

Edgar Filing: ITLA CAPITAL CORP - Form 10-K

ITLA CAPITAL CORP  
Form 10-K  
April 02, 2001

1

=====

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934 [Fee Required]

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2000

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934 [No Fee Required]

FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_

COMMISSION FILE NUMBER 0-26960

ITLA CAPITAL CORPORATION  
(Exact Name of Registrant as Specified in its Charter)

DELAWARE  
(State or Other Jurisdiction of  
Incorporation or Organization)

95-4596322  
(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. [ ]

# Edgar Filing: ITLA CAPITAL CORP - Form 10-K

As of March 22, 2001, there were issued and outstanding 6,596,413 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 March 22, 2001, was \$127.4 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.)

=====

2

## ITLA CAPITAL CORPORATION

FORM 10-K

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2000

### TABLE OF CONTENTS

	PAGE
	----
PART I	
Item 1. Business	3
Item 2. Properties	15
Item 3. Legal Proceedings	15
Item 4. Submission of Matters to a Vote of Security Holders	15
PART II	
Item 5. Market for Registrant's Common Equity and Related Stockholder Matters	16
Item 6. Selected Financial Data	17
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations	19
Item 7.A. Quantitative and Qualitative Disclosures About Market Risk	38
Item 8. Financial Statements and Supplementary Data	41
Item 9. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure	77
PART III	
Item 10. Directors and Executive Officers of the Registrant	77
Item 11. Executive Compensation	80
Item 12. Security Ownership of Certain Beneficial Owners and Management	86
Item 13. Certain Relationships and Related Transactions	88
PART IV	
Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K	89

#### 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

## Edgar Filing: ITLA CAPITAL CORP - Form 10-K

conditions in our market areas, changes in policies by regulatory agencies, the impact of competitive loan products, loan demand risks, fluctuations in interest rates and operating results 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 2000 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.

2

3

### 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 \$1.4 billion, consolidated net loans of \$1.3 billion, deposits of \$1.0 billion and consolidated stockholder's equity of \$133.6 million as of December 31, 2000. We conduct and manage our business principally through Imperial Capital Bank (the "Bank"), a \$1.2 billion California industrial bank, with six offices in California, (San Francisco, Encino, Beverly Hills, Glendale, Costa Mesa and Del Mar). The Bank has been in business for 26 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 became our principal operating subsidiary upon completion of its holding company reorganization on October 1, 1996. The Bank is primarily engaged in:

- Originating real estate loans secured by income producing properties for retention in its loan portfolio;
- Acquiring pools of single family mortgages in the secondary market for investment purposes; and
- Accepting customer deposits through the following products: certificates of deposits, money market and passbook accounts. Our deposit accounts are insured by the FDIC, up to the appropriate legal limits of individual deposit balances.

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 CMO's that had been sold to third party investors by the previous owner. At December 31, 2000, real estate loans held in trust for the CMO's totaled \$216.3 million and the CMO's outstanding balance at that date was \$161.9 million.

We continuously evaluate business expansion opportunities, including

## Edgar Filing: ITLA CAPITAL CORP - Form 10-K

acquisitions or joint ventures with companies that originate or purchase commercial and multi-family real estate loans as well as residential mortgage loans and 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 with us in order to enhance the value of our Company to our shareholders.

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

### REAL ESTATE LENDING

General. We concentrate our real estate lending activities as follows:

- Originating and purchasing real estate loans secured by income producing properties, both commercial and residential (including apartments).
- Purchasing single-family residential loans.

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. At December 31, 2000, the Bank's gross real estate loan portfolio increased to \$1.1 billion as compared to \$974.5 million in the prior year end. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" for additional information regarding the composition of the our portfolio at December 31, 2000.

3

4

Marketing and Originations. We originate real estate loans through branch offices located in San Francisco, Glendale, Costa Mesa and Del Mar. These offices are staffed by a total of fifteen 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. We provide only limited deposit products and not a full range of banking services, and generally do not market our lending services to, or receive loan applications from our depositors.

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

- Retail centers
- Small office and light industrial buildings
- Apartments
- Hotels

## Edgar Filing: ITLA CAPITAL CORP - Form 10-K

- Mobile home parks
- Mini-storage facilities
- Other mixed use or special purpose commercial properties

At December 31, 2000, the Bank had \$833.1 million of income producing property loans outstanding representing 78.1% of its total real estate loans. 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-four family residential lending. 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);
- The availability of refinancing at lower interest rates or better loan terms;
- Changes in governmental rules, regulations and fiscal policies, including rent control ordinances, environmental legislation and taxation; and
- Increases in interest rates, real estate and personal property tax rates;
- Other factors beyond the control of the borrower or the lender.

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.

As of December 31, 2000, 58.5% of the Bank's real estate loan portfolio was indexed to the Six-Month London Interbank Offered Rate; 10.1% was indexed to the reference rate charged by Bank of America; 3.4% was indexed to the Federal Home Loan Bank 11th District Cost of Funds Index; 23.5% was fixed for an initial period and then adjustable; 1.0% was indexed to either the United States Treasury security indexes or the Federal Home Loan Bank of San Francisco advance rate; and the balance of 3.5% 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

## Edgar Filing: ITLA CAPITAL CORP - Form 10-K

adjustments of 2% per year up to 4% 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 and equity value resulting from changes in interest rates. At December 31, 2000, 95.0% 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 9.47%. At that date, 90.3% of the variable rate loans outstanding had a lifetime interest rate cap. The weighted-average lifetime interest rate cap on this portfolio was 14.35%.

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, in recent years, the California economy has strengthened in some respects, however, a worsening of economic conditions in the state and surrounding regions could have an 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.

A small portion of the Bank's real estate loan portfolio consists of loans secured by junior liens on real estate. At December 31, 2000, 40 real estate loans in the aggregate amount of \$5.0 million, or 0.5% of our real estate loan portfolio, were secured by second trust deeds. Of these loans collateralized by junior liens, 94% were secured by income producing properties and 6% were secured by one-four family residential properties. Of the Bank's real estate loans outstanding at December 31, 2000, \$7.9 million represented loans to facilitate the sale of other real estate owned.

In 2000, 1999, and 1998, the Bank purchased income producing real estate loans totaling \$110.9 million, none, and \$2.4 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. In determining whether to purchase a commercial real estate loan, the Bank reviews the borrower's financial resources and ability to repay and the amount and stability of cash flow, if any, from the underlying collateral. Similar to its loan originations on commercial real estate loan purchases, the Bank reviews information concerning the income, financial condition, employment and credit history of the applicant, however, current appraisals and borrower credit reports are not obtained. On commercial real estate loan purchases, the Bank reviews the original appraisal and credit report obtained by the loan seller or originator and arranges for a staff member or an outside consultant to perform an analysis of the loan and the value of the underlying collateral, including on-site inspection, before purchasing the loan. In addition, the Bank generally obtains an updated title search separate from that provided by the loan seller. For a further discussion of the Bank's underwriting procedures, see "Lending, Origination, Purchasing and Underwriting" set forth below.

**Construction Loans.** We also originate construction loans for income producing properties, as well as for single-family home construction. At December 31, 2000, the Bank had \$95.2 million of construction loans outstanding, representing 8.9% 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 and 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.

## Edgar Filing: ITLA CAPITAL CORP - Form 10-K

Residential Lending. In 2000, we continued to execute the strategy commenced in 1999 to diversify our product mix and concentration of commercial real estate loans through the bulk purchase of single-family residential loans. Under guidelines established by the Board of Directors, the Company's loan portfolio may consist of up to \$165 million of single family residential loans. We determine the bid prices on these loan pools on a pool by pool basis, through an analysis of the pool's return on equity and return on assets, desired yield spreads, acceptable risk characteristics, market conditions and a thorough analysis of the originator/seller. After our bid is accepted by the seller, we conduct a due diligence review of the loans in the pool. Based on due diligence results, individual loans are kept in the proposed pool, rejected from the pool or put on hold pending additional information or a pricing adjustment. The pool and pricing is then finalized, a purchase and sale agreement is signed, and the purchase is

5

6

completed. During 2000 and 1999, we bought a total of 667 loans and 805 loans with a total outstanding principal balance of \$79.0 million and \$90.8 million, paying a total premium of \$1.7 million and \$2.7 million to acquire these loans, respectively. At December 31, 2000, 1,195 of these loans remained, with an outstanding principal balance of \$131.0 million and related unamortized purchase premium of \$2.4 million.

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 franchisers 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. Our correspondent relationships, which may change from time to time, allow us to purchase loans in our sole discretion which meet our underwriting and yield criteria. As of December 31, 2000, we had purchased four such loans, with a total commitment of \$5.9 million and an outstanding balance of \$3.9 million.

Lending, Origination, Purchases and Underwriting. Many of the Bank's income producing property 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. Likewise, residential loans purchased generally do not meet the Federal National Mortgage Association or Federal Home Loan Mortgage Corporation's underwriting standards with respect to credit, debt ratios and documentation, whether as a result of marginal credit histories, the absence of credit history, high debt-to-income ratios, reliance on the borrower's stated income with verification of employment, non-owner occupied property, rural property, balloon payment or a variety of other exceptions from agency guidelines. 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, properties, loan terms, and submission of loans to the loan committee.

All real estate loans over \$1.0 million must be submitted to the loan committee for approval. The Bank's loan underwriters prepare a written presentation on every loan application submitted to its loan committee, which is

## Edgar Filing: ITLA CAPITAL CORP - Form 10-K

comprised of the following Bank officers:

- Chairman, Chief Executive Officer, President and Chief Operating Officer
- Vice Chairman and Chief Credit Officer
- Managing Director-New Business Development
- Senior Vice President and Chief Lending Officer
- First Vice President of Credit Quality Control
- First Vice President/Director of Loan Operations
- Vice President/Portfolio Administration

The underwriter's presentation includes a description of the prospective borrower and any guarantors, the collateral, and the proposed use(s) of loan proceeds, as well as borrower and property financial statements and analysis. Each application is evaluated from a number of underwriting perspectives, including property appraised value, level of debt service coverage, remaining economic life, use and condition, as well as borrower liquidity, net worth, cash investment, income, credit history and operating experience. Our real estate loans are originated on both a nonrecourse 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) on properties that have not achieved stabilization.

At least one loan committee member or designee must personally conduct on-site inspections of any property involved in loan recommendations of \$1.0 million or more. Loans up to \$750,000 may be approved by any loan committee member. Loans of \$750,000 to \$1.0 million require the approval by any two members of the Bank's loan committee, while loans in excess of \$1.0 million require approval of three loan committee members. Additionally, loans over \$1.5 million must be approved by the First Vice President of Credit Quality Control; loans

6

7

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.

Variable rate loans over \$500,000 must generally satisfy an interest rate sensitivity test in order for the loan origination or purchase to be approved; that is, the current stabilized income of real property security must be adequate to achieve a minimum debt service coverage ratio of 90% if the interest rate on the loan was at the maximum amount allowed under the terms of the note, generally the fully indexed start rate plus 400 basis points. Following loan approval and prior to funding, the Bank's underwriting and processing departments assure that all loan approval terms have been satisfied, that they conform with lending policies (or are properly authorized exceptions), and all required documentation is present and in proper form.

All reviews of residential loans being considered for purchase are initially performed through our loan acquisition department. We place bids on pools of loans meeting its investment and credit risk objectives, subject to due



## Edgar Filing: ITLA CAPITAL CORP - Form 10-K

diligence and negotiation of an acceptable purchase agreement. The Bank's Vice Chairman and Chief Credit Officer and the Chief Financial Officer must each approve the bid prior to submission. All purchases are made within the parameters set by the Bank's Board of Directors for loan purchases and originations and require the approval of both the loan committee and the asset/liability management committee.

If we are the successful bidder, a due diligence review of each loan in the pool is completed to finalize the pool of loans to be acquired. This review includes an evaluation of the seller's representations and warranties and of the adequacy of the applicable loan documentation (e.g., the existence of a note, including confirmation of the interest rate and outstanding loan balance, mortgage, title policy, borrower financial statements, tax returns, environmental reports, etc.). An estimate of the current value of the real estate collateral is determined by obtaining a brokers' price opinion report for every loan considered for purchase, which is then compared to and reconciled with the original appraisal by staff appraisers from the Bank's appraisal department.

The maximum size of a single real estate loan made by the Bank is limited by California law to 25% of the Bank's equity capital. At December 31, 2000, that limit was approximately \$27.7 million. The Bank's largest combined credit extension to related borrowers was \$10.9 million at December 31, 2000. At December 31, 2000, the Bank had a total of 137 extensions of credit, with a combined outstanding principal balance of \$517.6 million, that were over \$2.0 million to a single borrower or related borrowers. Two of these combined extensions of credit, with a total principal balance of \$10.4 million (and a net book balance of \$8.6 million), were on nonaccrual status at December 31, 2000. All other combined extensions of credit over \$2.0 million were performing in accordance with their repayment terms. At December 31, 2000, the Bank had 2,223 secured real estate loans outstanding, with an average balance per loan of approximately \$480,000.

