$29,768
Interest expense	18,638	16,913	15,223	13,089
Net interest income before provision for loan losses	13,628	14,515	14,410	16,679
Provision for loan losses	450	500	1,500	2,125
Non-interest income	314	239	251	255
General and administrative expense	5,131	5,781	5,672	6,234
Total real estate owned expense, net	169	47	68	103
Provision for income taxes	2,905	2,911	2,583	2,994
Net income	4,713	4,719	4,039	4,680
Basic earnings per share	$ 0.70	$ 0.71	$ 0.64	$ 0.77
Diluted earnings per share	$ 0.67	$ 0.69	$ 0.62	$ 0.74

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Item 6. Selected Financial Data

The following condensed consolidated statements of operations and financial condition and selected performance ratios as of December 31, 2002, 2001, 2000, 1999, and 1998 and for the years then ended have been derived from our audited consolidated financial statements. The information below is qualified in its entirety by the detailed information included elsewhere herein and should be read along with Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations and Item 8. Financial Statement and Supplementary Data.

	As of and for the years ended December 31,				
	2002	**2001**	**2000**	**1999**	**1998**
Condensed Consolidated Statements of Operations	**(in thousands except per share amount)**				
Total interest income	$ 110,608	$ 123,095	$ 123,775	$ 101,213	$ 101,665
Total interest expense	37,322	63,863	68,642	48,460	51,387
Net interest income before provisions for loan losses and valuation allowance on loans held for sale	73,286	59,232	55,133	52,753	50,278
Provision for loan losses	9,030	4,575	4,775	4,950	4,550
Provision for valuation allowance on loans held for sale					1,400
Net interest income after provisions for losses and valuation allowance on loans held for sale	64,256	54,657	50,358	47,803	44,328
Non-interest income	373	1,059	2,331	901	2,447
Non-interest expense:					
Compensation and benefits	13,954	11,778	9,958	9,739	10,564
Occupancy and equipment	3,165	2,968	2,567	2,788	2,783
Other general and administrative expenses	9,913	8,072	8,129	8,230	7,317
Real estate owned expense, net	1,323	387	138	472	984
Total recurring non-interest expense	28,355	23,205	20,792	21,229	21,648
Nonrecurring expense			*(1)* 1,400		
Total non-interest expense	28,355	23,205	22,192	21,229	21,648
Income before provision for income taxes and minority interest in income of subsidiary	36,274	32,511	30,497	27,475	25,127
Minority interest in income of subsidiary*(2)*	3,481	2,967	478		
Income before provision for income taxes	32,793	29,544	30,019	27,475	25,127
Provision for income taxes	12,788	11,393	11,880	11,270	10,304
NET INCOME	$ 20,005	$ 18,151	$ 18,139	$ 16,205	$ 14,823
BASIC EARNINGS PER SHARE	$ 3.35	$ 2.82	$ 2.57	$ 2.26	$ 1.95
DILUTED EARNINGS PER SHARE	$ 3.16	$ 2.72	$ 2.51	$ 2.21	$ 1.89
Dividends paid	$	$	$	$	$

Condensed Consolidated Statements of Financial Condition					
Cash and cash equivalents	$ 160,848	$ 134,241	$ 70,950	$ 72,242	$ 125,602
Investment securities available for sale, at fair value	54,677	29,411	46,325	59,247	329
Stock in Federal Home Loan Bank	16,934	13,464	3,963	8,894	12,633
Loans, net	1,316,298	1,122,370	1,045,927	951,480	862,089
Real estate loans held in trust, net	121,936	162,158	211,722		
Loans held for sale, at lower of cost or fair market value					12,188
Interest receivable	9,158	11,144	11,821	7,383	6,321
Other real estate owned, net	12,593	13,741	2,250	1,041	1,201
Premises and equipment, net	4,197	2,177	2,690	3,253	3,493
Deferred income taxes	13,822	11,869	11,302	9,401	6,270
Goodwill	3,118				
Other assets	8,384	7,733	8,193	2,882	2,521
Total Assets	$1,721,965	$1,508,308	$1,415,143	$1,115,823	$1,032,647
Deposit accounts	$1,065,911	$ 953,654	$1,015,699	$ 913,613	$ 866,798
Collateralized mortgage obligations	69,077	109,648	161,852		
Federal Home Loan Bank advances	338,685	269,285	79,250	67,250	48,500
Account payable and other liabilities	10,006	9,674	11,269	11,265	11,467
Guaranteed preferred beneficial interests in the Company s junior subordinated deferrable interest debentures	81,595	28,118	13,519		
Shareholders equity	156,691	137,929	133,554	123,695	105,882
Total Liabilities and Shareholders Equity	$1,721,965	$1,508,308	$1,415,143	$1,115,823	$1,032,647
Book value per share	$ 27.11	$ 23.54	$ 20.05	$ 17.22	$ 14.77

(1) Represents expenses related to the consolidation of the Bank s headquarters with ITLA Capital s headquarters in La Jolla, California.

(2) Represents accrued distributions payable on our trust preferred securities.

	As of and for the years ended December 31,				
	2002	2001	2000	1999	1998
Selected Performance Ratios					
Return on average assets	1.41%	1.32%	1.47%	1.57%	1.46%
Return on average shareholders equity	13.56%	13.28%	13.95%	14.23%	13.95%
Net interest margin *(1)*	5.30%	4.33%	4.47%	5.11%	4.96%
Average interest-earning assets to average interest bearing liabilities	113.94%	113.80%	113.49%	113.74%	113.06%
Efficiency ratio *(2)*	38.50%	38.49%	38.62%	39.57%	41.06%
Efficiency ratio excluding real estate operations and nonrecurring expense, net	36.70%	37.85%	35.94%	38.69%	39.19%
Total recurring general and administrative expense to average assets	1.90%	1.66%	1.78%	2.01%	2.04%
Average shareholders equity to average assets	10.36%	9.93%	10.86%	11.01%	10.47%
Nonperforming assets to total assets	1.08%	1.92%	1.44%	0.81%	0.64%
Allowance for loan losses to loans held for investment, net *(3)*	2.31%	2.16%	2.12%	2.05%	1.91%
Allowance for loan loss to nonaccrual loans	555.61%	174.30%	149.85%	249.40%	309.37%
Net charge-offs (recoveries) to average loans held for investment, net	0.36%	0.39%	0.18%	0.20%	(0.01%)

(1) Net interest margin represents net interest income divided by total average interest-earning assets.

(2) Efficiency ratio represents non-interest expense divided by non-interest income and net interest income before provision for loan losses.

(3) Real estate loans before allowance for loan losses and net of unearned finance charges and loan fees.

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

General

The following discussion and analysis reviews the financial condition and results of our consolidated operations, including our consolidated subsidiaries: Imperial Capital Bank and the Imperial Capital Real Estate Investment Trust.

The following discussion and analysis is intended to identify the major factors that influenced our financial condition as of December 31, 2002 and 2001 and our results of operations for the years ended December 31, 2002, 2001 and 2000. Our primary business involves the origination and purchase of loans secured by income producing real estate, located predominately in California and, to a lesser extent, the purchase of franchise loans and the funding of film finance loans.

Consolidated net income in 2002 was $20.0 million, or $3.16 per diluted share, compared to $18.2 million, or $2.72 per diluted share, in 2001 and $18.1 million, or $2.51 per diluted share, in 2000. The increase in net income in 2002 was primarily due to an increase in net interest income to $73.3 million for 2002 as compared to $59.2 million in 2001. This increase was partially offset by a $4.5 million increase in provision for loan losses and a $5.2 million increase in non-interest expense.

The increase in net income in 2001 was primarily due to an increase in net interest income to $59.2 million for 2001 as compared to $55.1 million in 2000. This increase was partially offset by a $2.5 million increase in minority interest in income of subsidiary, a decrease of $1.3 million in non-interest income and an increase of $1.0 million in non-interest expense.

Total loan production including the unfunded portion of construction loans was $674.1 million for the year ended December 31, 2002, as compared to $502.1 million and $653.9 million for the years ended December 31, 2001 and 2000. Loan production in 2002 consisted of real estate loan originations of $412.3 million, real estate loan purchases of $120.4 million (including the $36.8 million of loans relating to the acquisition of Asahi Bank of California), the acquisition of $92.6 million and the origination of $34.3 million of film finance loans and the purchase of $7.3 million of franchise loans. In addition, at December 31, 2002, we held $4.2 million of commercial revolving credit loans relating to our strategic alliance with Household.

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Our average total assets increased approximately 3.4% during 2002 to $1.4 billion. Average deposit accounts totaled $931.4 million in 2002 compared to $960.0 million in 2001, a decrease of $28.6 million, or 3.0%. FHLB advances averaged $194.2 million in 2002, compared to $103.7 million in 2001, an increase of $90.5 million, or 87.3%. This increase in average FHLB advances was primarily utilized to fund the increase in the loan portfolio. The average balance of the CMOs was $88.5 million during 2002 compared to $139.3 million in 2001 reflecting repayments on loans held in trust.

Results of Operations

Net Interest Income

The following table presents, for the periods indicated, our condensed average balance sheet information, together with interest income and yields earned on average interest-earning assets and interest expense and rates paid on average interest-bearing liabilities. Average balances are computed using daily average balances. Nonaccrual loans are included in loans receivable.

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	Years Ended December 31,								
	2002			2001			2000		
	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate
	(dollars in thousands)								
Assets									
Cash and investment securities	$ 77,384	$ 3,475	4.49%	$ 73,823	$ 3,192	4.32%	$ 84,660	$ 5,164	6.10%
Loans *(1)*	1,083,645	91,066	8.40%	1,072,792	102,233	9.53%	964,620	102,419	10.62%
Real estate loans held in trust	143,705	10,239	7.13%	189,349	14,954	7.90%	182,982	16,192	8.85%
Franchise loans	60,492	4,479	7.40%	32,956	2,716	8.24%			
Motion picture financing	18,060	1,349	7.47%						
Total loans receivable	1,305,902	107,133	8.20%	1,295,097	119,903	9.26%	1,147,602	118,611	10.34%
Total interest earning assets	1,383,286	$ 110,608	8.00%	1,368,920	$ 123,095	8.99%	1,232,262	$ 123,775	10.04%
Non-interest-earning assets	70,468			34,218			28,963		
Allowance for loan losses	(30,071)			(26,835)			(24,571)		
Total assets	$ 1,423,683			$ 1,376,303			$ 1,236,654		
Liabilities and Shareholders Equity									
Deposit accounts:									
Money market and passbook accounts	$ 151,258	$ 2,873	1.90%	$ 119,022	$ 4,767	4.01%	$ 115,035	$ 6,384	5.55%
Time certificates	780,168	26,476	3.39%	841,002	48,097	5.72%	798,599	49,584	6.21%
Total deposit accounts	931,426	29,349	3.15%	960,024	52,864	5.51%	913,634	55,968	6.13%
Collateralize mortgage obligations	88,485	2,301	2.60%	139,267	6,209	4.46%	141,796	10,901	7.69%
FHLB Advances	194,160	5,672	2.92%	103,675	4,790	4.62%	30,366	1,773	5.84%
Total interest bearing liabilities	1,214,071	$ 37,322	3.07%	1,202,966	$ 63,863	5.31%	1,085,796	$ 68,642	6.32%
Noninterest-bearing liabilities	62,080			36,644			16,586		
Shareholders equity	147,532			136,693			134,272		
Total liabilities and shareholders equity	$ 1,423,683			$ 1,376,303			$ 1,236,654		
Net interest spread *(2)*			4.93%			3.68%			3.72%
Net interest income before provisions for loan losses		$ 73,286			$ 59,232			$ 55,133	
Net interest margin *(3)*			5.30%			4.33%			4.47%

(1) *Before allowance for loan losses and net of deferred loan fees and costs. Net loan fee amortization of $1.7 million, $1.3 million and $1.7 million was included in net interest income for 2002, 2001 and 2000, respectively.*

(2) Average yield on interest-earning assets minus average rate paid on interest-bearing liabilities.(3) Net interest income divided by total average interest-earning assets.

Our primary source of revenue is net interest income. Our net interest income is affected by (a) the difference between the yields recognized on interest-earning assets, including loans and investments, and the interest rates paid on interest-bearing liabilities, which is referred to as net interest spread , and (b) the relative amounts of interest-earning assets and interest-bearing liabilities. As of December 31, 2002, 2001 and 2000, our ratio of average interest-earning assets to average interest-bearing liabilities was 113.93%, 113.80% and 113.49%, respectively.

The following table sets forth a summary of the changes in interest income and interest expense resulting from changes in average interest-earning asset and interest-bearing liability balances and changes in average interest rates. The change in interest due to both volume and rate has been allocated to change due to volume and rate in proportion to the relationship of the absolute dollar amounts of each.

	2002 vs. 2001			2001 vs. 2000		
	Increase (Decrease) Due to:			Increase (Decrease) Due to:		
	Volume	Rate	Total	Volume	Rate	Total
	(in thousands)					
Interest and fees earned on:						
Loans, net	$ 4,695	$ (12,750)	$ (8,055)	$ 13,414	$ (10,884)	$ 2,530
Cash and investment securities	159	124	283	(467)	(1,505)	(1,972)
Real estate loans held in trust	(3,256)	(1,459)	(4,715)	502	(1,740)	(1,238)
Total increase (decrease) in interest income	1,598	(14,085)	(12,487)	13,449	(14,129)	(680)
Interest paid on:						
Deposit accounts	(899)	(22,616)	(23,515)	2,557	(5,661)	(3,104)
Collateralized mortgage obligations	(1,319)	(2,589)	(3,908)	(113)	(4,579)	(4,692)
FHLB advances	2,644	1,762	882	3,387	(370)	3,017
Total increase (decrease) in interest expense	426	(26,967)	(26,541)	5,831	(10,610)	(4,779)
Increase (decrease) net interest income	$ 1,172	$ 12,882	$ 14,054	$ 7,618	$ (3,519)	$ 4,099

2002 Compared to 2001

Net interest income increased $14.1 million or 23.8% to $73.3 million in 2002 compared to $59.2 million in 2001. The increase in net interest income was primarily attributable to the improvement in net interest spread caused by the declining rate environment, which lowered our average cost of funds and resulted in most of our loans reaching their interest rate floors.

Interest income decreased $12.5 million or 10.1% to $110.6 million in 2002 compared to $123.1 million in 2001. The decrease in interest income was due primarily to our loans being originated or repricing at lower rates due to the general decline in market interest rates. The average yield on our loans was 8.40% in 2002 compared to 9.53% in 2001. Our commercial real estate loan portfolio is primarily comprised of adjustable rate mortgages indexed to the six month LIBOR. Approximately 91.6% of our real estate loan portfolio (including real estate loans held in trust) were adjustable rate mortgages at December 31, 2002. These adjustable rate mortgages generally re-price on a quarterly basis and, as of December 31, 2002, approximately $1.1 billion or 87.1% of our real estate loan portfolio contained interest rate floors, below which the loans contractual interest rate may not adjust. At December 31, 2002, the weighted average floor interest rate of these loans was 7.45%. At that date, approximately $1.1 billion or 97.9% of those loans were at the floor interest rate.

Interest expense on interest-bearing liabilities decreased $26.5 million or 41.6% to $37.3 million in 2002 compared to $63.9 million in 2001 primarily due to a decrease in interest expense on deposits and CMOs. Interest expense from deposit accounts decreased $23.5 million or 44.5% to $29.3 million in 2002 compared to $52.9 million in 2001 due to decreases in the average rate paid on deposits as a result of lower market interest rates. The average rate paid on deposits was 3.15% in 2002 compared to 5.51% in 2001.

Interest expense from the CMOs decreased $3.9 million or 62.9% to $2.3 million in 2002 as compared to $6.2 million in 2001. The decrease was primarily due to a decrease in rates paid on CMOs, as well as a decline in average balance of CMOs. The average balance and average yield on the CMOs was $88.5 million and 2.60% in 2002 as compared to $139.3 million and 4.46% in 2001, respectively.

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Interest expense from FHLB advances increased $0.9 million to $5.7 million in 2002 compared to $4.8 million in 2001, due to an increase in the average outstanding balance, which was partially offset by a decrease in the average rate paid on FHLB advances. The average balance of FHLB advances increased $90.5 million or 87.3% to $194.2 million in 2002 compared to $103.7 million in 2001. The average rate paid on FHLB advances was 2.92% in 2002 compared to 4.62% in 2001. We have used our borrowing capacity under our FHLB credit line to take advantage of the current favorable short-term rate environment through effective liability management, which has lowered our cost of funds and enhanced our net interest income.

Provision for Loan losses

Provision for loan losses increased to $9.0 million in 2002 compared to $4.6 million in 2001. The current period provision for loan losses was recorded to provide the reserves adequate to support the known and inherent risk of loss resulting from the current growth in the loan portfolio and due to the increase in other loans of concern to $35.5 million from $21.5 million at December 31, 2001. See also Credit Risk Elements Allowance for Loan Losses and Nonperforming Assets .

Non-interest Income

Non-interest income decreased $0.7 million to $0.4 million in 2002 compared to $1.1 million in 2001. The decrease in non-interest income was due primarily to a $0.5 million net valuation provision recorded in 2002 for the Company s residual interest relating to the securitization of our residential loan portfolio.

Non-interest Expense

General and Administrative Expense

General and administrative expense totaled $27.0 million and $22.8 million in 2002 and 2001, respectively. In 2002, our ratio of recurring general and administrative expenses to average assets was 1.90%, compared to 1.66% in 2001. This increase was primarily attributable to the additions made to the retail and wholesale loan originations sales and support staff, and certain infrastructure costs relating to the charter conversion activities, including core processing system conversion costs, and additions to the information technology and savings and operation staff. Full time equivalent associates averaged 154 in 2002 compared to 133 in 2001.

Real Estate Owned Expense

Real estate owned expense, net, increased to $1.3 million in 2002 compared to $0.4 million in 2001. The increase was primarily attributable to a $0.5 million increase in real estate owned expense and to the $0.5 million increase in the provision for losses on other real estate owned (OREO). These increases were offset by a $0.1 million increase in gain on sale of OREO, net. See also Credit Risk Elements Allowance for Loan Losses and Nonperforming Assets .