**Servicing and Collections.** Servicing of our purchased residential loans is contracted to Fairbanks Capital Corporation, an organization specializing in the collection and servicing of residential loans. Commercial real estate 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. As discussed below, servicing of the loans held in the ICCMAC Trust is performed by a third-party servicer. Following the funding or purchase of an approved loan, all pertinent loan data is entered into the Bank's data processing system, which provides monthly billing statements, tracks payment performance, and processes contractual interest rate adjustments on variable rate loans. Regular loan service efforts include payment processing and collection follow-up, as well as tracking the performance of additional borrower obligations with respect to the maintenance of casualty insurance coverage, payment of property taxes and senior liens, if any, and periodically requesting required information, including current borrower and property financial and operating statements. Additional services are performed by the Bank in connection with the monitoring of loans to borrowers secured by stabilizing projects. These projects involve lease-up or renovation activities. The Bank monitors these 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

## Edgar Filing: ITLA CAPITAL CORP - Form 10-K

8

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 loans is principally from community banks, savings and loan associations, other industrial banks, real estate financing conduits, small insurance companies, and occasionally 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.

### IMPERIAL CAPITAL REAL ESTATE INVESTMENT TRUST

During 2000, we acquired all of the equity and certain CMO's of the ICCMAC Trust through our real estate investment trust subsidiary, Imperial Capital REIT. On the date of acquisition, the ICCMAC Trust held assets of \$250.5 million, comprised of approximately 65 percent and 35 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. On the date of acquisition the ICCMAC Trust's loans were held as collateral for \$205.4 million of investment grade CMO's sold to third party investors. Through this investment, we established a new source of cash flow for ITLA Capital other than distributions from the Bank. As of December 31, 2000, the ICCMAC Trust's loan pool had decreased to \$209.3 million due to normal amortization and payoffs of the loans in the pool. The cash flow from the ICCMAC Trust's loan pool pays principal and interest on the CMO's, and also provides cash flow on a monthly basis to ITLA Capital. At December 31, 2000, the CMO's had an outstanding balance of \$161.9 million, and ITLA Capital had recorded \$4.6 million of pre-tax income from its investment in the ICCMAC Trust.

Servicing of the ICCMAC Trust loans is performed by Banc One Mortgage Capital Markets, LLC ("Banc One"), a Delaware limited liability company. Under the servicing agreement, Banc One is required to service and administer the commercial mortgage loans held in trust solely on behalf of the best interests of and for the benefit of the holders of the CMO's in accordance with the terms of the servicing agreement and the commercial mortgage loans. Banc One 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, 2000, nonperforming assets totaled \$20.4 million or 1.44% of total assets. Nonperforming assets consisted of \$18.1 million of nonaccrual real estate loans and \$2.3 million of other real estate owned held by the Bank. Three of our nonperforming real estate 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".

## Edgar Filing: ITLA CAPITAL CORP - Form 10-K

The following is a brief discussion of our three nonaccrual loans where the remaining principal balance of the loan at December 31, 2000, exceeded \$1.0 million.

Loan Secured by a Distribution Warehouse Facility - Mississippi. This loan was originated by the Bank in February 1999 with a total loan amount of \$8.5 million. In January 2000, the building's single tenant filed for bankruptcy protection. In November 2000, the lease was rejected through the bankruptcy court and tenant vacated the building. The Bank has entered into a forbearance agreement with the borrower who has commenced to market the property for sale or lease.

8

9

Loan Secured by an Office/Restaurant Complex - Arizona. This loan was originated by the Bank in January 1997 with an original loan amount of \$1.9 million. In November 1997, an additional advance of \$400,000 was funded to complete construction. The loan was placed on nonaccrual status in September 1998 due to delinquent monthly payments and the bankruptcy filing by borrower. During 1999 and 2000, the loan was written down to its book balance at December 31, 2000 of \$1.4 million. Although the borrower's plan of reorganization was confirmed on July 26, 2000 and principal and interest payments commenced under the plan on September 26, 2000, we have applied all payments received to date against the principal balance of the loan and intend to do so until a satisfactory payment history has been established.

Loan Secured by a Senior Apartment Complex - California. This loan was originated by the Bank in December 1997 with an original loan commitment of \$1.6 million, which included funds to convert the property into senior apartments. No payments have been received since August 2000. The loan balance as of December 31, 2000 was \$1.6 million. The loan matured in November 2000, and we have filed a notice of default. The property was 89% occupied as of December 2000.

As of December 31, 2000, we had outstanding loans with an aggregate outstanding balance of \$70.9 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 nonaccrual loan category. The following is a brief discussion of our "other loans of concern" where the remaining principal balance of the loan at December 31, 2000 exceeded \$2.0 million.

Loan Secured by Gas Station, Convenience Store and Car Wash - California. This construction loan was originated by the Bank in August 1999. The outstanding principal balance at December 31, 2000 was \$5.0 million. This loan matured on September 1, 2000, and is delinquent more than 90 days due to a dispute among the partners of the borrowing entity. The Bank currently holds \$400,000 of the guarantors' funds in a pledged passbook account, and intends to offset these funds against the amounts due on our note. We consider this loan a performing asset because, based on the cash collateral the Bank holds, and the cashflow now being generated from the operations of the real estate collateral, this loan is well secured and in the process of collection.

Loan Secured by a Hotel - California. This is a participation loan where the Bank purchased a 29.4% share (\$5.0 million) of a \$17.0

## Edgar Filing: ITLA CAPITAL CORP - Form 10-K

million loan that was originated by another financial institution in October 1998. Our outstanding balance was \$4.8 million as of December 31, 2000. The loan matured in August 2000 and was extended under a forbearance agreement to October 2000 to allow the borrower time to refinance the property with another lender. Notice of default was filed in October 2000, as no take out financing materialized during the forbearance period. The monthly payments on the loan are being received at the default rate of interest, however, the loan is delinquent due to its matured status. The loan is well secured and in the process of collection, based on the borrowers' efforts to refinance the property, the cash flow from the property's operations, which result in a debt service coverage ratio of 1.67, and the estimated loan to value ratio of 73%.

Loan Secured by Office Complex - Alabama. This loan was originated by the Bank in February 1999 with an original amount of \$4.0 million. The outstanding balance as of December 31, 2000 was \$3.8 million. In December 2000, a large tenant vacated the space it occupied upon maturity of its lease, which brought the occupancy down to 66%. To date, all monthly payments have been made as agreed. We continue to monitor the borrowers' efforts to lease the vacant space.

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

9

10

December 31, 2000 was \$3.8 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 for the last three years. We continue to monitor the borrowers' efforts to improve the cashflow of the hotel.

Loan Secured by Hotel - Arizona. This loan was originated by the Bank in March 1998 with an original commitment of \$3.5 million secured by a 138-unit hotel. The outstanding principal balance at December 31, 2000 was \$3.0 million; as the guarantor made a principal reduction payment of \$500,000 in November 2000. 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, and there has been a deterioration in the value of the property securing the loan. We continue to monitor the borrower's efforts to improve the cash flow of the hotel.

Loan Secured by Office Complex - Nevada. This loan was originated by the Bank in May 2000 as a refinance of a Bank construction loan that was originally funded in 1998. The original loan amount was \$4.2 million and the current outstanding balance as of December 31, 2000 was \$3.4 million. The loan is being monitored due to the slow lease-up of the office buildings that were built in the complex. At December 31, 2000, three of the four buildings in the complex are nearing stabilized occupancy, and the remaining building is nearing completion and leasing efforts are under way.

Loan Secured by Three Separate Apartment Buildings - Florida. This loan was originated by the Bank in December 1998 with an original balance of \$3.2 million and currently has an outstanding balance of \$3.1 million as of December 31, 2000. Since inception this loan has been a constant collection problem with several late payments and several

## Edgar Filing: ITLA CAPITAL CORP - Form 10-K

payments returned for non-sufficient funds. In October 2000 a foreclosure action was again initiated and is currently progressing. As of December 31, 2000, the loan was delinquent less than 90 days, however, no payments have been received to date.

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 123-unit hotel. The outstanding principal balance at December 31, 2000 was \$3.1 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 and the occupancy rate has been low for the last 2 years. We continue to monitor the borrower's efforts to improve the cash flow of the hotel.

Loan Secured by Motel - Arizona. This loan was originated by the Bank in May 1997 with an original commitment of \$2.2 million secured by a 90-unit motel. The outstanding principal balance at December 31, 2000 was \$2.0 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 for the last two years. We continue to monitor the borrower's efforts to improve the cash flow of the motel.

### 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", "special mention", "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 capacity 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, 2000, we classified \$45.9 million of loans as "substandard" and \$43.1 million as "special mention". Of the loans comprising the \$45.9 million in "substandard" loans, \$18.1 million were included in the nonperforming assets table in "Item 7. Management's Discussion and Analysis of Results of Operations and Financial Condition - Credit Risk Elements", and the balance was included in the \$70.9 million of "other loans of concern", discussed above.

### FUNDING SOURCES

The primary source of funding for the Bank's lending operations and investments are investment certificates, which are functionally equivalent to certificates of deposit at banks and savings and loan associations and are hereinafter referred to as "deposits". The Bank's deposits are federally insured by the FDIC to the extent permitted by law. Approximately 90% 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 10% of the Bank's deposits are variable rate passbook accounts and a variable rate money market accounts with limited checking features.

As with many other industrial banks in California, 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

## Edgar Filing: ITLA CAPITAL CORP - Form 10-K

generally accumulated deposits by relying on renewals of term accounts by existing depositors, participating in deposit rate surveys which list the Bank among the higher rate paying insured institutions, 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 demand checking accounts, 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 industrial 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 the banks and savings 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 to the higher levels of the deposit rate surveys in which the Bank is included. Although there were no brokered deposits outstanding at December 31, 2000, the Bank may seek such deposits in the future. 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 Federal Home Loan Bank of San Francisco as a funding source. The Bank became a member of the Federal Home Loan Bank of San Francisco in 1994 and was subsequently approved for a credit line up to 25% of its total assets. Federal Home Loan Bank advances are collateralized by pledges of qualifying cash equivalents, investment securities, mortgage-backed securities and whole loan collateral. At December 31, 2000, Federal Home Loan Bank advances outstanding totaled \$79.3 million, and the remaining available borrowing capacity, based on the loans and securities pledged as collateral, totaled \$157.7 million, net of the \$8.3 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. See "Item 8. Financial Statements and Supplementary Data - Notes to Consolidated Financial Statements - Notes 2, 3, 7 and 8".

### REGULATION

The Bank is an industrial bank that is subject to examination, supervision and regulation by the Department of Financial Institutions of the State of California (the "Department") and, as an insured institution, by the FDIC. As a result of legislation enacted September 30, 2000, industrial banks, formerly known as industrial loan companies, are now generally subject to California banking law. Industrial banks are now generally able to engage in all the activities of a California commercial bank, including, subject to approval, the trust business. Notwithstanding the new legislation, industrial banks such as Imperial Capital Bank may not accept demand deposits. The Bank's holding company, ITLA Capital, is not a bank holding company for federal bank holding company purposes and is not directly regulated or supervised by the Department, the FDIC, the FRB or any other bank regulatory authority, except with respect to the general regulatory and enforcement authority of the Department and the FDIC over transactions and dealings between us and the Bank, and except with respect to both the specific limitations regarding ownership of the capital stock of the parent corporation of any industrial bank.

### CALIFORNIA LAW

The industrial banking business conducted by the Bank, formerly governed by the California Industrial Loan Law, is now subject to the California Banking

## Edgar Filing: ITLA CAPITAL CORP - Form 10-K

Laws and the rules and regulations pertaining thereto as regulated by the Department. The regulations of the Department 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 Department's supervision of the Bank includes comprehensive reviews of all aspects of the Bank's business and condition, and the Department possesses broad remedial enforcement authority to influence the Bank's operations, both formally and informally.

11

12

### FEDERAL LAW

Because our deposits are insured by the Bank Insurance Fund of the FDIC, the FDIC, in addition to the Department, 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. Therefore any person who wishes to acquire control of the Bank must obtain the consent of both the FDIC and the Department of Financial Institutions. Insured depository institutions, and their institution-affiliated parties, may be subject to potential enforcement actions by the FDIC and the Department 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, including industrial 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. Under FDIC regulations, highly-rated banks are those that the FDIC determines are not anticipating or experiencing significant growth and have well diversified risk, including no undue interest rate risk exposure, excellent asset quality, high liquidity and good earnings. At December 31, 2000, the Bank's required tier 1 capital ratio was 4.0% and its actual tier 1 capital ratio was 9.1%.

**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

## Edgar Filing: ITLA CAPITAL CORP - Form 10-K

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, 2000 the Bank's tier 1 risk-based and total capital ratios were 10.4% and 11.6%, respectively.

The federal banking agencies have adopted regulations specifying that the agencies will include, in their evaluations 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

12

13

promulgated final amendments to their respective risk-based capital requirements which would explicitly 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 now 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.

For regulatory purposes, the federal banking agencies have adopted Statement of Financial Accounting Standards No. 115 - "Accounting for Certain Investments in Debt and Equity Securities" as amended, which requires that net unrealized gains and losses on certain securities classified available for sale be included in accumulated other comprehensive income. The FDIC requires that the net amount of unrealized losses from available for sale equity securities with readily determinable fair values be deducted for purposes of calculating the tier 1 capital ratio. All other net unrealized holding gains and losses on available for sale securities are excluded from the definition of tier 1 capital. At December 31, 2000, the Bank had no equity securities classified as available for sale.

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



## Edgar Filing: ITLA CAPITAL CORP - Form 10-K

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, 2000.

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.

**Safety and Soundness Standards.** The federal banking agencies adopted guidelines that establish standards for safety and soundness. The guidelines set forth operational and managerial standards relating to internal controls, information systems and internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, fees and benefits. The guidelines establish the safety and soundness standards that the agencies will use to identify and address problems at insured depository institutions before capital becomes impaired. If an institution fails to comply with a safety and soundness standard, the appropriate federal banking agency may require the institution to submit a compliance plan. Failure to submit a compliance plan or to implement an accepted plan may result in enforcement action.