Income Taxes

Provision for income taxes increased to $12.8 million in 2002 compared to $11.4 million in 2001. The increase in provision for income taxes was primarily due to an increase in taxable income. The effective tax rate was 39.0% and 38.6% for 2002 and 2001, respectively. The effective tax rate differed from the applicable statutory federal tax rate due to state income taxes and the state income tax deduction for tax exempt income on loans located in designated redevelopment and enterprise zones and due to federal income tax credits received from a low income housing tax credit investment.

At December 31, 2002, we had a net deferred tax asset of $13.8 million. The deferred tax asset related primarily to loss provisions recognized on our financial statements that have not yet been recognized on our income tax returns. During 2002, we had no deferred tax assets relating to net operating loss carry forward deductions. The deferred tax asset is considered fully realizable, as when the temporary differences associated with the deferred tax assets are recognized for income tax purposes, those deductions are expected to be fully offset, either by carryback against previously taxed income or by a reduction of future taxable income. Accordingly, we have not established a valuation allowance on the deferred tax asset.

Minority Interest in Income of Subsidiary

Minority interest in income of subsidiary, consisting of accrued distributions payable on our Trust Preferred securities, was $3.5 million in 2002 as compared to $3.0 million in 2001. The increase was due to the additional issuance of $55.0 million of variable rate cumulative Trust Preferred securities in 2002, as well as the Trust Preferred securities issued in 2001 being outstanding for the entire fiscal year in 2002. See

Item 8. Financial Statements and Supplementary Data Notes to Consolidated Financial Statements Note 10 .

2001 Compared to 2000

Net interest income increased $4.1 million or 7.4% to $59.2 million in 2001 compared to $55.1 million in 2000. The increase in net interest income was primarily attributable to the improvement in net interest spread realized by the REIT due to its liability sensitive position as its liabilities re-priced faster than its assets during the year. The net interest income of the Bank increased as the interest income attributable to the growth in the average balance of its loan portfolio was offset by the spread compression experienced due to the general market decline in interest rates during the year.

Interest income decreased $680,000 or 0.5% to $123.1 million in 2001 compared to $123.8 million in 2000. The decrease in interest income was due primarily to a $2.0 million decrease in interest income from cash and investment securities and a $1.2 million decrease in interest income from real estate loans held in trust, partially offset by a $2.5 million increase in interest income from real estate loans. Interest and fee income from real estate loans increased due to higher loan volume in 2001, partially offset by a decrease in loan yield. The average balance of the Bank s real estate loans increased $108.2 million to $1.1 billion in 2001 compared to $964.6 million in 2000. The average yield on these real estate loans was 9.53% in 2001 compared to 10.62% in 2000. The average balance of the real estate loans held in trust increased $6.4 million to $189.3 million in 2001 compared to $183.0 million in 2000. The average yield on these loans was 7.90% in 2001 compared to 8.85% in 2000. The decrease in the yield on real estate loans was primarily due to the repricing of variable rate loans at lower interest rates resulting from the general decline in market interest rates. Our commercial real estate loan portfolio is primarily comprised of adjustable rate mortgages indexed to the six month LIBOR. Approximately 92.8% of our real estate loan portfolio (including real estate loans held in trust) were adjustable rate mortgages at December 31, 2001. These adjustable rate mortgages generally reprice on a quarterly basis and approximately $1.1 billion or 94.1% of our real estate loan portfolio contained interest rate floors, below which the loans contractual interest rate may not adjust. At December 31, 2001, the weighted average floor interest rate of these loans was 8.97%. At that date, approximately $1.1 billion or 95.5% of those loans were at the floor interest rate, approximately $41.4 million or 3.7% were within 50 basis points of their floor interest rate, and approximately $46.6 million or 4.2% were greater than 50 but less than 100 basis points from their floor interest rate. Excluding this income from prepayments, the yields on the Bank s real estate loans would have been 9.30% in 2001 and 10.34% in 2000 and the yields on the real estate loans held in trust would have been 7.81% in 2001 and 8.65% in 2000.

Interest income from cash and investments decreased to $3.2 million in 2001 compared to $5.2 million in 2000, due primarily to a decrease in yield and a decrease in the average outstanding balance. The average balance of cash and investment securities decreased $10.9 million or 12.9% to $73.8 million in 2001 compared to $84.7 million in 2000. The average yield on cash and investment securities was 4.32% in 2001 compared to 6.10% in 2000, which was consistent with the decrease in short-term market interest rates.

Interest expense on interest-bearing liabilities decreased $4.8 million or 6.9% to $63.9 million in 2001 compared to $68.6 million in 2000 primarily due to a decrease in interest expense on deposits and CMOs partially offset by an increase in interest expense on FHLB advances. Interest expense from deposit accounts decreased $3.1 million or 5.5% to $52.9 million in 2001 compared to $56.0 million in 2000 due to decreases in the average rate paid on deposits. The average rate paid on deposits was 5.51% in 2001 compared to 6.13% in 2000. The average balance of deposits increased $46.4 million or 5.1% to $960.0 million in 2001 compared to $913.6 million in 2000 as we increased deposits to fund growth in the loan portfolio.

Interest expense from the CMOs decreased $4.7 million or 43.1% to $6.2 million in 2001 as compared to $10.9 million in 2000. The decrease is primarily due to a decrease in rates paid on CMOs partially offset by a higher average balance of CMOs. The average balance and average yield on the CMOs was $139.3 million and 4.46% in 2001 as compared to $141.8 million and 7.69% in 2000, respectively.

Interest expense from FHLB advances increased $3.0 million to $4.8 million in 2001 compared to $1.8 million in 2000, due to an increase in the average outstanding balance partially offset by a decrease in the average rate paid on FHLB advances. The average balance of FHLB advances increased $73.3 million or 241.4% to $103.7 million in 2001 compared to $30.4 million in 2000. The average rate paid on FHLB advances was 4.62% in 2001 compared to 5.84% in 2000.

Provision for Loan losses

Provision for loan losses decreased to $4.6 million in 2001 compared to $4.8 million in 2000. The decrease in the provision for loan losses was due to the reduction in our nonperforming loans to 1.17% of total gross loans at December 31, 2001, compared to 1.42% of total gross loans as of December 31, 2000, and the decline in other loans of concern of $49.4 million since December 31, 2000. In addition, the provision also reflects the reallocation of $2.7 million of allowance for loan losses from the Imperial Capital REIT to the Bank, as actual loan losses related to real estate loans held in trust had been negligible, and this loan portfolio had decreased due to principal payments. See also Credit Risk Elements Allowance for Loan Losses and Nonperforming Assets .

Non-interest Income

Non-interest income decreased $1.2 million to $1.1 million in 2001 compared to $2.3 million in 2000. The decrease in non-interest income was due primarily to a $1.4 million gain realized on the sale investment securities in 2000. Excluding this gain on sale of investment securities in 2000, other non-interest income increased slightly to $1.1 million in 2001 compared to $0.9 million in 2000.

Non-interest Expense

General and Administrative Expense

General and administrative expense totaled $22.8 million and $22.1 million in 2001 and 2000, respectively. In 2001, our ratio of recurring general and administrative expenses to average assets was 1.66%, compared to 1.78% in 2000. Our efficiency ratio, excluding real estate owned and nonrecurring expenses, was 37.85% in 2001 compared to 35.94% in 2000.

General and administrative expense increased $0.8 million to $22.8 million in 2001 compared to $22.1 million in 2000. The previous year s non-interest expense included a $1.4 million non-recurring charge relating to the consolidation of the Bank s headquarters with ITLA Capital s headquarters in La Jolla, California. Compensation and benefits expense totaled $11.8 million in 2001 compared to $10.0 million in 2000. The increase in compensation and benefits expense was primarily due to additions made to the retail and wholesale loan originations sales and support staff. Full time equivalent associates averaged 133 in 2001 compared to 122 in 2000.

Real Estate Owned Expense

Real estate owned expense, net, increased to $0.4 million in 2001 compared to $0.1 million in 2000. The increase in real estate owned expense in 2001 compared to 2000 was primarily due to the increase in the outstanding balance of OREO to $13.7 million at December 31, 2001 compared to $2.3 million at December 31, 2000. The increase in OREO during 2001 was primarily related to three commercial properties. Provision for losses on other real estate owned totaled $0.3 million in 2001 compared to $0.2 million in 2000. Other real estate owned expense was $0.1 million in 2001 compared to income of $31,000 in 2000. There was a net gain of $18,000 from sales of other real estate owned in 2001 compared to a net loss of $2,000 in 2000. See also Credit Risk Elements Allowance for Loan Losses and Nonperforming Assets .

Income Taxes

Provision for income taxes decreased to $11.4 million in 2001 compared to $11.9 million in 2000. The decrease in provision for income taxes was primarily due to a lower effective tax rate. The effective tax rate was 38.6% and 39.6% for 2001 and 2000, respectively. The effective tax rate differed from the applicable statutory federal tax rate due to state income taxes and the state income tax deduction for tax exempt income on loans located in designated redevelopment and enterprise zones and due to federal income tax credits received from a low income housing tax credit investment.

At December 31, 2001, we had a net deferred tax asset of $11.9 million. The deferred tax asset related primarily to loss provisions recognized on our financial statements that have not yet been recognized on our income tax returns. During 2001, we had no deferred tax assets relating to net operating loss carry forward deductions. The deferred tax asset is considered fully realizable, as when the temporary differences associated with the deferred tax assets are recognized for income tax purposes, those deductions are expected to be fully offset, either by carryback against previously taxed income or by a reduction of future taxable income. Accordingly, we have not established a valuation allowance on the deferred tax asset.

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Minority Interest in Income of Subsidiary

Minority interest in income of subsidiary, consisting of accrued distributions payable on our Trust Preferred securities, was $3.0 million in 2001 as compared to $0.5 million in 2000. The increase in the minority interest in income of subsidiary is due to an additional issuance of Trust Preferred securities in 2001 as well as the Trust Preferred securities issued in September 2000 being outstanding for all of 2001. See Item 8. Financial Statements and Supplementary Data Notes to Consolidated Financial Statements Note 10 .

Financial Condition

At December 31, 2002 Compared with December 31, 2001

Total assets increased by $213.7 million, or 14.2%, to $1.7 billion at December 31, 2002 compared to $1.5 billion at December 31, 2001. This increase was primarily due to a $26.6 million, or 19.8%, increase in cash and cash equivalents to $160.8 million at December 31, 2002 from $134.2 million at December 31, 2001, and a $193.9 million, or 17.3%, increase in loans receivable, net to $1.3 billion at December 31, 2002 from $1.1 billion at December 31, 2001. These increases were partially offset by the reductions in net real estate loans held in trust of $40.2 million. The growth in assets was funded primarily by an increase in FHLB advances of $69.4 million and deposits of $112.3 million. The increase in deposits was primarily concentrated in brokered deposits with a lower cost of funds than the current market rates offered through the Bank s retail branch network. CMOs decreased from $109.6 million at December 31, 2001 to $69.1 million at December 31, 2002, reflecting the repayments on loans held in trust. Shareholders equity increased primarily due to the retention of $20.0 million of net income as retained earnings for the year, partially offset by the purchase of $2.3 million of ITLA Capital s common stock currently held as treasury stock.

At December 31, 2001 Compared with December 31, 2000

Total assets increased by $93.2 million, or 6.6%, to $1.5 billion at December 31, 2001 compared to $1.4 billion at December 31, 2000. This increase was primarily due to a $63.3 million, or 89.2%, increase in cash and cash equivalents to $134.2 million at December 31, 2001 from $71.0 million at December 31, 2000 and a $76.4 million, or 7.31%, increase in net real estate loans receivable to $1.1 billion at December 31, 2001 from $1.0 billion at December 31, 2000. Asset growth also included increases in FHLB Stock of $9.5 million and other real estate owned, net, of $11.5 million. These increases were partially offset by the reductions in net real estate loans held in trust of $49.5 million and investment securities available for sale of $16.9 million. The growth in assets was funded primarily by an increase in FHLB advances of $190.0 million partially offset by a decrease in deposits of $62.0 million. The decrease in deposits was primarily concentrated in time certificates, which decreased $117.3 million and was partially offset by an increase in money market and passbooks of $55.3 million, as depositors moved their investments to liquid and short term accounts during the declining market rate environment. CMOs decreased from $161.9 million at December 31, 2000 to $109.6 million at December 31, 2001. Shareholders equity increased primarily due to the retention of $18.2 million of net income as retained earnings for the year, partially offset by the purchase of $14.8 million of ITLA Capital s common stock currently held as treasury stock.

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Loans Receivable, Net

The following table shows the comparison of our loan portfolio by major categories as of the dates indicated.

	December 31,				
	2002	2001	2000	1999	1998
			(in thousands)		
Real estate loans	$1,189,258	$1,191,688	$1,176,988	$864,048	$811,076
Construction loans	101,422	54,129	95,206	107,833	71,385
Total real estate loans	1,290,680	1,245,817	1,272,194	971,881	882,461
Film finance	119,283				
Franchise loans	54,672	57,617	3,912		
Commercial and other loans	4,314				
	1,468,949	1,303,434	1,276,106	971,881	882,461
Unamortized premium	7,898	9,773	11,300	2,590	
Deferred loan origination fees and costs	(5,604)	(2,029)	(2,571)	(3,096)	(3,561)
	1,471,243	1,311,178	1,284,835	971,375	878,900
Allowance for loan losses	(33,009)	(26,650)	(27,186)	(19,895)	(16,811)
	1,438,234	1,284,528	1,257,649	951,480	862,089
Real Estate Loans Held for Sale (at lower of cost or fair market value)					
Real estate loans					12,188
Gross loans held for sale					12,188
Deferred loan origination fees and costs					
Net loans held for sale					12,188
Consolidated net loans receivable	$1,438,234	$1,284,528	$1,257,649	$951,480	$874,277

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The contractual maturities of our loan portfolio at December 31, 2002 are as follows:

	Loans Maturing in			
	Less Than One Year	Between One and Five Years	Greater Than Five Years	Total
	(dollars in thousands)			
Real estate loans	$ 40,432	$167,487	$ 981,339	$1,189,258
Construction loans	48,948	27,466	25,008	101,422
Film finance	98,042	21,241		119,283
Franchise loans		5,695	48,977	54,672
Commercial and other loans	4,274	40		4,314
	$191,696	$221,929	$1,055,324	$1,468,949
Loans with fixed interest rates	$ 3,689	$ 40,541	$ 71,860	$ 116,090
Loans with variable interest rates	188,007	181,388	983,464	1,352,859
	$191,696	$221,929	$1,055,324	$1,468,949
Percentage with variable interest rates	98.1%	81.7%	93.2%	92.1%

The table above should not be regarded as a forecast of future cash collections because a substantial portion of real estate loans may be renewed or repaid prior to contractual maturity and have adjustable interest rates.

The following table sets forth certain information regarding the real property collateral securing our real estate loan portfolio as of December 31, 2002.

	Number of Loans	Gross Amount	Percent of Total	Range of Principal Balance			Non-Accrual Loans
				Min	Max	Average	
	(dollars in thousands)						
Income Producing Property Loans:							
Multi-family (5 or more units)	1,032	$ 569,170	44.1%	$41	$11,264	$ 926	$ 100
Retail	319	205,465	15.9%	9	9,427	1,371	133
Office	93	142,880	11.1%	13	10,460	1,536	3,061
Hotel	42	104,912	8.1%	30	11,976	2,498	
Industrial/warehouse	47	27,674	2.1%	6	3,150	589	179
Mixed-use	82	40,295	3.1%	3	3,725	594	
Mobile home parks	26	15,442	1.2%	84	1,717	491	
Other	110	77,340	6.0%	1	5,765	742	1,986
Total income producing	1,751	1,183,178	91.6%				5,459
Construction and Land:							
Construction	35	101,422	7.9%	56	8,590	2,898	
Land	4	2,853	0.2%	33	1,600	713	

Total construction and land	39	104,275	8.1%				
Single-family mortgages:							
Single-family (1-4 units)	24	3,227	0.3%	5	476	291	482
	1,814	$1,290,680	100.0%				$5,941

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The following table sets forth the location of the collateral for our loan portfolios as of December 31, 2002.

	Number of Loans	Gross Amount	Percent of Total
		(dollars in thousands)	
Southern California:			
Los Angeles County	920	$ 464,893	36.0%
San Diego County	64	84,900	6.6%
Riverside County	39	34,501	2.7%
San Bernardino County	48	55,579	4.3%
Orange County	48	42,353	3.3%
All Other Southern California Counties	16	45,240	3.5%
Total Southern California	1,135	727,466	56.4%
Northern California:			
San Francisco County	32	66,806	5.2%
Sacramento County	13	5,172	0.4%
Santa Clara County	14	9,899	0.8%
Alameda County	45	34,460	2.7%
Fresno County	38	16,117	1.2%
San Mateo	4	8,976	0.7%
All Other Northern California Counties	151	83,487	6.5%
Total Northern California	297	224,917	16.7%
Outside California:			
Arizona	89	85,779	6.6%
Texas	43	20,709	1.6%
Washington	32	45,782	3.5%
Nevada	51	59,688	4.6%
Colorado	35	24,073	1.9%
Florida	14	8,420	0.7%
Missouri	3	11,131	0.9%
Utah	9	4,095	0.3%
New York	7	3,000	0.2%
Other U.S. States	99	75,620	5.9%
Total Outside California	382	338,297	26.2%
	1,814	$ 1,290,680	100.0%

Although we generally seek to limit risks associated with our portfolio of real estate and construction loans by limiting the geographic concentration and by varying the types of underlying collateral, significant concentration risks still remain. Concentrations of loans in certain geographic regions, for example, cause our risk associated with these loans to be closely associated with the general economic and social environment of the region. Localized economic and competitive conditions, natural disasters, possible terrorist activities or social conditions all may affect the values of collateral located within a particular geographic area. In addition, certain types of properties may be more or less subject to changes in prevailing economic, competitive or social conditions.