**Regulatory Guidance on Subprime Lending.** The federal banking agencies have recently issued interagency guidance on subprime lending, which is defined in the guidance as extending credit to borrowers who have a significantly higher risk of default than traditional bank lending customers. The guidance provides that institutions should recognize the additional risks inherent in subprime lending and determine if these risks are acceptable and controllable given the institution's staff, financial condition, size and level of capital support. Institutions that engage in subprime lending in any significant way should have board-approved policies and procedures, as well as internal controls that identify, measure, monitor and control these additional risks. If assets are considered subprime, additional capital is required, ranging from 1.5 times to three times the amount of capital required for like kind assets that are not subprime. We believe that the Bank is conducting its residential lending operations in accordance with the regulatory guidance that is currently in effect.

**FDIC Insurance Assessments.** The FDIC assesses deposit insurance premiums under a risk-based assessment system, which is based on the probability that the deposit insurance fund will incur a loss with respect to the institution, the likely amount of any loss, and the revenue needs of the deposit insurance fund. For the fiscal year ended December 31, 2000, the Bank paid \$188,000 of assessments to the FDIC.

## Edgar Filing: ITLA CAPITAL CORP - Form 10-K

Restrictions on Imperial Capital Bank's Investments and Activities. A state-chartered bank and its subsidiaries may not engage as principal in any activities that are not permissible for national banks and their subsidiaries unless: (1) the bank meets the applicable FDIC capital standards described above; and (2) the FDIC has determined that the activity would pose no significant risk to the Bank Insurance Fund. With limited exceptions, the FDIC may not use this authority to permit a state-chartered bank to engage in equity investments (other than investments in subsidiaries) or in insurance underwriting. The Bank's activities are permissible activities for national banks.

In addition, federal law imposes restrictions on transactions between the Bank and its affiliates. All these transactions, including leases and service contracts, must be on terms and under circumstances that are substantially the same, or at least as favorable to the Bank, as those prevailing at the time for comparable transactions involving nonaffiliated companies. The California banking law also applies certain restrictions to transactions with affiliates. Federal and state law also places limitations on loans by the Bank to its directors, officers and controlling persons. Among other things, such loans must be made on terms substantially the same as for loans to unaffiliated persons.

Community Reinvestment Act and Fair Lending Developments. 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. 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 became effective November 13, 2000, but compliance before July 1, 2001 is optional. 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. It is not possible at this time to assess fully the impact of the privacy provisions on our

## Edgar Filing: ITLA CAPITAL CORP - Form 10-K

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 the operating environment of the Company 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.

14

15

### DATA PROCESSING AGREEMENT

We have an agreement with a third party to provide data processing services, including loan portfolio accounting and transaction processing, deposit account processing, and general ledger accounting. The fees under the agreement consist of a base monthly fee, which may vary based on the number of accounts processed, as well as other charges based on usage. This agreement is renewed on an annual basis. Charges under the agreement totaled approximately \$356,000 in 2000. As of December 31, 2000, the estimated remaining payments due under the contract, at current portfolio and service levels, were approximately \$425,000.

### ITEM 2. PROPERTIES

ITLA Capital leases approximately 62,000 square feet of office space for its operations as shown below.

LOCATIONS	OFFICE USES	SQUARE FOOTAGE	YEAR CURR LEASE TE EXPIRE
La Jolla, CA	Corporate Headquarters	10,582	2003
Glendale, CA	Loan Operations Division / Real Estate Lending	8,932	2005
San Francisco, CA	Retail Deposit Branch / Real Estate Lending	5,005	2002
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 / Operations Support Division	5,298	2004
Glendale, CA	Retail Deposit Branch / Loan Administration Division	23,498	2006

For additional information regarding our premises, see "Item 8. Financial Statements and Supplementary Data - Notes to Consolidated Financial Statements - Note 15".

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.

## Edgar Filing: ITLA CAPITAL CORP - Form 10-K

### 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, 2000.

15

16

## 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". At December 31, 2000, there were approximately eight holders of record of our common stock representing approximately 1,000 shareholders and 6,660,413 shares outstanding.

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 interdealer prices, without retail mark-up, mark-down or commission.

	Market Price			Average D Closing P
	High	Low	Close	
2000				
4th Quarter	\$19.13	\$14.25	\$19.13	\$15.09
3rd Quarter	15.31	13.88	14.81	14.45
2nd Quarter	15.00	12.75	14.50	13.51
1st Quarter	13.00	10.75	12.75	11.71
1999				
4th Quarter	\$15.25	\$12.00	\$12.56	\$14.16
3rd Quarter	16.50	14.63	14.75	15.68
2nd Quarter	17.50	14.50	15.75	15.35
1st Quarter	15.50	13.38	14.50	14.69

16

17

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)

Edgar Filing: ITLA CAPITAL CORP - Form 10-K

	For the Quarter Ended			
	March 31	June 30	September 30	December 31
	(in thousands except per share amounts)			
2000				
Net interest income	\$12,917	\$13,880	\$14,080	\$ 14,256
Provision for loan losses	600	1,200	1,525	1,450
Noninterest income	1,574	144	208	405
General and administrative expense	6,665	5,101	5,006	5,282
Total real estate owned expense, net	159	(54)	36	(3)
Provision for income taxes	2,823	3,184	2,999	2,874
Net income	4,244	4,593	4,623	4,679
Basic Earnings Per Share	\$ 0.59	\$ 0.64	\$ 0.66	\$ 0.69
Diluted Earnings Per Share	\$ 0.58	\$ 0.63	\$ 0.65	\$ 0.66
1999				
Net interest income	\$12,670	\$13,271	\$13,318	\$ 13,494
Provision for loan losses	1,200	1,200	1,400	1,150
Noninterest income	278	310	201	112
General and administrative expense	5,102	5,425	5,117	5,113
Total real estate owned expense, net	8	147	21	296
Provision for income taxes	2,724	2,788	2,862	2,896
Net income	3,914	4,021	4,119	4,151
Basic Earnings Per Share	\$ 0.55	\$ 0.56	\$ 0.57	\$ 0.58
Diluted Earnings Per Share	\$ 0.53	\$ 0.54	\$ 0.55	\$ 0.57

ITEM 6. SELECTED FINANCIAL DATA

The following condensed statements of operations and financial condition and selected performance ratios as of December 31, 2000, 1999, 1998, 1997, and 1996 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".

18

17

	AS OF AND FOR THE YEAR		
	2000	1999	1998
	(IN THOUSANDS EXCEPT PER SHARE AMOUNTS)		
CONDENSED STATEMENTS OF OPERATIONS			
Total interest income	\$ 123,775	\$ 101,213	\$ 101,213
Total interest expense	68,642	48,460	50,000
Net interest income before provisions for loan losses and valuation allowance on loans held			

Edgar Filing: ITLA CAPITAL CORP - Form 10-K

for sale	55,133	52,753	5
Provision for loan losses	4,775	4,950	
Provision for valuation allowance on loans held for sale	--	--	
Net interest income after provisions for losses and valuation allowance on loans held for sale	50,358	47,803	4
Noninterest income	2,331	901	
Noninterest expense:			
Compensation and benefits	9,958	9,739	1
Occupancy and equipment	2,567	2,788	
Other general and administrative expenses	8,129	8,230	
Real estate owned expense, net	138	472	
Total recurring noninterest expense	20,792	21,229	2
Nonrecurring expense	1,400 (1)	--	
Total noninterest expense	22,192	21,229	2
Income before provision for income taxes and minority interest income of subsidiary	30,497	27,475	2
Minority interest in income of subsidiary	478	--	
Income before provision for income taxes	30,019	27,475	2
Provision for income taxes	11,880	11,270	1
NET INCOME	\$ 18,139	\$ 16,205	\$ 1
BASIC EARNINGS PER SHARE	\$ 2.57	\$ 2.26	\$
DILUTED EARNINGS PER SHARE	\$ 2.51	\$ 2.21	\$
Dividends paid	\$ --	\$ --	\$
CONDENSED STATEMENTS OF FINANCIAL CONDITION			
Cash and cash equivalents	\$ 70,950	\$ 72,242	\$ 12
Investment securities available for sale, at fair value	46,325	59,247	
Stock in Federal Home Loan Bank	3,963	8,894	1
Investment and mortgage-backed securities held to maturity	--	--	
Real estate loans, net	1,045,927	951,480	86
Real estate loans held in trust	211,722	--	
Loans held for sale, at lower of cost or fair market value	--	--	1
Interest receivable	11,821	7,383	
Other real estate owned, net	2,250	1,041	
Premises and equipment, net	2,690	3,253	
Deferred income taxes	11,302	9,401	
Other assets	8,193	2,882	
Total assets	\$1,415,143	\$1,115,823	\$1,03
Deposit accounts	\$1,015,699	\$ 913,613	\$ 86
Collateralized mortgage obligations	161,852	--	
Federal Home Loan Bank advances	79,250	67,250	4
Accounts payable and other liabilities	11,269	11,265	1
Guaranteed preferred beneficial interests in Company's junior subordinated deferrable interest debentures	13,519	--	

Edgar Filing: ITLA CAPITAL CORP - Form 10-K

Shareholders' equity	133,554	123,695	10
	-----	-----	-----
Total liabilities and shareholders' equity	\$1,415,143	\$1,115,823	\$1,03
	=====	=====	=====
Book value per share	\$ 20.05	\$ 17.22	\$

-----

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

18

19

	AS OF AND FOR THE YEARS ENDED		
	2000	1999	1998
	-----	-----	-----
SELECTED PERFORMANCE RATIOS			
Return on average assets	1.47%	1.57%	1.46%
Return on average shareholders' equity	13.95%	14.23%	13.95%
Net interest margin (1)	4.47%	5.11%	4.96%
Average interest-earning assets to average interest-bearing liabilities	113.49%	113.74%	113.06%
Noninterest expense to average assets	1.79%	2.05%	2.13%
Efficiency ratio (2)	38.62%	39.57%	41.06%
Efficiency ratio excluding real estate operations, and nonrecurring expense, net	35.94%	38.69%	39.19%
General and administrative expense to average assets	1.78%	2.01%	2.04%
Average shareholders' equity to average assets	10.86%	11.01%	10.47%
Nonperforming assets to total assets	1.44%	0.81%	0.64%
Allowance for loan losses to loans held for investment, net (3)	2.12%	2.05%	1.91%
Allowance for loan losses to nonaccrual loans (4)	149.85%	249.40%	309.37%
Net loan charge-offs (recoveries) to average loans held for investment, net	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 noninterest expense divided by noninterest

## Edgar Filing: ITLA CAPITAL CORP - Form 10-K

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.

(4) Excludes nonaccrual loans held for sale totaling \$783,000 in 1996.

### 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, 2000 and 1999 and our results of operations for the years ended December 31, 2000, 1999 and 1998. Our business involves the origination and purchase of loans secured primarily by income producing real estate, located predominately in California and, to a lesser extent, the purchase of pools of non-conventional residential mortgage loans located throughout the United States.

Consolidated net income in 2000 was \$18.1 million, or \$2.51 per diluted share, compared to \$16.2 million, or \$2.21 per diluted share, in 1999 and \$14.8 million, or \$1.89 per diluted share, in 1998. The increase in net earnings in 2000 was primarily due to an increase in net interest income to \$55.1 million for 2000 as compared to \$52.8 million in 1999 and gain on sale of investment securities available for sale of \$1.4 million in 2000. These

19

20

items were partially offset by nonrecurring expenses of \$1.4 million relating to the consolidation of the Bank's headquarters with ITLA Capital's headquarters in La Jolla, California and a \$600,000 increase in provision for income taxes.

The increase in net earnings in 1999 was primarily due to an increase in net interest income to \$52.8 million in 1999 compared to \$50.3 million in 1998, a decrease in provisions for loan losses and valuation allowance on loans held for sale to \$5.0 million in 1999 compared to \$6.0 million in 1998, and a decline in real estate owned expense to \$472,000 in 1999 compared to \$984,000 in 1998, partially offset by a decrease in noninterest income derived from mortgage banking activities to \$73,000 in 1999 compared to \$1.6 million in 1998 and an increase in provision for income taxes to \$11.3 million in 1999 compared to \$10.3 million in 1998

The return on average assets was 1.47% in 2000 compared to 1.57% and 1.46% in 1999 and 1998, respectively. The return on average shareholders' equity was 13.95% in 2000 compared to 14.23% in 1999 and 13.95% in 1998. During 2000, we purchased all the equity securities and certain collateralized mortgage obligations ("CMO's") of the ICCMAC Multifamily and Commercial Trust 1999-1 ("ICCMAC Trust"). On the date of acquisition, the ICCMAC Trust held assets of \$250.5 million. Primarily as a result of this acquisition, average total assets increased to \$1.2 billion in 2000 compared to \$1.0 billion in 1999.

Total loan production, including the unfunded portion of construction loans, was \$653.9 million for the year ended December 31, 2000, consisting of \$198.2 million originated for the portfolio, \$440.4 million purchased for the



## Edgar Filing: ITLA CAPITAL CORP - Form 10-K

portfolio, and \$15.3 million brokered for outside investors, compared to total loan production of \$394.3 million and \$531.1 million for the years ended December 31, 1999 and 1998, respectively.

Average deposit accounts totaled \$913.6 million in 2000 compared to \$870.1 million in 1999, an increase of \$43.5 million, or 5.0%. This increase was primarily utilized to fund the increase in the loan portfolio. Federal Home Loan Bank advances averaged \$30.4 million in 2000 compared to \$37.2 million in 1999, a decrease of \$6.8 million, or 18.2%. The average balance of the CMO's was \$141.8 million during 2000.

### 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.

21

20

	YEARS ENDED DECEMBER			
	----- 2000 -----			
	AVERAGE BALANCE	INCOME/ EXPENSE	YIELD/ RATE	AVERAGE BALANCE
	-----			-----
	(DOLLARS IN THOUSANDS)			
<b>ASSETS</b>				
Cash and investments	\$ 84,660	\$ 5,164	6.10%	\$ 106
Mortgage-backed securities	--	--		
Real estate loans (1)	964,620	102,419	10.62%	925
Real estate loans held in trust	182,982	16,192	8.85%	
	-----	-----	-----	-----
Total loans receivable	1,147,602	118,611	10.34%	925
	-----	-----	-----	-----
Total interest-earning assets	1,232,262	\$123,775	10.04%	1,032
	=====	=====	=====	=====
Noninterest-earning assets	28,963			20
Allowance for loan losses	(24,571)			(18)
	-----			-----
Total assets	\$1,236,654			\$1,034
	=====			=====
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
Deposit accounts:				
Money market and passbook accounts	\$ 115,035	\$ 6,384	5.55%	\$ 130
Time certificates	798,599	49,584	6.21%	739
	-----	-----	-----	-----
Total deposit accounts	913,634	55,968	6.13%	870
Collateralized mortgage obligations	141,796	10,901	7.69%	

Edgar Filing: ITLA CAPITAL CORP - Form 10-K

FHLB advances	30,366	1,773	5.84%	37
	-----	-----	-----	-----
Total interest-bearing liabilities	1,085,796	\$ 68,642	6.32%	907
		=====	=====	
Noninterest-bearing liabilities	16,586			12
	-----			-----
Shareholders' equity	134,272			113
	=====			=====
Total liabilities and shareholders' equity	\$1,236,654			\$1,034
	=====			=====
Net interest spread (2)			3.72%	
			=====	
Net interest income before provisions for estimated credit losses and valuation allowance on loans held for sale		\$ 55,133		
		=====		
Net interest margin (3)			4.47%	
			=====	

YEARS ENDED DECEMBER 31,

	1998		
	AVERAGE BALANCE	INCOME/ EXPENSE	YIELD/ RATE
	-----	-----	-----
ASSETS			
Cash and investments	\$ 146,514	\$ 7,849	5.36%
Mortgage-backed securities	19,162	1,209	6.31%
Real estate loans (1)	847,219	92,607	10.93%
Real estate loans held in trust	--	--	--
	-----	-----	-----
Total loans receivable	847,219	92,607	10.93%
	-----	-----	-----
Total interest-earning assets	1,012,895	\$101,665	10.04%
		=====	=====
Noninterest-earning assets	16,281		
Allowance for loan losses	(14,841)		
	-----		
Total assets	\$1,014,335		
	=====		
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposit accounts:			
Money market and passbook accounts	\$ 104,461	\$ 5,505	5.27%
Time certificates	734,856	42,548	5.79%
	-----	-----	-----
Total deposit accounts	839,317	48,053	5.73%
Collateralized mortgage obligations	--	--	--
FHLB advances	56,542	3,334	5.90%
	-----	-----	-----
Total interest-bearing liabilities	895,859	\$ 51,387	5.74%
		=====	=====

Edgar Filing: ITLA CAPITAL CORP - Form 10-K

Noninterest-bearing liabilities	12,256
Shareholders' equity	106,220
	-----
Total liabilities and shareholders' equity	\$1,014,335
	=====

Net interest spread (2)		4.30%
		=====
Net interest income before provisions for estimated credit losses and valuation allowance on loans held for sale	\$ 50,278	
	=====	
Net interest margin (3)		4.96%
		=====

-----

- (1) Before allowance for loan losses and net of deferred loan fees and costs. Net loan fee amortization of \$2.8 million, \$2.5 million and \$2.7 million was included in net interest income for 2000, 1999 and 1998, 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. When interest-earning assets equal or exceed interest-bearing liabilities, any positive net interest spread will generate net interest income; if interest-bearing liabilities exceed interest-earning assets, we may incur a decline in net interest income even when the net interest spread is positive. For 2000, 1999 and 1998, our ratio of average interest-earning assets to average interest-bearing liabilities was 113.49%, 113.74% and 113.06%, 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 absolute dollar amounts of each.

21

22

2000 VS. 1999 INCREASE (DECREASE) DUE TO:			
VOLUME	RATE	TOTAL	VOLU
-----	-----	-----	-----

(IN THOUSANDS)

Interest and fees earned on:

Edgar Filing: ITLA CAPITAL CORP - Form 10-K

Real estate loans, net	\$ 4,175	\$ 2,941	\$ 7,116	\$ 8,
Cash and investment securities	(1,357)	611	(746)	(2,
Real estate loans held in trust	16,192	--	16,192	(1,
Mortgage-backed securities	--	--	--	(1,
	-----	-----	-----	-----
Total increase (decrease) in interest income	19,010	3,552	22,562	4,
	-----	-----	-----	-----
Interest paid on:				
Deposit accounts	2,661	6,855	9,516	1,
Collateralized mortgage obligations	10,901	--	10,901	(1,
FHLB advances	(402)	167	(235)	(1,
	-----	-----	-----	-----
Total increase (decrease) in interest expense	13,160	7,022	20,182	
	-----	-----	-----	-----
Increase (decrease) in net interest income	\$ 5,850	\$ (3,470)	\$ 2,380	\$ 4,
	=====	=====	=====	=====

2000 Compared to 1999

Net interest income increased \$2.3 million or 4.4% to \$55.1 million in 2000 compared to \$52.8 million in 1999. The increase in net interest income was due primarily to net interest income related to the acquisition of the ICCMAC Trust and an increase in interest income on our loans. These items were partially offset by an increase in interest expense on deposits and a decrease in interest income on investment securities.

Interest income increased \$22.6 million or 22.3% to \$123.8 million in 2000 compared to \$101.2 million in 1999. The increase in interest income was due primarily to a \$7.1 million increase in real estate loan income to \$102.4 million and the acquisition of the ICCMAC Trust, which generated \$16.2 million in interest income. Interest and fee income from loans increased due to higher loan volume in 2000 and an increase in loan yield. The average balance of the Bank's real estate loans increased \$39.6 million to \$964.6 million in 2000 compared to \$925.1 million in 1999. The average yield on these real estate loans was 10.62% in 2000 compared to 10.30% in 1999. The increase in yield was due to increases in market interest rates (which increased the yield of our adjustable rate loans upon repricing and the yield received at the time of origination). Market interest rates have recently declined which could result in our achieving lower average yields in future operating periods. Interest and fee income earned on real estate loans in 2000 and 1999 includes income recognized from the early payoff of loans. Excluding this income from prepayments, the yields on the Bank's real estate loans would have been 10.34% in 2000 and 10.06% in 1999.

Interest income from cash and investments decreased to \$5.2 million in 2000 compared to \$5.9 million in 1999, due primarily to a decrease in the average outstanding balance, partially offset by an increase in yield. The average balance of cash and investment securities decreased \$22.3 million or 20.8% to \$84.7 million in 2000 compared to \$107.0 million in 1999. The average yield on cash and investment securities was 6.10% in 2000 compared to 5.53% in 1999, which was consistent with the increase in short-term market interest rates.

## Edgar Filing: ITLA CAPITAL CORP - Form 10-K

Interest expense increased \$20.1 million or 41.4% to \$68.6 million in 2000 compared to \$48.5 million in 1999 primarily due to increases in interest expense on deposits and the addition of the CMO's, partially offset by a decrease in interest expense on Federal Home Loan Bank advances. Interest expense from deposit accounts increased \$9.5 million or 20.4% to \$56.0 million in 2000 compared to \$46.5 million in 1999 due to increases in the average rate paid on deposits and to a lesser extent the average balance of deposit accounts. The average rate paid on deposits was 6.13% in 2000 compared to 5.34% in 1999. The average balance of deposits increased \$43.5 million or 5.00% to \$913.6 million in 2000 compared to \$870.1 million in 1999 as we increased deposits to fund growth in the loan portfolio.

Interest expense from the CMO's totaled \$10.9 million in 2000. The increase was due to the acquisition of the ICCMAC Trust in 2000. The average balance and average yield on the CMO's from the date of acquisition through December 31, 2000 was \$141.8 million and 7.69%, respectively.

Interest expense from Federal Home Loan Bank advances decreased \$200,000 to \$1.8 million in 2000 compared to \$2.0 million in 1999, due to a decrease in the average outstanding balance partially offset by an increase in the average rate paid on Federal Home Loan Bank advances. The average balance of Federal Home Loan Bank advances decreased \$6.8 million or 18.3% to \$30.4 million in 2000 compared to \$37.2 million in 1999. The average rate paid on Federal Home Loan Bank advances was 5.84% in 2000 compared to 5.39% in 1999.

1999 Compared to 1998

Net interest income totaled \$52.8 million in 1999 compared to \$50.3 million in 1998, an increase of \$2.5 million or 4.9%. The increase in net interest income was due primarily to growth in average interest-earning assets, which increased \$19.1 million or 1.9%.

Interest income totaled \$101.2 million in 1999 compared to \$101.7 million in 1998, a decrease of \$452,000, or 0.4%. Interest and fee income from loans receivable totaled \$95.3 million in 1999 compared to \$92.6 million in 1998, an increase of \$2.7 million, or 2.9%. Interest and fee income from loans increased due to higher loan volume in 1999, partially offset by a decrease in loan yield. The average balance of loans receivable was \$925.1 million in 1999 compared to \$847.2 million in 1998, an increase of \$77.9 million, or 9.2% reflecting the increase in loans held for investment. The average yield on loans receivable was 10.30% in 1999 compared to 10.93% in 1998. The decline in yield on loans receivable was due to declines in market interest rates (which reduced the yield of adjustable rate loans in the portfolio upon repricing and the yield received at the time of origination) and due to the payoff of higher yielding commercial mortgages, as borrowers refinanced these loans at lower interest rates. Interest and fee income earned on loans receivable in 1999 and 1998 includes income recognized from the early payoff of loans. Excluding this income from prepayments, the yields on loans receivable would have been 10.06% in 1999 and 10.62% in 1998.

There was no interest income from mortgage-backed securities in 1999 compared to \$1.2 million in 1998. The mortgage-backed securities were sold in the fourth quarter of 1998.

Interest income from cash and investments totaled \$5.9 million in 1999 compared to \$7.8 million in 1998, a decrease of \$1.9 million, or 24.7%, due primarily to a decrease in the average outstanding balance, partially offset by an increase in yield. The average balance of cash and investment securities was \$107.0 million in 1999 compared to \$146.5 million in 1998, a decrease of \$39.5 million, or 27.0%. The average yield on cash and investment securities was 5.53% in 1999 compared to 5.36% in 1998, which was consistent with the increase in short-term market interest rates.

24

Interest expense totaled \$48.5 million in 1999 compared to \$51.4 million in 1998, a decrease of \$2.9 million or 5.7%. Interest expense from deposit accounts totaled \$46.5 million in 1999 compared to \$48.1 million in 1998, a decrease of \$1.6 million or 3.3%, due to a decrease in the average rate paid on deposits, partially offset by an increase in the average balance of deposit accounts. The average rate paid on deposits was 5.34% in 1999 compared to 5.73% in 1998. The average balance of deposits was \$870.1 million in 1999 compared to \$839.3 million in 1998, an increase of \$30.8 million, or 3.7%, as we increased deposits to fund growth in the loan portfolio.

Interest expense from Federal Home Loan Bank advances totaled \$2.0 million in 1999 compared to \$3.3 million in 1998, due to decreases in both the average outstanding balance and in the average rate paid on Federal Home Loan Bank advances. The average balance of Federal Home Loan Bank advances was \$37.2 million in 1999 compared to \$56.5 million in 1998, a decrease of \$19.3 million, or 34.1%. The average rate paid on Federal Home Loan Bank advances was 5.39% in 1999 compared to 5.90% in 1998.

#### PROVISION FOR LOAN LOSSES

Provision for loan losses totaled \$4.8 million, \$5.0 million and \$4.6 million in 2000, 1999 and 1998, respectively.

#### 2000 Compared to 1999

Provision for loan losses decreased slightly to \$4.8 million in 2000 compared to \$5.0 million in 1999. The provision in 2000 reflects the growth in loans held by us, including the increase in purchased residential loans. Generally, we consider first mortgage loans on one-four family owner occupied residential properties to involve a lesser degree than compared to loans secured by commercial real estate properties. Purchased residential loans increased to \$134.1 million at December 31, 2000 compared to \$90.6 million at December 31, 1999. Additionally, the provision was due to the increase in our nonperforming loans to 1.42% of total gross loans at December 31, 2000, compared to 0.82% of total gross loans as of December 31, 1999. See also "Credit Risk Elements -- Allowance for Loan Losses and Nonperforming Assets."