The following table sets forth certain information with respect to our real estate loan originations and purchases and real estate loans held in trust. Premiums paid and discounts taken on loans purchased in the secondary market are not included below.

	As of and for the Years Ended December 31,		
	2002	2001	2000
		(dollars in thousands)	
Gross real estate loans originated and retained in the portfolio	$ 412,332	$ 285,650	$ 198,163
Gross real estate loans originated on behalf of third-party investors		9,018	15,300
Gross commercial revolving credit loans	4,195		
Gross film financing originated	34,340		
Gross film financing purchased	(2) 92,584		
Gross franchise loans purchased	7,335	53,319	5,922
Gross real estate loans purchased	(2) 120,363	154,081	(1) 434,495
Total loan production	$ 671,149	$ 502,068	$ 653,880
Gross loans at end of period	$ 1,468,949	$ 1,303,434	$ 1,276,106
Gross loans weighted-average portfolio yield	8.20%	9.26%	10.62%
Average size of loans originated and retained in the Company s portfolio	$ 1,062	$ 1,120	$ 2,359

(1) Includes $250.5 million of real estate loans acquired through the ICCMAC Trust acquisition in 2000.

(2) Includes $36.8 million of gross real estate loans acquired in 2002 in connection with the acquisition of Asahi Bank of California and $92.6 million of film finance loans acquired in 2002 in connection with the acquisition of LHO.

Investment Securities

The following table shows the amortized cost and approximate fair value of investment securities available for sale at the dates indicated.

December 31,		
2002	2001	2000

	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
			(in thousands)			
U.S. Government Agency	$48,698	$48,986	$29,409	$29,404	$46,196	$46,319
Residual interest in securitized loans	5,305	5,619				
Equity securities	25	72	14	7	22	6
Total investment securities available for sale	$54,028	$54,677	$29,423	$29,411	$46,218	$46,325

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During the first quarter of 2002, the Company formed a limited liability company to issue $86.3 million of asset-backed notes in a securitization of substantially all of its residential loan portfolio. The Company recognized a gain of $3.7 million on the securitization of these loans and is included in other non-interest income within the consolidated statement of income. Concurrent with recognizing such gain on sale, the Company recorded a residual interest of $5.6 million, which represents the present value of future cash flows (spread and fees) that are anticipated to be received over the life of the loans. The residual interest is recorded on the consolidated balance sheet in the Investment securities available for sale, at fair value . The value of the residual interest is subject to substantial credit, prepayment, and interest rate risk on the sold residential loans. In accordance with the provisions of SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities , the residual interest is classified as available-for-sale and, as such, recorded at fair value with the resultant changes in fair value recorded as unrealized gain or loss in a separate component of shareholders equity in accumulated other comprehensive income or loss , until realized. Fair value is determined on a monthly basis based on a discounted cash flow analysis. These cash flows are projected over the lives of the receivables using prepayment, default, and interest rate assumptions that we believe market participants would use for similar financial instruments.

At December 31, 2002, key assumptions used to estimate the fair value of the residual interest based on projected cash flows, and the sensitivity of the value to immediate adverse changes in those assumptions is as follows:

	December 31, 2002
Dollars in thousands	
Fair value of retained interest	**$ 5,619**
Weighted average life (in years)	**1.49**
Weighted average annual prepayment speed	**35.0%**
Impact of 10% adverse change	$ (23)
Impact of 25% adverse change	$ (59)
Weighted average annual discount rate	**15.0%**
Impact of 10% adverse change	$ (167)
Impact of 25% adverse change	$ (404)
Weighted average lifetime credit losses	**3.3%**
Impact of 10% adverse change	$ (285)
Impact of 25% adverse change	$ (678)

These sensitivities are hypothetical and should be used with caution. As the figures indicate, changes in the fair value of the residual is based on a variation in assumptions and generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, in the above table, the effect of a variation in a particular assumption on the fair value of the residual interest is calculated without changing any other assumption; in reality, changes in one factor may result in changes in another (for example, increases in market interest rates may result in lower prepayments but increased credit losses), which might magnify or counteract the sensitivities, and depending on the severity of such changes, the results of operations may be materially affected.

The following table indicates the composition of the investment security portfolio assuming these securities are held to maturity based on the final maturity of each investment.

	Due in One Year or Less		Due after One Year through Five Years		Due after Five Years through Ten Years		Due after Ten Years	
	Balance	Weighted Average Yield	Balance	Weighted Average Yield	Balance	Weighted Average Yield	Balance	Weighted Average Yield
December 31, 2002								
Investment securities available for sale								
U.S. Government Agency	$		$48,121	4.44%	$		$ 865	8.25%

Equity Securities	72			
Residual interest in securitized loans		5,619		
	—	—	—	—
Total investment securities available for sale	$72	$53,740	$	$ 865

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Liquidity and Deposit Accounts

Liquidity refers to our ability to maintain cash flow adequate to fund operations and meet obligations and other commitments on a timely basis, including the payment of maturing deposits and the origination or purchase of new loans. We maintain a cash and investment securities portfolio designed to satisfy operating and regulatory liquidity requirements while preserving capital and maximizing yield. As of December 31, 2002 and 2001, the Bank s liquidity ratios were 19.0% and 17.0%, respectively, exceeding the DFI regulatory requirement of 1.5%. In addition, our liquidity position is supported by a credit facility with the FHLB of San Francisco. As of December 31, 2002, we had remaining available borrowing capacity under this credit facility of $65.2 million, net of the $3.4 million of additional FHLB Stock that we would be required to purchase to support those additional borrowings, and $30.0 million of unused federal funds credit facilities under established lines of credit with two banks. In addition, ITLA Capital established a revolving credit facility with a bank in the amount of $35.0 million commencing on January 24, 2003, which declined to $10.0 on February 28, 2003 and matured on March 31, 2003.

Total deposit accounts increased approximately $112.3 million to $1.1 billion at December 31, 2002 from $953.7 million at December 31, 2001. The increase in deposits in 2002 was primarily related to the origination of brokered deposits. Brokered deposits totaled $103.6 million at December 31, 2002, as compared to none at December 31, 2001. Total deposit accounts decreased approximately $62.0 million to $953.7 million at December 31, 2001 from $1.0 billion at December 31, 2000. In both 2002 and 2001, the funds provided from deposits were used to fund the growth in our loan portfolio. Although we compete for deposits primarily on the basis of rates, based on our historical experience regarding retention of deposits, management believes that a significant portion of deposits will remain with us upon maturity on an ongoing basis.

The following table sets forth information regarding deposits outstanding at the dates indicated.

	December 31,		
	2002	2001	2000
		(in thousands)	
Money market and passbook accounts	$ 168,525	$158,188	$ 102,868
Time certificates under $100,000	521,404	526,911	572,851
Time certificates $100,000 and over	375,982	268,555	339,980
	$1,065,911	$953,654	$1,015,699

The following table sets forth the maturities of certificates of deposit $100,000 and over at December 31, 2002 (in thousands):

Certificates of deposit $100,000 and over:	
Maturing within three months	$ 95,604
After three but within six months	80,300
After six but within twelve months	115,708
After twelve months	84,370
Total certificates of deposit $100,00 and over:	$375,982

Capital Resources

As of December 31, 2002, the Bank s leverage, tier 1 risk-based and total risk-based capital ratios were 13.0%, 13.2% and 14.4%, respectively. These ratios were 10.1%, 10.7% and 12.0% as of December 31, 2001, respectively. The minimum regulatory requirements for leverage, tier 1 risk-based and total risk-based capital ratios are 4.0%, 4.0% and 8.0%, respectively. The well capitalized regulatory requirements for leverage, tier 1 risk-based and total risk-based capital ratios are 5.0%, 6.0% and 10.0%, respectively. As of December 31, 2002 and 2001, the Bank s capital position was designated as well capitalized for regulatory purposes.

Our shareholders equity increased $18.8 million to $156.7 million at December 31, 2002 compared to $137.9 million at December 31, 2001, due primarily to the accumulation of $20.0 million in net income as retained earnings, and a $442,000 increase due to the change in accumulated other comprehensive income. This increase was partially offset by a $2.3 million reduction due to the repurchase of shares of our common stock currently held as treasury stock. There were no dividends declared or paid by us during 2002.

Credit Risk Elements

Allowance for Loan Losses and Nonperforming Assets

The following table provides certain information with respect to our total allowance for loan losses, including charge-offs, recoveries and selected ratios, for the periods indicated.