#### 1999 Compared to 1998

Provision for loan losses totaled \$5.0 million in 1999 compared to \$4.6 million in 1998, an increase of \$0.4 million, or 8.8%. The increase in the provision in 1999 reflects the growth in our portfolio of real estate loans, which increased by \$92.5 million, or 10.5% from \$878.9 million at December 31, 1998 to \$971.4 million at December 31, 1999. The provision also increased due to an increased concentration in construction lending and the continued geographic expansion of the commercial and residential real estate loan portfolios to loans outside of the state of California. Construction loans totaled \$107.8 million at December 31, 1999 compared to \$71.4 million at December 31, 1998, an increase of \$36.4 million or 51.0%. Loans outside the state of California totaled \$326.5 million at December 31, 1999 compared to \$191.1 million at December 31, 1998, to comprise 33.5% of our total real estate loan portfolio at year end compared to 21.4% at the prior year end. Because of the increased risk profile resulting from these changes to the composition of our loan portfolio, the provision for loan losses was increased in 1999.

#### PROVISION FOR VALUATION ALLOWANCE ON LOANS HELD FOR SALE

## Edgar Filing: ITLA CAPITAL CORP - Form 10-K

There was no provision for valuation allowance on loans held for sale in 2000 and 1999 compared to \$1.4 million in 1998, respectively. The \$1.4 million provision for valuation allowance on loans held for sale was recorded in 1998 in conjunction with the marketing and sale of a \$12.0 million portfolio of loans.

24

25

### NONINTEREST INCOME

Noninterest income totaled \$2.3 million, \$901,000 and \$2.4 million in 2000, 1999 and 1998, respectively.

#### 2000 Compared to 1999

Noninterest income increased \$1.4 million to \$2.3 million in 2000 compared to \$901,000 in 1999. The increase in noninterest income was due primarily to a \$1.4 million gain realized on the sale investment securities. Other noninterest income increased slightly in the aggregate to \$919,000 in 2000 compared to \$901,000 in 1999.

#### 1999 Compared to 1998

Noninterest income totaled \$901,000 in 1999 compared to \$2.4 million in 1998, a decrease of \$1.5 million, or 63.2%. The decrease in noninterest income in 1999 was due primarily to a decrease in fee income earned. In 1999, \$9.1 million of commercial real estate loans for third-party investors were originated compared to \$136.2 million of loans funded in 1998. The demand for fixed rate commercial real estate loans of the type originated for purchase by third-party investors declined significantly in the third quarter of 1998 due to a disruption in the market for the securities created from these loans. Accordingly, we experienced a reduction in the volume of loans originated for third-party investors and a corresponding decline in fee income from these originations.

### NONINTEREST EXPENSE

#### General and Administrative Expense

General and administrative expense totaled \$22.1 million, \$20.8 million and \$20.7 million in 2000, 1999 and 1998, respectively. In 2000, our ratio of recurring general and administrative expenses to average assets was 1.67%, compared to 2.01% and 2.04% in 1999 and 1998, respectively. Our efficiency ratio, excluding real estate owned and nonrecurring expenses, was 35.94% in 2000 compared to 38.69% and 39.19% in 1999 and 1998, respectively.

#### 2000 Compared to 1999

General and administrative expense increased \$1.3 million to \$22.1 million in 2000 compared to \$20.8 million in 1999. The increase in noninterest expense was due primarily to \$1.4 million of nonrecurring general and administrative expenses recorded in the first quarter of 2000 related to the consolidation of the Bank's headquarters with ITLA Capital's headquarters in La Jolla, California. Excluding this nonrecurring relocation expense, general and administrative expenses did not change significantly in 2000 as compared to 1999.

#### 1999 Compared to 1998

General and administrative expense totaled \$20.8 million in 1999

## Edgar Filing: ITLA CAPITAL CORP - Form 10-K

compared to \$20.7 million in 1998, an increase of \$0.1 million, or 0.5%.

Compensation and benefits expense totaled \$9.7 million in 1999 compared to \$10.6 million in 1998, a decrease of \$825,000, or 7.8%. The decrease in compensation and benefits expense was due primarily to a decrease in staffing, as the number of average full-time equivalent employees totaled 132 during 1999 compared to 167 during 1998. The decrease in staffing was due to the discontinued operations of our subsidiary ITLA Funding Corporation, as well as a 15% workforce reduction, including management positions, in the third quarter as a result of a decrease in loan production and general cost saving initiatives. Compensation and benefits also decreased due to a decrease in commissions paid for loans sold to third party investors, due to the decline in loan volume.

Occupancy and equipment expense totaled \$2.8 million in both 1999 and 1998. Other general and administrative expenses totaled \$8.1 million in 1999 compared to \$7.2 million in 1998, an increase of \$913,000 or 12.6%. The increase in other general and administrative expenses was due primarily to an increase in expenses incurred for corporate development activities.

### REAL ESTATE OWNED EXPENSE

Real estate owned expense, net, totaled \$138,000, \$472,000 and \$984,000 in 2000, 1999 and 1998, respectively.

25

26

#### 2000 Compared to 1999

Real estate owned expense, net, decreased to \$138,000 in 2000 compared to \$472,000 in 1999. The decrease in real estate owned expense in 2000 compared to 1999 was primarily due to a decrease in losses from the accelerated disposition of other real estate owned in 1999. The outstanding balance of other real estate owned was \$2.3 million at December 31, 2000 compared to \$1.0 million at December 31, 1999. Provision for losses on other real estate owned totaled \$167,000 in 2000 compared to \$195,000 in 1999. Other real estate owned income was \$31,000 in 2000 compared to expenses of \$72,000 in 1999. The net loss from sales of other real estate owned decreased to \$2,000 in 2000 compared to \$205,000 in 1999.

#### 1999 Compared to 1998

Real estate owned expense, net, decreased to \$472,000 in 1999 compared to \$984,000 in 1998, a decrease of \$512,000, or 52.0%. The decrease in real estate owned expense in 1999 compared to 1998 was primarily due to a decrease in provisions for estimated losses recorded due to the accelerated disposition of other real estate owned. Provision for estimated losses on other real estate owned totaled \$195,000 in 1999 compared to \$608,000 in 1998. Other real estate owned expenses totaled \$72,000 in 1999 compared to \$252,000 in 1998. The loss from sales of other real estate owned increased to \$205,000 in 1999 compared to \$124,000 in 1998.

### INCOME TAXES

Provision for income taxes totaled \$11.9 million, \$11.3 million and \$10.3 million in 2000, 1999 and 1998, respectively.

#### 2000 Compared to 1999

Provision for income taxes increased to \$11.9 million in 2000 compared to \$11.3 million in 1999. The increase in provision for income taxes was due to



## Edgar Filing: ITLA CAPITAL CORP - Form 10-K

the increase in pretax net income. The effective tax rate was 39.6% and 41.0% for 2000 and 1999, 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, 2000, we had a net deferred tax asset of \$11.3 million. The deferred tax asset related primarily to loss provisions recognized on our financial statements which have not yet been recognized on our income tax returns. During 2000, we had no deferred tax assets relating to net operating loss carryforward deductions. The deferred tax asset is considered fully realizable, as when the temporary differences associated with the deferred tax asset are recognized for income tax purposes, those deductions are expected to be fully offset, either by carryback against previously taxed income or by future taxable income. Accordingly, we have not established a valuation allowance on the deferred tax asset.

1999 Compared to 1998

Provision for income taxes totaled \$11.3 million in 1999 compared to \$10.3 million in 1998, an increase of \$1.0 million, or 9.4%. The increase in provision for income taxes was due to the increase in pretax net income. The effective tax rate was 41.0% for both 1999 and 1998.

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.

26

27

### FINANCIAL CONDITION

At December 31, 2000 Compared with December 31, 1999

Total assets increased by \$299.3 million, or 26.8%, to \$1.4 billion at December 31, 2000 compared to \$1.1 billion at December 31, 1999. This increase was primarily due to a \$306.2 million, or 32.2%, increase in net real estate loans receivable, including real estate loans held in trust, to \$1.3 billion at December 31, 2000 from \$951.5 million at December 31, 1999. Asset growth also included increases in interest receivable of \$4.4 million, deferred income taxes of \$1.9 million, other real estate owned, net, of \$1.2 million and other assets of \$5.3 million. These increases were partially offset by reductions in investment securities available for sale of \$12.9 million, cash and cash equivalents of \$1.3 million, Federal Home Loan Bank stock of \$4.9 million, and premises and equipment, net, of \$563,000. The growth in assets was funded primarily by an increase in deposits of \$102.1 million and CMO'S of \$161.9 million. Deposit growth was concentrated in time certificates, which increased from \$787.1 million at December 31, 1999 to \$912.8 million at December 31, 2000, partially offset by a decrease in money market and passbook accounts, which decreased from \$126.5 million at December 31, 1999 to \$102.9 million at December 31, 2000. Shareholders' equity increased primarily due to the retention of \$18.1 million of net income as retained earnings for the year, partially offset by the purchase of \$7.7 million of ITLA Capital's stock currently held as treasury stock and a \$615,000 decrease due to unrealized losses on investment securities available for sale.

At December 31, 1999 Compared with December 31, 1998

Total assets increased by \$83.2 million, or 8.1%, to \$1.1 billion at

Edgar Filing: ITLA CAPITAL CORP - Form 10-K

December 31, 1999 compared to \$1.0 billion at December 31, 1998. This increase was primarily due to a \$77.2 million, or 8.8%, increase in net real estate loans receivable, including real estate loans held for sale, to \$951.5 million at December 31, 1999 from \$874.3 million at December 31, 1998. Asset growth also included increases in investment securities available for sale of \$58.9 million, deferred income taxes of \$3.1 million, interest receivable of \$1.1 million and other assets of \$361,000. These increases were partially offset by reductions in cash and cash equivalents of \$53.4 million, Federal Home Loan Bank stock of \$3.7 million, other real estate owned, net, of \$160,000 and premises and equipment, net, of \$240,000. The growth in assets was funded primarily by an increase in deposits of \$46.8 million. Deposit growth was concentrated in time certificates, which increased from \$734.1 million at December 31, 1998 to \$787.1 million at December 31, 1999, partially offset by a slight decrease in money market and passbook accounts, which decreased from \$132.7 million at December 31, 1998 to \$126.5 million at December 31, 1999. Shareholders' equity increased due to the retention of \$16.2 million of net income as retained earnings for the year, the vesting of \$725,000 of shares allocated under the Supplemental Executive Retirement Plan (SERP) funded by the Recognition and Retention Plan (RRP) previously approved by the shareholders, and a \$856,000 increase due to unrealized appreciation of investment securities available for sale, partially offset by the purchase of \$515,000 of ITLA Capital's stock currently held as treasury stock.

27

28

REAL ESTATE LOANS

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

	DECEMBER		
	2000	1999	1998
	(IN THOUSANDS)		
<b>REAL ESTATE LOANS</b>			
Real estate loans	\$ 1,176,988	\$ 864,048	\$ 811,077
Construction loans	95,206	107,833	71,388
Other	3,912	--	--
	-----	-----	-----
	1,276,106	971,881	882,465
Unamortized premium	11,300	2,590	--
Deferred loan origination fees and costs	(2,571)	(3,096)	(3,561)
	-----	-----	-----
	1,284,835	971,375	878,904
Allowance for loan losses	(27,186)	(19,895)	(16,818)
	-----	-----	-----
	\$ 1,257,649	\$ 951,480	\$ 862,086
	=====	=====	=====
<b>REAL ESTATE LOANS HELD FOR SALE (AT LOWER OF COST OR FAIR MARKET VALUE)</b>			
Real estate loans	\$ --	\$ --	\$ 12,188
Other loans	--	--	--
	-----	-----	-----

Edgar Filing: ITLA CAPITAL CORP - Form 10-K

Gross loans held for sale	--	--	12,18
Unearned income			
Deferred loan origination fees and costs	--	--	--
Net loans held for sale	\$ --	\$ --	\$ 12,18
TOTAL REAL ESTATE LOANS			
Real estate loans	1,176,988	864,048	823,26
Construction loans	95,206	107,833	71,38
Other loans	3,912	--	--
	1,276,106	971,881	894,64
Unamortized premium	11,300	2,590	--
Deferred loan origination fees and costs	(2,571)	(3,096)	(3,56)
Unearned income	--	--	--
	1,284,835	971,375	891,08
Allowance for loan losses	(27,186)	(19,895)	(16,81)
Consolidated net loans receivable	\$ 1,257,649	\$ 951,480	\$ 874,27

28

29

The approximate contractual maturities of our loan portfolio at December 31, 2000 are as follows:

	LOANS MATURING IN		
	LESS THAN ONE YEAR	BETWEEN ONE AND FIVE YEARS	GREATER THAN FIVE YEARS
	(DOLLARS IN THOUSANDS)		
Real estate loans	\$ 24,661	\$ 72,236	\$1,080,090
Construction loans	82,394	11,763	1,050
Other loans	--	--	3,912
	\$107,055	\$ 83,999	\$1,085,052
Loans with fixed interest rates	\$ 22,570	\$ 6,642	\$ 85,748
Loans with variable interest rates	84,485	77,357	999,304
	\$107,055	\$ 83,999	\$1,085,052
Percentage with variable interest rates	78.9%	92.1%	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.

Edgar Filing: ITLA CAPITAL CORP - Form 10-K

29

30

The following table sets forth certain information regarding the real property collateral securing our real estate loan portfolio as of December 31, 2000.

	NUMBER OF LOANS	GROSS AMOUNT	PERCENT OF TOTAL	----- MIN ----- (DOLLARS IN THOUSAND)
Income Producing Property Loans:				
Office	83	\$ 103,204	8.1%	\$ 51
Retail	191	214,023	16.8%	14
Multi-family (5 or more units)	548	330,887	25.9%	41
Industrial/warehouse	57	31,331	2.5%	13
Hotel	59	124,533	9.8%	36
Mixed-use	65	25,008	2.0%	20
Mobile home parks	26	13,606	1.1%	87
Other	540	199,796	15.7%	11
Total commercial	1,569	1,042,388	81.7%	
Construction and Land:				
Construction	29	95,206	7.5%	91
Land	10	4,369	0.3%	42
Total construction and land	39	99,575	7.8%	
Single-family mortgages:				
Single-family (1-4 units)	1,225	134,143	10.5%	\$ 2
Total single-family	1,225	134,143	10.5%	
	2,833	\$1,276,106	100.0%	

30

31

The following table sets forth the location of the collateral for our loan portfolios as of December 31, 2000.

	NUMBER OF LOANS	GROSS AMOUNT	PERCENT OF TOTAL
Southern California:			
Los Angeles County	640	\$ 355,250	27.8%
Orange County	110	57,498	4.5%
San Diego County	65	62,382	4.9%
Riverside County	51	36,432	2.9%

Edgar Filing: ITLA CAPITAL CORP - Form 10-K

San Bernardino County	67	44,295	3.5%
All Other Southern California Counties	84	32,732	2.6%
	-----	-----	-----
Total Southern California	1,017	588,589	46.2%
	-----	-----	-----
Northern California:			
San Francisco County	58	63,954	5.0%
Sacramento County	37	20,022	1.6%
Santa Clara County	44	26,109	2.0%
Alameda County	55	23,528	1.8%
Fresno County	55	18,450	1.4%
Contra Costa County	19	7,666	0.6%
All Other Northern California Counties	145	77,097	6.0%
	-----	-----	-----
Total Northern California	413	236,826	18.4%
	-----	-----	-----
Outside California:			
Arizona	144	83,839	6.6%
Nevada	59	49,351	3.9%
Washington	96	37,525	2.9%
Colorado	77	34,860	2.7%
Texas	75	32,790	2.6%
Florida	99	20,598	1.6%
Missouri	22	15,918	1.2%
Utah	59	14,783	1.2%
New Jersey	59	10,568	0.8%
Michigan	59	5,559	0.4%
Other U.S. States	654	144,900	11.5%
	-----	-----	-----
Total Outside California	1,403	450,691	35.4%
	-----	-----	-----
	2,833	\$1,276,106	100.0%
	=====	=====	=====

31

32

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 risk concentrations 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 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 originations 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

2000	1999	1998
-----	-----	-----

Edgar Filing: ITLA CAPITAL CORP - Form 10-K

(DOLLARS IN THOUSANDS)

Gross real estate loans originated and retained in the portfolio	\$ 198,163	\$293,781	\$380,3
Gross real estate loans originated on behalf of third-party investors	15,300	9,089	136,1
Gross fixed rate loans originated and classified as held for sale	--	--	12,2
Gross real estate loans purchased(1)	440,417	91,402	2,3
Total loan production	<u>\$ 653,880</u>	<u>\$394,272</u>	<u>\$531,1</u>
Gross real estate loans at end of period	\$1,276,106	\$971,881	\$894,6
Gross real estate loans weighted-average portfolio yield	10.62%	10.30%	10.
Average size of real estate loans originated and retained in the Company's portfolio	\$ 2,359	\$ 2,260	\$ 1,5

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

32

33

INVESTMENT AND MORTGAGE-BACKED SECURITIES

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

	DECEMBER 31,			
	2000		1999	
	AMORTIZED COST	FAIR VALUE	AMORTIZED COST	FAIR VALUE
	-----	-----	-----	-----
	(IN THOUSANDS)			
U.S. government agency	\$46,196	\$46,319	\$43,260	\$43,012
Equity securities	22	6	14,786	16,235
Certificates of deposit	--	--	--	--
	-----	-----	-----	-----
Total investment securities available-for-sale	<u>\$46,218</u>	<u>\$46,325</u>	<u>\$58,046</u>	<u>\$59,247</u>
	=====	=====	=====	=====

During 1998, we sold our "held to maturity" mortgage-backed securities portfolio, realizing a net gain of \$85,000 from the sale, and reinvested the proceeds from the sale in higher yielding loans originated subsequent to the sale. The mortgage-backed securities portfolio was sold because of a change in long-term investment strategy. At the time of the sale, the mortgage-backed

## Edgar Filing: ITLA CAPITAL CORP - Form 10-K

securities were carried at an amortized cost of \$17.8 million.

### 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 real estate 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, 2000 and 1999, the Bank's liquidity ratios were 11.7% and 11.8%, respectively, exceeding the regulatory requirement of 1.5%. In addition, our liquidity position is supported by a credit facility with the Federal Home Loan Bank of San Francisco. As of December 31, 2000, we had remaining available borrowing capacity under this credit facility of \$157.7 million, net of the \$8.3 million of additional Federal Home Loan Bank 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.

Total deposit accounts increased approximately \$102.1 million to \$1.0 billion at December 31, 2000 from \$913.6 million at December 31, 1999. Total deposit accounts increased \$46.8 million to \$913.6 million at December 31, 1999 from \$866.8 million at December 31, 1998. In both 2000 and 1999, the funds provided from the increase in deposits were used to fund the growth in our loan portfolio. We retained 80% and 57% of the funds from maturing time certificates through rollover of the certificates in 2000 and 1999, respectively. 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.

33

34

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

	December 31,		
	2000	1999	1998
	(in thousands)		
Money market and passbook accounts	\$ 102,868	\$126,529	\$132,697
Time certificates under \$100,000	572,851	522,227	518,309
Time certificates \$100,000 and over	339,980	264,857	215,792
	\$1,015,699	\$913,613	\$866,798
	=====	=====	=====

### CAPITAL RESOURCES

As of December 31, 2000, the Bank's leverage, tier 1 risk-based and total risk-based capital ratios were 9.1%, 10.4% and 11.6%, respectively. These ratios were 9.0%, 10.1% and 11.4% as of December 31, 1999, respectively. The

Edgar Filing: ITLA CAPITAL CORP - Form 10-K

minimum regulatory requirements for leverage, tier 1 risk-based and total risk-based capital ratios are 4.0%, 4.0% and 8.0%, respectively. As of December 31, 2000, the Bank's capital position was designated as "well capitalized" for regulatory purposes.

Our shareholders' equity increased \$9.9 million to \$133.6 million at December 31, 2000 compared to \$123.7 million at December 31, 1999, due primarily to the accumulation of \$18.1 million in net income as retained earnings. These increases were partially offset by a \$7.7 million reduction due to the repurchase of shares of our common stock currently held as treasury stock and a \$615,000 decrease due to the change in accumulated other comprehensive income. There were no dividends declared or paid by us during 2000.

34

35

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		
	2000	1999	1998
	(DOLLARS IN T		
Balance at beginning of year	\$ 19,895	\$ 16,811	\$ 12,17
Provision for loan losses	4,775	4,950	4,55
Addition due to purchase of the ICCMAC Trust	4,614	--	--
Charge-offs:			
Real estate loans	(1,489)	(2,088)	(6
Construction loans	(1,000)	--	--
Total charge-offs	(2,489)	(2,088)	(6
Recoveries:			
Real estate loans	391	222	14
Other loans	--	--	--
Total recoveries	391	222	14
Net (charge-offs) recoveries	(2,098)	(1,866)	8
Balance at end of year	\$ 27,186	\$ 19,895	\$ 16,81

Average real estate loans



## Edgar Filing: ITLA CAPITAL CORP - Form 10-K

outstanding during the year	\$ 1,147,602	\$ 925,059	\$ 811,84
Real estate loans, net, at			
end of year (1)	\$ 1,284,835	\$ 971,375	\$ 878,90

### Selected Ratios:

Net (charge-offs) recoveries to average real estate loans outstanding	(0.18)%	(0.20)%	0.0
Net (charge-offs) recoveries to real estate loans, net(1)	(0.16)%	(0.19)%	0.0
Allowance for loan losses to real estate loans, net(1)	2.12%	2.05%	1.9
Allowance for loan losses to nonaccrual loans (2)	149.85%	249.40%	309.3

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

(2) Excludes nonaccrual loans held for sale.

The allowance for loan losses increased to \$27.2 million or 2.12% of our total real estate loan portfolio, at December 31, 2000 from \$19.9 million or 2.05% of our total real estate loan portfolio, at December 31, 1999. The increase in the allowance was due primarily to (1) the allowance for loan losses of \$4.6 million recorded upon the purchase of the ICCMAC Trust (2) provisions for loan losses recorded in 2000 totaling \$4.8 million. These increases in the allowance for loan losses were partially offset by higher net charge-offs which totaled \$2.1 million in 2000 compared to \$1.9 million in 1999.

The allowance for loan losses increased to \$19.9 million or 2.05% of our real estate loan portfolio, at December 31, 1999 from \$16.8 million, 1.91% of our real estate loan portfolio, at December 31, 1998. The increase in the allowance was due primarily to growth in our portfolio of real estate loans, net, which increased by \$92.5

35

36

million, or 10.52% from \$878.9 million at December 31, 1998 to \$971.4 million at December 31, 1999, as well as due to the increased provisions for loan losses recorded in 1999 due to increased construction lending and increased out of state lending in 1999.

The allowance for loan losses increased to \$16.8 million or 1.91% of our total real estate loan portfolio, at December 31, 1998 from \$12.2 million or 1.60% of our total real estate loan portfolio at December 31, 1997. The increase in the allowance was due primarily to growth in our real estate loan portfolio of loans held for investment, which increased by \$115.9 million, or 15.2% from \$763.0 million at December 31, 1997 to \$878.9 million at December 31, 1998, as well as due to increased provisions for loan losses recorded in 1998 due to increased construction lending, increased out of state lending, and revised loan underwriting criteria used in 1998. The allowance also increased due to lower than expected level of loan losses charged against the allowance in 1998, as we received net recoveries totaling \$83,000 in 1998 compared to net charge offs totaling \$2.0 million in 1997.

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.

Edgar Filing: ITLA CAPITAL CORP - Form 10-K

	DECEMBER 31,						
	2000		1999		1998		
	ALLOWANCE FOR CREDIT LOSSES	% OF LOANS (1)	ALLOWANCE FOR CREDIT LOSSES	% OF LOANS (1)	ALLOWANCE FOR CREDIT LOSSES	% OF LOANS (1)	
							(DOLLARS IN THOUSANDS)
LOAN OR CONTRACT CATEGORY:							
Secured by real estate	\$27,186	100.0%	\$19,895	100.0%	\$16,811	100.0%	\$12,811
Total	\$27,186	100.0%	\$19,895	100.0%	\$16,811	100.0%	\$12,811

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

Management periodically assesses the adequacy of the allowance for loan losses by reference to many factors which 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, 2000 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.

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

Edgar Filing: ITLA CAPITAL CORP - Form 10-K

	DECEMBER 31				
	2000		1999		
PERIOD OF DELINQUENCY:	AMOUNT	PERCENT OF GROSS PORTFOLIO	AMOUNT	PERCENT OF GROSS PORTFOLIO	AMOUNT
	(DOLLARS IN THOUSANDS)				
30 - 59 days	\$12,245	0.96%	\$ 7,147	0.73%	\$2,6
60 - 89 days	15,640	1.23%	988	0.10%	2,0
90 days or more	16,226	1.27%	7,614	0.78%	4,0
Total loans delinquent	\$44,111	3.46%	\$15,749	1.61%	\$8,7

Our loan delinquencies increased to \$44.1 million or 3.46% of our gross loan portfolio at December 31, 2000 as compared to \$15.7 million or 1.61% and \$8.7 million or 0.97% at December 31, 1999 and 1998, respectively. The increase in delinquent real estate loans in 2000 was due primarily to (1) an \$18.2 million increase in past due commercial real estate loans (2) a \$6.6 million increase in past due one-four family real estate loans and (3) \$3.6 million of past due loans held in the ICCMAC Trust.

The Company has established a policy that all real estate loans greater than \$1.5 million are reviewed annually. This review usually involves obtaining updated information about the collateral property's leasing status and cash flow from operations. In addition, independent outside consultants periodically review the Bank's real estate 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, the loss is recognized by a charge to provision for estimated 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.

Edgar Filing: ITLA CAPITAL CORP - Form 10-K

38

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

	DECEMBER 31		
	2000	1999	1998
	(DOLLARS IN THOUSANDS)		
Nonaccrual loans (1):			
Real estate (2)	\$ 9,430 (3)	\$ 7,977	\$ 5,434
Construction	8,712	--	--
Other	--	--	--
Other real estate owned, net	2,250	1,041	1,201
Total nonperforming assets	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	3,002	13,996	805
	\$33,159	\$23,014	\$ 7,440
	=====	=====	=====
Non accrual loans to total gross loans and real estate loans held in trust	1.42%	0.82%	0.62%
Allowance for credit losses to nonaccrual loans (4)	149.85%	249.40%	309.37%
Nonperforming assets to total assets	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 \$826,000 for the year ended December 31, 2000. The amount of interest income on such nonaccrual loans included in net income for the year ended December 31, 2000 was \$780,000.
- (2) Includes one loan with a net book balance of \$1.4 million that is a nonperforming troubled debt restructuring.
- (3) In addition to the above, management has concerns as to the borrowers' ability to comply with present repayment terms on \$70.9 million of accruing loans as of December 31, 2000.
- (4) Excludes nonaccrual loans held for sale.

Our nonaccrual real estate loans totaled \$18.1 million at December 31, 2000. Three of these loans had an outstanding balance greater than \$1.0 million.