	As of and for the Years Ended December 31,				
	2002	2001	2000	1999	1998
	(dollars in thousands)				
Balance at beginning of year	$ 26,650	$ 27,186	$ 19,895	$ 16,811	$ 12,178
Provision for loan losses	9,030	4,575	4,775	4,950	4,550
Addition due to purchase of the ICCMAC Trust			4,614		
Additions due to purchase of LHO and Asahi	2,048				
Charge offs:					
Real estate loans	(4,730)	(2,845)	(1,489)	(2,088)	(64)
Construction loans		(2,419)	(1,000)		
Total charge-offs	(4,730)	(5,264)	(2,489)	(2,088)	(64)
Recoveries:					
Real estate loans	11	153	391	222	147
Total recoveries	11	153	391	222	147
Net (charge-offs) recoveries	(4,719)	(5,111)	(2,098)	(1,866)	83
Balance at end of the year	$ 33,009	$ 26,650	$ 27,186	$ 19,895	$ 16,811
Average real estate loans outstanding during the year	$1,305,902	$1,295,097	$1,147,602	$925,059	$811,847
Loans, net, at end of the year *(1)*	$1,471,243	$1,311,178	$1,284,835	$971,375	$878,900
Selected Ratios:					
Net (charge-offs) recoveries to average loans outstanding	(0.36%)	(0.39%)	(0.18%)	(0.20%)	0.01%
Net (charge-offs) recoveries to loans, net *(1)*	(0.32%)	(0.39%)	(0.16%)	(0.19%)	0.01%
Allowance for loan losses to loans, net *(1)*	2.31%	2.16%	2.12%	2.05%	1.91%
Allowance for loan losses to nonaccrual loans	555.61%	174.30%	149.85%	249.40%	309.37%

(1) Loans, before allowance for loan losses and net of premium, deferred loan origination costs and deferred loan fees.

The allowance for loan losses increased to $33.0 million or 2.31% of our total loan portfolio at December 31, 2002 from $26.7 million or 2.03% of our total loan portfolio at December 31, 2001. The increase in the allowance was due primarily to the growth in our loan portfolio and the increase in our other loans of concern, which increased from $21.5 million in 2001 to $35.5 million in 2002. During 2002, we increased our provision to $9.0 million compared to $4.6 million in 2001 as a result of the above factors.

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The allowance for loan losses decreased to $26.7 million or 2.03% of our total real estate loan portfolio, at December 31, 2001 from $27.2 million or 2.12% of our total real estate loan portfolio, at December 31, 2000. The decrease in allowance was due primarily to higher net charge offs of $5.1 million for the year ended December 31, 2001 as compared to $2.1 million from the prior year and lower provision for loan losses of $4.6 million for the year ended December 31, 2001 as compared to $4.8 million for the year ended December 31, 2000. The factors affecting the lower provision for loan losses in 2001 were as follows: (1) lower nonperforming loans of $15.3 million at December 31, 2001 as compared to $18.1 million at December 31, 2000 (2) the decrease in loan delinquencies to $32.9 million at December 31, 2001 as compared to $44.1 million at December 31, 2000 and (3) the reallocation of $2.7 million of allowance for loan losses from the Imperial Capital REIT to the Bank, as actual loan losses related to real estate loans held in trust have been negligible.

The following table sets forth management s historical allocation of the allowance for loan losses by loan or contract category and the percentage of gross loans in each category to total gross loans at the dates indicated.

	December 31,					
	2002		2001		2000	
Loan Category:	**Allowance for loan losses**	**% of loans** *(1)*	**Allowance for loan losses**	**% of loans** *(1)*	**Allowance for loan losses**	**% of loans** *(1)*
Secured by real estate	$28,348	88%	$26,650	100%	$27,186	100%
Film finance	2,961	8				
Franchise	1,490	4				
Commercial	210					
Total	$33,009	100%	$26,650	100%	$27,186	100%

[Additional columns below]

[Continued from above table, first column(s) repeated]

	December 31,			
	1999		1998	
Loan Category:	**Allowance for loan losses**	**% of loans** *(1)*	**Allowance for loan losses**	**% of loans** *(1)*
Secured by real estate	$19,895	100%	$16,811	100%
Film finance				
Franchise				
Commercial				
Total	$19,895	100%	$16,811	100%

(1) Percentage represents the percent of gross loans in category to total gross loans.

Management believes the allowance for loan losses accounting policy is critical to the portrayal and understanding of our financial condition and results of operations. As such, selection and application of this critical accounting policy involves judgments, estimates, and uncertainties that are susceptible to change. In the event that different assumptions or conditions were to prevail, and depending upon the severity of such changes, the possibility of materially different financial condition or results of operations is a reasonable likelihood.

Management periodically assesses the adequacy of the allowance for loan losses by reference to many factors that may be weighted differently at various times depending on prevailing conditions. These factors include, among other elements:

- general portfolio trends relative to asset and portfolio size;
- asset categories;
- potential credit and geographic concentrations;
- delinquency trends and nonaccrual loan levels;
- historical loss experience and risks associated with changes in economic, social and business conditions; and
- the underwriting standards in effect when the loan was made.

Accordingly, the calculation of the adequacy of the allowance for loan losses is not based solely on the level of nonperforming assets. Management believes that our allowance for loan losses as of December 31, 2002 was adequate to absorb the known and inherent risks of loss in the loan portfolio at that date. While management believes the estimates and assumptions used in its determination of the adequacy of the allowance are reasonable, there can be no assurance that such estimates and assumptions will not be proven incorrect in the future, or that the actual amount of future provisions will not exceed the amount of past provisions or that any increased provisions that may be required will not adversely impact our financial condition and results of operations. In addition, the determination of the amount of the Bank s allowance for loan losses is subject to review by bank regulators, as part of the routine examination process, which may result in the establishment of additional reserves based upon their judgment of information available to them at the time of their examination.

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The following table sets forth the delinquency status of our loan portfolios at each of the dates indicated.

	December 31,					
	2002		2001		2000	
	Amount	Percent of Gross Portfolio	Amount	Percent of Gross Portfolio	Amount	Percent of Gross Portfolio
	(dollars in thousands)					
Period of Delinquency						
30 59 days	$17,500	1.19%	$11,481	0.88%	$12,245	0.96%
60 89 days	148	0.01%	7,954	0.61%	15,640	1.23%
90 days or more	5,941	0.40%	13,450	1.03%	16,226	1.27%
Total loans delinquent	$23,589	1.61%	$32,885	2.52%	$44,111	3.46%

The decrease in total delinquent loans in 2002 was due primarily to a $19.1 million decrease in past due one-four family real estate loans and a $1.7 million decrease of past due loans held in trust, partially offset by a $9.5 million increase in past due commercial real estate loans and a $1.9 million increase in past due franchise loans.

The Company has established a policy that all loans greater than $1.5 million are reviewed annually. This review usually involves obtaining updated information about the collateral and source of repayment. In addition, independent outside consultants periodically review the Bank s loan portfolio and report findings to management and the audit committee of the board of directors. Loans considered to warrant special attention are presented to the review and reserve committee, which meets at least monthly to review the status of classified loans, consider new classifications or declassifications, determine the need for and amount of any charge offs, and recommend to our executive committee of the board of directors the level of allowance for loan losses to be maintained. If management believes that the collection of the full amount of principal is unlikely and the value of the collateral securing the obligation is insufficient, steps are generally taken to protect and liquidate the collateral. Losses resulting from the difference between the loan balance and the fair market value of the collateral are recognized by a partial charge-off of the loan balance to the collateral s fair market value. While real property collateral is held for sale, it is subject to periodic evaluation and/or appraisal. If an evaluation or appraisal indicates that the property will ultimately sell for less than our recorded value plus costs of disposition, the loss is recognized by a charge to allowance for loan losses on other real estate owned.

Loans are placed on nonaccrual status when they become 90 days or more contractually delinquent, or earlier if the collection of interest is considered by management to be doubtful, unless the loan is considered well secured and in the process of collection. Subsequent cash collections on nonaccrual loans are either recognized as interest income on a cash basis, if the loan is well secured and in management s judgment the net book value is fully collectible, or recorded entirely as a reduction of principal.

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The following table sets forth our nonperforming assets by category and troubled debt restructurings as of the dates indicated:

	December 31				
	2002	2001	2000	1999	1998
	(dollars in thousands)				
Nonaccrual loans:*(1)*					
Real Estate *(2)*	$ 3,913	$13,690	$ 9,430	$ 7,977	$ 5,434
Construction		1,600	8,712		
Franchise	1,986				
Other real estate owned, net	12,593	13,741	2,250	1,041	1,201
Total nonperforming assets	18,492	29,031	20,392	9,018	6,635
Accruing loans past-due 90 days or more with respect to principal or interest			9,765		
Performing troubled debt restructurings	7,858	3,752	3,002	13,996	805
	$26,350	$32,783	$33,159	$23,014	$ 7,440
Non accrual loans to total gross loans and real estate loans in trust	0.36%	1.17%	1.42%	0.82%	0.62%
Allowance for loan losses to nonaccrual loans	555.61%	174.30%	149.85%	249.40%	309.37%
Nonperforming assets to total assets	1.08%	1.92%	1.44%	0.81%	0.64%

(1) *Gross interest income that would have been recorded on nonaccrual loans had they been current in accordance with original terms was $941,000 and $2.1 million for the years ended December 31, 2002 and 2001 respectively. The amount of interest income on such nonaccrual loans included in net income for the year ended December 31, 2002 and 2001 was $796,000 and $340,000, respectively.*

(2) Includes one loan with a net book balance of $1.4 million that was a nonperforming troubled debt restructuring in 2000.

Our nonaccrual loans totaled $5.9 million at December 31, 2002. Two of these loans had an outstanding balance greater than $1.0 million.