In 2000, \$3.0 million of new other real estate owned was acquired, \$1.9 million of other real estate owned was sold, and \$178,000 of write-downs were taken, resulting in net other real estate owned at December 31, 2000 of \$2.3 million. Other real estate owned at December 31, 2000 consisted of eight properties with an average balance of approximately \$281,000. The other real estate owned property with the largest net book balance totaled \$1.2 million.

ITEM 7.A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We realize income principally from the differential or spread between

## Edgar Filing: ITLA CAPITAL CORP - Form 10-K

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.

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.

38

39

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.

The following table shows our estimated earnings sensitivity profile as of December 31, 2000:

CHANGES IN INTEREST RATES (BASIS POINTS) -----	PERCENTAGE CHANGE IN NET INTEREST INCOME (12 MONTHS) -----
+200 Over One Year	- 2.0%
+100 Over One Year	+ 0.6%
-100 Over One Year	- 2.4%
-200 Over One Year	+ 6.4%

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. An asset-sensitive position indicates that there are more rate-sensitive assets than rate-sensitive liabilities repricing or maturing within specific time horizons, which would generally imply a favorable impact on net interest income in periods of rising interest rates and a negative impact in periods of falling rates. A liability-sensitive position would generally imply a negative impact on net interest income in periods of rising rates and a positive impact in periods of falling rates.

In evaluating our exposure to changes in interest rates, certain risks inherent in the method of analysis presented in the following table must be

Edgar Filing: ITLA CAPITAL CORP - Form 10-K

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, 2000, 95.0% 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 9.47% and 90.3% of the total loans outstanding had a lifetime interest rate cap, with the weighted-average lifetime interest rate cap on this portfolio being 14.35%. The anticipated effects of these various factors are considered by management in implementing interest rate risk management activities.

39

40

The following table presents an estimate of our static GAP analysis as of December 31, 2000.

	MATURING OR REPRICING			
	3 MONTHS OR LESS	AFTER 3 MONTHS BUT WITHIN 1 YEAR	AFTER 1 YEAR BUT WITHIN 5 YEARS	AFT 5 YE
(DOLLARS IN THOUSANDS)				
<b>ASSETS</b>				
Real estate loans (1)	\$ 880,702	\$ 96,248	\$ 71,969	\$ 17,000
Real estate loans held in trust (2)	59,681	69,401	4,245	75,000
Cash and cash equivalents	70,942	--	--	--
Investment securities available for sale	--	33,260	13,000	--
Noninterest-earning assets less allowance for credit losses and unearned loan fees	--	--	--	--
Total assets	\$1,011,325	\$ 198,909	\$ 89,214	\$ 93,000
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
Time certificates under \$100,000	\$ 185,464	\$ 326,770	\$ 59,433	\$ 1,000
Time certificates \$100,000 and over	158,575	166,751	15,838	--
Money market and passbook accounts	102,868	--	--	--
FHLB advances	52,500	10,000	16,750	--
Collateralized mortgage obligations	161,852	--	--	--
Other liabilities	--	--	--	--
Shareholders' equity	--	--	--	--
Total liabilities and shareholders' equity	\$ 661,259	\$ 503,521	\$ 92,021	\$ 1,000

Edgar Filing: ITLA CAPITAL CORP - Form 10-K

Net repricing assets over (under) repricing liabilities equals interest rate sensitivity GAP	\$ 350,066 =====	\$ (304,612) =====	\$ (2,807) =====	\$ 93 =====
Cumulative interest rate sensitivity GAP	\$ 350,066 =====	\$ 45,454 =====	\$ 42,647 =====	\$136 =====
Cumulative GAP as a percentage of total assets	24.7% =====	3.2% =====	3.0% =====	===== =====

- (1) Variable rate loans consist principally of real estate secured loans with a maximum term of 30 years. Approximately 73% 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 22% 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 \$17.4 million are assumed to reprice after five years.
- (2) Nonaccrual loans of approximately \$740,000 are assumed to reprice after five years.

40

41

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	PAGE ----
Report of Independent Public Accountants	42
Consolidated Balance Sheets as of December 31, 2000 and 1999	43
Consolidated Statements of Income for the Years Ended December 31, 2000, 1999 and 1998	44
Consolidated Statements of Changes in Shareholders' Equity for the Period January 1, 1998 to December 31, 2000	45
Consolidated Statements of Cash Flows for the Years Ended December 31, 2000, 1999 and 1998	46
Notes to Consolidated Financial Statements	47

41

42

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

Edgar Filing: ITLA CAPITAL CORP - Form 10-K

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, 2000 and 1999, 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, 2000. 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, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States.

/s/ Arthur Andersen LLP

Los Angeles, California  
January 26, 2001

42

43

ITLA CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

DECEMBER 31

-----  
2000  
-----

(IN THOUSANDS EXCEPT SHARES)

ASSETS



Edgar Filing: ITLA CAPITAL CORP - Form 10-K

Cash and cash equivalents	\$ 70,950
Investment securities available for sale, at fair value	46,325
Stock in Federal Home Loan Bank	3,963
Real estate loans, net (net of allowance for loan losses of \$22,608 and \$19,895 in 2000 and 1999, respectively)	1,045,927
Real estate loans held in trust (net of allowance for loan losses of \$4,578 in 2000)	211,722
Interest receivable	11,821
Other real estate owned, net	2,250
Premises and equipment, net	2,690
Deferred income taxes	11,302
Other assets	8,193
	-----
Total assets	\$ 1,415,143
	=====

LIABILITIES AND SHAREHOLDERS' EQUITY

Liabilities:

Deposit accounts	\$ 1,015,699
Collateralized mortgage obligations	161,852
Federal Home Loan Bank advances	79,250
Accounts payable and other liabilities	11,269
	-----
Total liabilities	1,268,070
	-----

Commitments and contingencies (notes 15 and 16)

Guaranteed preferred beneficial interests in company's junior subordinated deferrable interest debentures	13,519
---	--------

Shareholders' equity:

Preferred stock, 5,000,000 shares authorized, none issued	--
Contributed capital - common stock, \$.01 par value; 20,000,000 shares authorized, 8,206,749 and 8,202,916 issued and outstanding in 2000 and 1999, respectively	57,120
Retained earnings	97,617
Accumulated other comprehensive income	91
	-----
	154,828
Less treasury stock, at cost - 1,546,336 and 1,021,432 shares in 2000 and 1999, respectively	(21,274)
	-----
Total shareholders' equity	133,554
	-----
Total liabilities and shareholders' equity	\$ 1,415,143
	=====

See accompanying notes to the consolidated financial statements.

Edgar Filing: ITLA CAPITAL CORP - Form 10-K

	2000
	(IN THOUSANDS)
Interest income:	
Real estate loans, including fees	\$ 102,419
Real estate loans held in trust	16,192
Cash and investment securities	5,164
	-----
Total interest income	123,775
	-----
Interest expense:	
Deposit accounts	55,968
Collateralized mortgage obligations	10,901
Federal Home Loan Bank advances	1,773
	-----
Total interest expense	68,642
	-----
Net interest income before provisions for loan losses and valuation allowance on loans held for sale	55,133
Provision for loan losses	4,775
Provision for valuation allowance on loans held for sale	--
	-----
Net interest income after provisions for loan losses and valuation allowance on loans held for sale	50,358
	-----
Noninterest income:	
Gain on sale of investment securities	1,412
Fee income from mortgage banking activities	47
Other	872
	-----
Total noninterest income	2,331
	-----
Noninterest expense:	
Compensation and benefits	9,958
Occupancy and equipment	2,567
FDIC assessment	188
Other	7,941
	-----
Total recurring general and administrative Nonrecurring expense	20,654
	1,400
	-----
Total general and administrative	22,054
	-----
Real estate owned (income) expense, net	(31)
Provision for losses on other real estate owned	167
Loss on sale of other real estate owned, net	2
	-----
Total real estate owned expense, net	138
	-----
Total noninterest expense	22,192
	-----
Income before provision for income taxes and minority interest income of subsidiary	30,497
Minority interest in income of subsidiary	478
	-----

Edgar Filing: ITLA CAPITAL CORP - Form 10-K

Income before provision for income taxes	30,019
Provision for income taxes	11,880
	-----
NET INCOME	\$ 18,139
	=====
BASIC EARNINGS PER SHARE	\$ 2.57
	=====
DILUTED EARNINGS PER SHARE	\$ 2.51
	=====

See accompanying notes to the consolidated financial statements.

44

45

ITLA CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	COMMON STOCK NUMBER OF SHARES		
	GROSS SHARES ISSUED AND OUTSTANDING	TREASURY SHARES	NET SHARES ISSUED AND OUTSTANDING
	-----		
	(IN THOUSANDS EXCEPT SHARE AMOUNTS)		
Balance at January 1, 1998	7,849,484	(152,500)	7,696,984
Issuance of common stock - employee stock options	8,500	--	8,500
Issuance of common stock - pursuant to the Supplemental Executive Retirement Plan / Recognition and Retention Plan	293,932	(293,932)	--
Common stock repurchased	--	(539,000)	(539,000)
Net income	--	--	--
Total comprehensive income	--	--	--
	-----	-----	-----
Balance at December 31, 1998	8,151,916	(985,432)	7,166,484
	=====	=====	=====
Issuance of common stock - employee stock options	51,000	--	51,000
Earned compensation from Supplemental Executive Retirement Plan / Recognition and Retention Plan	--	--	--
Common stock repurchased	--	(36,000)	(36,000)

Edgar Filing: ITLA CAPITAL CORP - Form 10-K

Net income	--	--	--
Total comprehensive income	--	--	--
Balance at December 31, 1999	<u>8,202,916</u>	<u>(1,021,432)</u>	<u>7,181,484</u>
Issuance of common stock - employee stock options	3,833	--	3,833
Earned compensation from Supplemental Executive Retirement Plan / Recognition and Retention Plan	--	11,115	11,115
Common stock repurchased	--	(536,019)	(536,019)
Net income	--	--	--
Total comprehensive income	--	--	--
Balance at December 31, 2000	<u>8,206,749</u>	<u>(1,546,336)</u>	<u>6,660,413</u>

	SHAREHOLDERS' EQUITY			
	CONTRIBUTED CAPITAL			
	SHARE CAPITAL	EARNED COMPENSATION	TOTAL CONTRIBUTED CAPITAL	RETAINED EARNINGS
	(IN THOUSANDS EXCEPT SHARE A			
Balance at January 1, 1998	53,163	--	53,163	48,450
Issuance of common stock - employee stock options	109	--	109	--
Issuance of common stock - pursuant to the Supplemental Executive Retirement Plan / Recognition and Retention Plan	2,645	--	2,645	--
Common stock repurchased	--	--	--	--
Net income	--	--	--	14,823
Total comprehensive income	--	--	--	--
Balance at December 31, 1998	<u>55,917</u>	<u>--</u>	<u>55,917</u>	<u>63,273</u>
Issuance of common stock - employee stock options	542	--	542	--

Edgar Filing: ITLA CAPITAL CORP - Form 10-K

Earned compensation from Supplemental Executive Retirement Plan / Recognition and Retention Plan	--	725	725	--
Common stock repurchased	--	--	--	--
Net income	--	--	--	16,205
Total comprehensive income	--	--	--	--
Balance at December 31, 1999	56,459	725	57,184	79,478
Issuance of common stock - employee stock options	36	--	36	--
Earned compensation from Supplemental Executive Retirement Plan / Recognition and Retention Plan	--	(100)	(100)	--
Common stock repurchased	--	--	--	--
Net income	--	--	--	18,139
Total comprehensive income	--	--	--	--
Balance at December 31, 2000	\$ 56,495	\$ 625	\$ 57,120	\$ 97,617

COMPREHENSIVE INCOME

NET INCOME	UNREALIZED GAIN (LOSS) ON SECURITIES, NET OF TAX	RECLASSIFICATION OF REALIZED GAINS PREVIOUSLY RECOGNIZED IN COMPREHENSIVE INCOME, NET OF TAX
------------	--	--

(IN THOUSANDS EXCEPT SHARE AMOUNTS)

Balance at January 1, 1998			
Issuance of common stock - employee stock options			
Issuance of common stock - pursuant to the Supplemental Executive Retirement Plan / Recognition and Retention Plan			
Common stock repurchased			
Net income			
Total comprehensive income	\$ 14,823	\$ (118)	\$ (51)

Edgar Filing: ITLA CAPITAL CORP - Form 10-K

Balance at December 31, 1998

Issuance of common stock -  
employee stock options

Earned compensation from  
Supplemental Executive  
Retirement Plan / Recognition  
and Retention Plan

Common stock repurchased

Net income

Total comprehensive income	\$ 16,205	\$ 856	\$ --
	=====	=====	=====

Balance at December 31, 1999

Issuance of common stock -  
employee stock options

Earned compensation from  
Supplemental Executive  
Retirement Plan / Recognition  
and Retention Plan

Common stock repurchased

Net income

Total comprehensive income	\$ 18,139	\$ 232	\$ (847)
	=====	=====	=====

Balance at December 31, 2000

See accompanying notes to the consolidated financial statements

45

46

ITLA CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Cash Flows From Operating Activities:

Net income	\$ 18,
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization of premises and equipment	
Amortization of premium on purchased loans	2,
Amortization of original issue discount and deferred debt issuance costs on CMO's	
Amortization of deferred loan origination fees, net of costs	(1,