In 2002, $4.4 million of new other real estate owned was acquired, $4.9 million of other real estate owned was sold, and $836,000 of write-downs were taken, resulting in net other real estate owned at December 31, 2002 of $12.6 million. Other real estate owned at December 31, 2002 consisted of four properties with an average balance of approximately $3.1 million. The other real estate owned property with the largest net book balance totaled $5.3 million.

In addition to the above, management has concerns as to the borrowers ability to comply with present repayment terms on $35.5 million of other loans of concern as of December 31, 2002. See Item 1. Business Nonperforming Assets and Other Loans of Concern.

Item 7.A. Quantitative and Qualitative Disclosures About Market Risk

We realize income principally from the differential or spread between the interest earned on loans, investments and other interest-earning assets and the interest paid on deposits and borrowings. Loan volumes and yields, as well as the volume of and rates on investments, deposits and borrowings, are affected by market interest rates. Additionally, because of the terms and conditions of many of our loan agreements and deposit accounts, a change in interest rates could also affect the duration of the loan portfolio and/or the deposit base, which could alter our sensitivity to future changes in interest rates.

Interest rate risk management focuses on maintaining consistent growth in net interest income within board-approved policy limits while taking into consideration, among other factors, our overall credit, operating income, operating cost and capital profile. The asset/liability management committee, which includes senior management representatives and reports to the Board of Directors, monitors and manages interest rate risk to maintain an acceptable level of change in net interest income as a result of changes in interest rates. See Item 1. Business Nonperforming Assets and Other Loans of Concern .

In evaluating our exposure to changes in interest rates, certain risks inherent in the method of analysis presented in the following table must be considered. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in different degrees and at different times to changes in market rates. Additionally, loan prepayments and early withdrawals of time certificates could cause interest sensitivities to vary from those that appear in the following table. Further, certain assets, such as variable rate real estate loans, have features that restrict changes in interest rates on a short-term basis and over the life of the asset. The majority of our variable rate real estate loans may not adjust downward below their initial rate, with increases generally limited to maximum adjustments of 2% per year and up to 4% over the life of the loan. These loans may also be subject to prepayment penalties. At December 31, 2002, 85.9% of our variable rate loan portfolio would not adjust downward below the initial interest rate with the weighted-average minimum interest rate on this portfolio being 7.84% and 79.5% of the total loans outstanding had a lifetime interest rate cap, with the weighted-average lifetime interest rate cap on this portfolio being 10.03%. The anticipated effects of these various factors are considered by management in implementing interest rate risk management activities.

We use an internal earnings simulation model as a tool to identify and manage our interest rate risk profile. The model is based on projected cash flows and repricing characteristics for all financial instruments and incorporates market-based assumptions regarding the impact of changing interest rates on current volumes of applicable financial instruments, considering applicable interest rate floors and caps and prepayment penalties associated with each financial instrument. These assumptions are inherently uncertain and, as a result, the model cannot precisely measure net interest income or precisely predict the impact of changes in interest rates on net interest income. Actual results will differ from simulated results due to timing, magnitude and frequency of interest rate changes as well as changes in market conditions and management strategies.

The following table shows our estimated earnings sensitivity profile as of December 31, 2002:

Changes in Interest rates (Basis Points)	Percentage Change in Net Interest Income (12 Months)
+ 200 Over One Year	-5.00%
+ 100 Over One Year	-3.73%
- 100 Over One Year	4.05%
- 200 Over One Year	N/A

Because of the low level of current market interest rates, the above analysis was not performed for an interest rate decrease greater than 100 basis points.

Another tool used to identify and manage our interest rate risk profile is the static gap analysis. Interest sensitivity gap analysis measures the difference between the assets and liabilities repricing or maturing within specific time periods. Although our cumulative GAP position indicates an asset-sensitive position, our loan portfolio has reached floor interest rates in excess of current market rates to such an extent that a 200 basis point increase in rates does not cause our assets to reprice. Our liabilities within the cumulative GAP period reprice upward to market rates under this scenario causing compression of net interest income. In a declining rate environment, our liabilities will continue to reprice downward, while our loan portfolio remains at its floor rates, creating an increase in net interest income.

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The following table presents an estimate of our static GAP analysis as of December 31, 2002.

	Maturing or Repricing in					
	3 months or less	After 3 Months But Within 1 year	After 1 Year But Within 5 Years	After 5 Years	Non-Interest Sensitive	Total
	(dollars in thousands)					
Assets						
Loans *(1)*	$754,340	$566,588	$ 24,677	$ 1,774	$	$1,347,379
Real estate loans held in trust *(2)*	55,128	14,197		54,539		123,864
Cash and cash equivalents	146,463				14,385	160,848
Investment securities available for sale			53,740	865	72	54,677
Noninterest-earning assets less allowance for loan losses and unearned fees					35,197	35,197
Total assets	$955,931	$580,785	$ 78,417	$ 57,178	$ 49,654	$1,721,965
Liabilities and Shareholders Equity						
Time certificates under $100,000	$134,420	$305,489	$ 81,495	$	$	$ 521,404
Time certificates $100,000 and more	95,604	196,008	84,370			375,982
Money market and passbook accounts	168,525					168,982
FHLB advances	188,700	54,850	80,605	14,530		338,685
Collateralized mortgage obligations	14,441	36,505	18,131			69,077
Other liabilities					10,006	10,006
Guaranteed preferred beneficial interests in the Company s junior subordinated deferrable interest debentures	53,394			28,201		81,595
Shareholders equity					156,691	156,691
Total liabilities and shareholders equity	$655,084	$590,799	$ 266,654	$ 42,731	$ 166,697	$1,721,965
Net repricing assets over (under) repricing liabilities equals interest rate sensitivity GAP	$300,847	$ (10,014)	$(188,237)	$ 14,447	$(117,043)	
Cumulative interest rate sensitivity GAP	$300,847	$290,833	$ 102,596	$117,043	$	
Cumulative GAP as a percentage of total assets	17.5%	16.9%	6.0%	6.8%	0.0%	

(1) *Variable rate loans consist principally of real estate secured loans with a maximum term of 30 years. Approximately 65% of these loans are generally adjustable quarterly based on changes in various indexes, subject generally to a maximum increase of 2% annually and up to 4% over the life of the loan. Approximately 17% of these loans are fixed for an initial period of two to five years from origination, and then are adjustable quarterly based on changes in various indexes. Nonaccrual loans of*

approximately $5.7 million are assumed to reprice after five years.

(2) Nonaccrual loans of approximately $233,000 are assumed to reprice after five years.

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Item 8. Financial Statements and Supplementary Data

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REPORT OF INDEPENDENT AUDITORS

To the Shareholders and the Board of Directors of
ITLA Capital Corporation:

We have audited the accompanying consolidated balance sheet of ITLA Capital Corporation and subsidiaries (the Company), a Delaware corporation, as of December 31, 2002, and the related consolidated statements of income, changes in shareholders equity and cash flows for the year ended December 31, 2002. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of ITLA Capital Corporation and subsidiaries as of December 31, 2002, and the consolidated results of their operations and their cash flows for the year ended December 31, 2002 in conformity with accounting principles generally accepted in the United States.

/s/ Ernst &Young LLP

Los Angeles, California
January 30, 2003

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Shareholders and the Board of Directors of
ITLA Capital Corporation:

We have audited the accompanying consolidated balance sheets of ITLA Capital Corporation and subsidiaries (the Company), a Delaware corporation, as of December 31, 2001 and 2000, and the related consolidated statements of income, changes in shareholders equity and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ITLA Capital Corporation and subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States.

/s/ Arthur Andersen LLP

Los Angeles, California
January 25, 2002

This is a copy of the audit report previously issued by Arthur Andersen LLP in connection with ITLA Capital Corporation s filing Form 10-K for the year ended December 31, 2001. Arthur Andersen LLP has not reissued this report in connection with this filing on Form 10-K.

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ITLA CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31,	
	2002	2001
	(in thousands except share amounts)	
Assets		
Cash and cash equivalents	$ 160,848	$ 134,241
Investment securities available for sale, at fair value	54,677	29,411
Stock in Federal Home Loan Bank	16,934	13,464
Loans, net (net of allowance for loan losses of $31,081 and $24,722 in 2002 and 2001, respectively)	1,316,298	1,122,370
Real estate loans held in trust, net (net of allowance for loan losses of $1,928 in 2002 and 2001)	121,936	162,158
Interest receivable	9,158	11,144
Other real estate owned, net	12,593	13,741
Premises and equipment, net	4,197	2,177
Deferred income taxes	13,822	11,869
Goodwill	3,118	
Other assets	8,384	7,733
Total assets	$1,721,965	$1,508,308
Liabilities and Shareholders Equity		
Liabilities:		
Deposit accounts	$1,065,911	$ 953,654
Federal Home Loan Bank advances	338,685	269,285
Collateralized mortgage obligations	69,077	109,648
Accounts payable and other liabilities	10,006	9,674
Total liabilities	1,483,679	1,342,261
Commitments and contingencies (note 17)		
Guaranteed preferred beneficial interests in the Company s junior subordinated deferrable interest debentures	81,595	28,118
Shareholders equity:		
Preferred stock, 5,000,000 shares authorized, none issued		
Contributed capital common stock, $.01 par value; 20,000,000 shares authorized, 8,226,414 and 8,212,749 issued and outstanding in 2002 and 2001, respectively	58,841	58,183
Retained earnings	135,773	115,768
Accumulated other comprehensive income (loss)	435	(7)
	195,049	173,944
Less treasury stock, at cost 2,447,656 and 2,354,056 shares in 2002 and 2001, respectively	(38,358)	(36,015)
Total shareholders equity	156,691	137,929
Total liabilities and shareholders equity	$1,721,965	$1,508,308

See accompanying notes to the consolidated financial statements.

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ITLA CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31,		
	2002	**2001**	**2000**
	(in thousands except per share amounts)		
Interest income:			
Loans receivable, including fees	$ 96,894	$ 104,949	$ 102,419
Real estate loans held in trust	10,239	14,954	16,192
Cash and investment securities	3,475	3,192	5,164
Total interest income	110,608	123,095	123,775
Interest expense:			
Deposit accounts	29,349	52,864	55,968
Collateralized mortgage obligations	2,301	6,209	10,901
Federal Home Loan Bank advances	5,672	4,790	1,773
Total interest expense	37,322	63,863	68,642
Net interest income before provisions for loan losses	73,286	59,232	55,133
Provision for loan losses	9,030	4,575	4,775
Net interest income after provisions for loan losses	64,256	54,657	50,358
Non-interest income:			
Fee income from mortgage banking activities		83	47
Gain on sale of investment securities			1,412
Other	373	976	872
Total non-interest income	373	1,059	2,331
Non-interest expense:			
Compensation and benefits	13,954	11,778	9,958
Occupancy and equipment	3,165	2,968	2,567
FDIC assessment	159	182	188
Other	9,754	7,890	7,941
Total recurring general and administrative	27,032	22,818	20,654
Non-recurring expense			1,400
Total general and administrative	27,032	22,818	22,054
Real estate owned expense (income), net	632	136	(31)
Provision for losses on other real estate owned	796	269	167
(Gain) loss on sale of other real estate owned, net	(105)	(18)	2
Total real estate owned expense, net	1,323	387	138
Total non-interest expense	28,355	23,205	22,192
	36,274	32,511	30,497

Income before provision for income taxes and minority interest in income of subsidiary			
Minority interest in income of subsidiary	3,481	2,967	478
Income before provision for income taxes	32,793	29,544	30,019
Provision for income taxes	12,788	11,393	11,880
NET INCOME	$ 20,005	$ 18,151	$ 18,139
BASIC EARNINGS PER SHARE	$ 3.35	$ 2.82	$ 2.57
DILUTED EARNINGS PER SHARE	$ 3.16	$ 2.72	$ 2.51

See accompanying notes to the consolidated financial statements.

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ITLA CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

	Common Stock Number of shares			Shareholders' Equity		
				Contributed Capital		
	Gross Shares Issued and Outstanding	Treasury Shares	Net Shares Issued and Outstanding	Share Capital	Earned Compensation	Total Contributed Capital
	(in thousands except share amounts)					
Balance at January 1, 2000	8,202,916	(1,021,432)	7,181,484	$56,459	$ 725	$57,184
Issuance of common stock - employee stock options	3,833		3,833	36		36
Earned compensation from Supplemental Executive Retirement Plan /Recognition and Retention Plan, net		11,115	11,115		(100)	(100)
Common stock repurchased		(536,019)	(536,019)			
Net income						
Total comprehensive income						
Balance at December 31, 2000	8,206,749	(1,546,336)	6,660,413	56,495	625	57,120
Issuance of common stock-employee stock options	6,000		6,000	74		74
Earned compensation from Supplemental Executive Retirement Plan / Recognition and Retention Plan, net		1,980	1,980		989	989
Common stock repurchased		(809,700)	(809,700)			
Net income						
Total comprehensive income						
Balance at December 31, 2001	8,212,749	(2,354,056)	5,858,693	56,569	1,614	58,183
Issuance of common stock-employee stock options	13,665		13,665	184		184
Earned compensation from Supplemental Executive Retirement Plan / Recognition and Retention Plan, net					474	474
Common stock repurchased		(93,600)	(93,600)			
Net income						
Total comprehensive income						
Balance at December 31, 2002	8,226,414	(2,447,656)	5,778,758	$56,753	$ 2,088	$58,841

[Additional columns below]

[Continued from above table, first column(s) repeated]

	Shareholders' Equity			
	Contributed Capital			
	Retained Earnings	Accumulated Other Comprehensive Income (loss)	Treasury Stock, At Cost	Total
	(in thousands except share amounts)			
Balance at January 1, 2000	$ 79,478	$ 706	$(13,673)	$123,695
Issuance of common stock - employee stock options				36
Earned compensation from Supplemental Executive Retirement Plan /Recognition and Retention Plan, net			100	
Common stock repurchased			(7,701)	(7,701)
Net income	18,139			18,139
Total comprehensive income		(615)		(615)
Balance at December 31, 2000	97,617	91	(21,274)	133,554
Issuance of common stock-employee stock options				74
Earned compensation from Supplemental Executive Retirement Plan / Recognition and Retention Plan, net			18	1,007
Common stock repurchased			(14,759)	(14,759)
Net income	18,151			18,151
Total comprehensive income		(98)		(98)
Balance at December 31, 2001	115,768	(7)	(36,015)	137,929
Issuance of common stock- employee stock options				184
Earned compensation from Supplemental Executive Retirement Plan / Recognition and Retention Plan, net				474
Common stock repurchased			(2,343)	(2,343)
Net income	20,005			20,005
Total comprehensive income		442		442
Balance at December 31, 2002	$135,773	$ 435	$(38,358)	$156,691

[Additional columns below]

[Continued from above table, first column(s) repeated]

	Comprehensive Income		
	Unrealized Gain (loss)	Reclassification of realized gains previously recognized in	Total

	Net Income	on securities, net of tax	comprehensive income, net of tax	Comprehensive Income
	(in thousands except share amounts)			
Balance at January 1, 2000				
Issuance of common stock - employee stock options				
Earned compensation from Supplemental Executive Retirement Plan /Recognition and Retention Plan, net				
Common stock repurchased				
Net income				
Total comprehensive income	$ 18,139	$ 232	$ (847)	$ 17,524
Balance at December 31, 2000				
Issuance of common stock-employee stock options				
Earned compensation from Supplemental Executive Retirement Plan / Recognition and Retention Plan, net				
Common stock repurchased				
Net income				
Total comprehensive income	18,151	(98)		18,053
Balance at December 31, 2001				
Issuance of common stock- employee stock options				
Earned compensation from Supplemental Executive Retirement Plan / Recognition and Retention Plan, net				
Common stock repurchased				
Net income				
Total comprehensive income	$ 20,005	$ 442	$	$ 20,447
Balance at December 31, 2002				

See accompanying notes to the consolidated financial statements.

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ITLA CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2002	**2001**	**2000**
		(in thousands)	
Cash Flows From Operating Activities:			
Net Income	$ 20,005	$ 18,151	$ 18,139
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization of premises and equipment	946	836	796
Amortization of premium on purchased loans	1,859	3,143	2,755
Amortization of original issue discount and deferred debt issuance cost on CMOs	168	294	874
Amortization of deferred loan origination fees, net of costs	(1,688)	(1,333)	(1,745)
Provision for loan losses	9,030	4,575	4,775
Provision for losses on other real estate owned	796	269	167
Gain on sale of investment securities available for sale			(1,412)
(Gain) loss on sales of other real estate owned	(105)	(18)	2
Decrease (increase) in interest receivable	1,986	677	(2,466)
Deferred income tax benefit	(2,255)	(546)	(1,321)
Decrease (increase) in other assets	363	462	(115)
Increase (decrease) in accounts payable and other liabilities	(368)	(654)	(346)
Net cash provided by operating activities	30,737	25,856	20,103
Cash Flows From Investing Activities:			
Proceeds from securitization and sale of real estate loans	98,155		
Purchases of investment securities available for sale	(102,462)	(45,400)	(17,998)
Proceeds from the maturity of investment securities available for sale	78,705	62,260	15,000
Proceeds from the sale of investment securities for sale			16,176
Purchase of CRA investment			(4,766)
(Increase) decrease in stock in Federal Home Loan Bank	(3,470)	(9,160)	4,931
Cash paid to acquire ICCMAC Multifamily and Commercial Trust 1999-1			(51,069)
Purchase of loans	(90,909)	(207,400)	(189,889)
(Increase) decrease in loans, net	(84,889)	108,493	75,264
Repayment of real estate loans held in trust	38,896	47,927	41,264
Proceeds from sale of real estate loans		755	12,720
Proceeds from sale of other real estate owned	3,972	5,687	1,685
Cash paid for capital expenditures	(2,859)	(752)	(798)
Cash paid to acquire LHO, net	(93,042)		
Cash paid to acquire Asahi Bank of California, net	(14,872)		
Other, net		(331)	33
Net cash used in investing activities	(172,775)	(37,921)	(97,447)
Cash Flows From Financing Activities:			
Proceeds from exercise of employee stock options	184	74	36
Cash paid to acquire treasury stock	(2,343)	(14,759)	(7,701)
Repayment			