## Edgar Filing: ITLA CAPITAL CORP - Form 10-K

Provision for loan losses	4,
Provision for losses on other real estate owned	
Gain on sale of investment securities available for sale	(1,
Gain on sale of mortgage-backed securities	
Loss on sales of other real estate owned	
Increase in interest receivable	(2,
Deferred income tax benefit	(1,
Increase in other assets	
Increase (decrease) in accounts payable and other liabilities	(
	-----
Net cash provided by operating activities	20,
	-----
<b>Cash Flows From Investing Activities:</b>	
Purchases of investment securities available for sale	(17,
Proceeds from the maturity of investment securities available for sale	15,
Proceeds from the sale of investment securities for sale	16,
Purchase of CRA investment	(4,
Decrease (increase) in stock in Federal Home Loan Bank	4,
Repayment of principal on mortgage-backed securities held to maturity	
Proceeds from the sale of mortgage-backed securities held to maturity	
Cash paid to acquire ICCMAC Multifamily and Commercial Trust 1999-1	(51,
Purchases of loans receivable	(189,
Decrease (increase) in loans receivable, net	75,
Repayment of loans held in trust	41,
Proceeds from sale of real estate loans held for sale	12,
Proceeds from sale of other real estate owned	1,
Cash paid for capital expenditures	(
Other, net	
	-----
Net cash used in investing activities	(97,
	-----
<b>Cash Flows From Financing Activities:</b>	
Proceeds from exercise of employee stock options	
Cash paid to acquire treasury stock	(7,
Proceeds from issuance of trust preferred securities	13,
Principal payments on collateralized mortgage obligations	(43,
Net increase in deposit accounts	102,
Amounts borrowed from the Federal Home Loan bank	246,
Repayment of amounts borrowed from Federal Home Loan Bank	(234,
	-----
Net cash provided by financing activities	76,
	-----
Net (decrease) increase in cash and cash equivalents	(1,
Cash and cash equivalents at beginning of period	72,
	-----
Cash and cash equivalents at end of period	\$ 70,
	=====
<b>Supplemental Cash Flow Information:</b>	
Cash paid during the period for interest	\$ 68,
Cash paid during the period for income taxes	\$ 13,
<b>Noncash Investing Transactions:</b>	
Loans transferred to other real estate owned	\$ 3,
Loans to facilitate the sale of other real estate owned	\$

## Edgar Filing: ITLA CAPITAL CORP - Form 10-K

See accompanying notes to the consolidated financial statements.

46

47

### ITLA CAPITAL CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2000, 1999, AND 1998

#### NOTE 1--ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION - ITLA Capital Corporation and Subsidiaries ("ITLA Capital", "the Company", or "we") is primarily engaged in the origination of loans secured by income producing real estate. Through our principal operating subsidiary, Imperial Capital Bank ("Imperial" or "the Bank"), the Company accepts deposits insured by the Federal Deposit Insurance Corporation ("FDIC") which are used primarily to fund the investment in variable rate commercial and residential real estate loans. During 2000, we acquired 100 percent of the equity and certain collateralized mortgage obligations ("CMO's") of the ICCMAC Multifamily and Commercial Trust 1999-1 (the "ICCMAC Trust"), through our Imperial Capital Real Estate Investment Trust ("Imperial Capital REIT") subsidiary. Additionally, we formed, ITLA Capital Statutory Trust I (the "Trust Preferred I"), a subsidiary whose sole purpose was to issue Guaranteed Preferred Beneficial Interests in the Company's Junior Subordinated Deferrable Interest Debentures (the "Trust Preferred securities").

We were organized in 1996 and became the sole shareholder of Imperial as a result of a transaction that occurred on October 1, 1996. On that date, a nonoperating subsidiary of the Company was merged with and into Imperial, and all outstanding shares of Imperial common stock were converted into an equal number of shares of our common stock. This transaction was accounted for as a reorganization of entities under common control.

Imperial has operated as a California industrial bank since 1974, and became a publicly traded company in October 1995, when its shares were sold in an initial public offering. Imperial operates six deposit branches in California. From its formation in 1974 until December 31, 1999, Imperial operated under the name Imperial Thrift and Loan Association. Effective January 1, 2000, Imperial changed its name to Imperial Capital Bank.

In prior years, we also operated ITLA Funding Corporation ("Funding"), which was formed to originate commercial real estate loans for sale in the secondary market. In 1998, Funding sold fixed rate originations on a table funded basis to conduits that issue commercial mortgage-backed securities. In 1999, Funding suspended separate operations and all of its ongoing operations were merged into Imperial.

FINANCIAL STATEMENT PRESENTATION - The accounting and reporting policies of the Company conform to accounting principles generally accepted in the United States ("GAAP") and to prevailing practices within the financial services industry. The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All material intercompany transactions and balances have been eliminated. Certain amounts in prior periods have been reclassified to conform to the presentation in the current period. The preparation of financial statements in conformity with GAAP requires management



## Edgar Filing: ITLA CAPITAL CORP - Form 10-K

to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**CASH AND CASH EQUIVALENTS** - We consider all highly liquid investments with original maturities of three months or less when purchased to be cash equivalents.

**INVESTMENT SECURITIES** - Investment securities available for sale are carried at fair value with unrealized gains or losses reported net of taxes as a component of other comprehensive income until realized.

47

48

### ITLA CAPITAL CORPORATION AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2000, 1999, AND 1998

#### NOTE 1--ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**REAL ESTATE LOANS** -- Real estate loans, which includes real estate loans and real estate loans held in trust, are generally carried at principal amounts outstanding plus purchase premiums, less charge-offs, net deferred loan origination fees and other unearned income. Deferred loan origination fees and other unearned income include deferred unamortized fees net of direct incremental loan origination costs. Interest income is accrued as earned. Net purchase premiums or discounts and deferred loan origination fees are amortized or accreted into interest income using the interest method.

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 unlikely. When a loan is placed on nonaccrual status, all previously accrued but uncollected interest is reversed against current period operating results. 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.

Loans secured by income producing real estate are considered impaired when, based upon current information and events, it is probable that the Company will be unable to collect all principal and interest amounts due according to the contractual terms of the loan agreement on a timely basis. The Company evaluates impairment on a loan by loan basis. Once such a loan is determined to be impaired, the impairment is measured based on the present value of the expected future cash flows discounted at the loan's effective interest rate or by using the loan's most recent market price or the fair value of the collateral if the loan is collateral dependent.

When the measurement of an impaired income producing real estate loan is less than the recorded amount of the loan, a valuation allowance is established by a corresponding charge to the provision for loan losses or by adjusting an existing valuation allowance for the impaired loan with a corresponding charge or credit to the provision for loan losses.

Our policy for recognizing interest income on impaired loans is the same as that for nonaccrual loans.

## Edgar Filing: ITLA CAPITAL CORP - Form 10-K

ALLOWANCE FOR LOAN LOSSES - We maintain an allowance for loan losses at a level considered adequate to cover probable losses on loans. In evaluating the adequacy of the allowance for loan losses, management estimates the amount of the loss for each loan that has been identified as having more than standard credit risk. Those estimates give consideration to, among other factors, economic conditions, estimated real estate collateral value and cash flow, and the financial strength and commitment of the borrower or guarantors, where appropriate. Additionally, an estimate for loan loss is calculated for the remaining portion of the portfolio giving consideration to the Company's historical loss experience in the portfolio, adjusted, as appropriate, for the estimated effects of current economic conditions and changes in the composition of the loan portfolio over time. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance, or portion thereof, has been confirmed.

48

49

### ITLA CAPITAL CORPORATION AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2000, 1999, AND 1998

#### NOTE 1--ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

OTHER REAL ESTATE OWNED -- Other real estate owned ("OREO") represents real estate acquired through or in lieu of foreclosure. OREO is held for sale and is initially recorded at fair value at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of cost or estimated fair value less costs of disposition. The net operating results from OREO are recognized in the current periods as non-interest expense.

PREMISES AND EQUIPMENT - Premises and equipment are recorded at cost, less accumulated depreciation and amortization. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets ranging from three to twelve years. Amortization of leasehold improvements is calculated on the straight-line method over the shorter of the estimated useful lives of the assets or the corresponding lease term.

INCOME TAXES - Provision for income taxes is the amount of estimated tax due reported on the our tax returns and the change in the amount of deferred tax assets and liabilities. Deferred income taxes represent the estimated net income tax expense payable (or benefits receivable) for temporary differences between the accounting basis and tax basis of our assets and liabilities.

EARNINGS PER SHARE - Earnings per share for all periods presented in the consolidated statements of income are computed in accordance with the provisions of Statement of Financial Accounting Standards ("SFAS") No. 128 - "Earnings Per Share", and are based on the weighted-average number of shares outstanding during each year. Basic Earnings Per Share excludes dilution and is computed by dividing income available to common shareholders by the weighted-average number of common shares. Diluted Earnings Per Share includes the effect of common stock equivalents of the Company, which include only shares issuable on the exercise of outstanding options. A reconciliation of the computation of Basic Earnings Per Share and Diluted Earnings Per Share is presented in Note 14 - Earnings Per Share.

STOCK-BASED COMPENSATION - We account for our stock-based compensation plan in accordance with Accounting Principles Board ("APB") Opinion No. 25 -

## Edgar Filing: ITLA CAPITAL CORP - Form 10-K

"Accounting for Stock Issued to Employees". Under APB Opinion No. 25, no compensation expense is recognized for a stock option grant if the exercise price of the stock option at measurement date is equal to or greater than the fair market value of the common stock on the date of grant. We have disclosed in Note 12 - Benefit Plans the pro forma effect on net income and earnings per share as if the we had elected to recognize compensation expense for the stock options granted.

COMPREHENSIVE INCOME - Other comprehensive income is displayed in the Consolidated Statement of Changes in Shareholders' Equity and consists entirely of the change in net unrealized holding gain or loss on securities classified as available for sale, net of the related income tax effect.

49

50

### ITLA CAPITAL CORPORATION AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2000, 1999, AND 1998

#### NOTE 1--ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

NEW ACCOUNTING PRONOUNCEMENTS - In June 1998, the Financial Accounting Standards Board (the "FASB") issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133). The statement establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or a liability measured at its fair value. The statement requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allow a derivative's gain and losses to offset related results on the hedged item in the income statement, and requires that a company must formally document, designate, and assess the effectiveness of transactions that receive hedge accounting.

In June 1999, the FASB issued Statement of Financial Accounting Standards No. 137, "Accounting for Derivative Instruments and Hedging Activities-Deferral of the Effective Date of FASB Statement No. 133". The FASB concluded that, due to effected entities and their auditors requesting more time to study, understand, and implement the provisions of this statement, it is appropriate to defer the effective date of SFAS No. 133. This statement is effective for all fiscal quarters of all fiscal years beginning after June 15, 2000. The Company adopted SFAS No. 133 on January 1, 2001. The impact of the adoption did not have a material effect on the Company's financial position or results of operations.

In September of 2000, the FASB issued SFAS No. 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities -- a replacement of FASB Statement No. 125." As of December 31, 2000, the Company has adopted accounting and disclosure requirements of SFAS No. 140 as set forth in paragraphs 15 and 17 of the Statement, respectively. The adoption of SFAS No. 140 did not have an impact on the financial condition or the results of operations of the Company.

50

51

# Edgar Filing: ITLA CAPITAL CORP - Form 10-K

ITLA CAPITAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2000, 1999, AND 1998

NOTE 2---INVESTMENT SECURITIES

The amortized cost and fair value of investment securities as of December 31, 2000 and 1999 are as follows:

	AMORTIZED COST	FAIR VALUE	
	-----	-----	
		(IN THOUSANDS)	
DECEMBER 31, 2000:			
Investment securities available for sale:			
U.S. Government Agency	\$46,196	\$46,319	\$
Equity securities	22	6	\$
	-----	-----	-----
Total investment securities available for sale	\$46,218	\$46,325	\$
	=====	=====	=====
DECEMBER 31, 1999:			
Investment securities available for sale:			
US Government Agency	\$43,260	\$43,012	\$
Equity securities	14,786	16,235	\$
	-----	-----	-----
Total investment securities available for sale	\$58,046	\$59,247	\$
	=====	=====	=====

At December 31, 2000, the carrying value of U.S. government securities available for sale consisted of \$33.3 million of securities that mature in one year or less with an average yield of 6.22%, \$10.0 million of securities that mature within two years with an average yield of 7.05%, which are callable on February 28, 2001, and \$3.0 million of securities maturing within three years with an average yield of 6.80%, which are callable on October 11, 2001.

At December 31, 1999, the carrying value of U.S. government securities available for sale consisted of \$10 million of securities that mature in one year or less with an average yield of 5.06%, with the remaining \$33.0 million of securities maturing within two years with an average yield of 6.22%.

During 2000 and 1999, there were no transfers from the held to maturity portfolio and no securities were sold prior to their maturity or call date.

Gross realized gains on investment securities were \$1.4 million and \$85,000 for the years ended December 31, 2000 and 1998, respectively. There were no gross realized gains on investment securities in 1999. There were no gross realized losses on investment securities for the years ended December 31, 2000, 1999 and 1998, respectively.

Edgar Filing: ITLA CAPITAL CORP - Form 10-K

52

ITLA CAPITAL CORPORATION AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 DECEMBER 31, 2000, 1999, AND 1998

NOTE 3--REAL ESTATE LOANS

Real estate loans are held in the Bank's portfolio and consist of the following:

	DECEMBER 31	
	2000	1999
	(IN THOUSANDS)	
Real estate loans	\$ 967,691	\$ 864,048
Construction loans	95,206	107,833
Other	3,912	--
	-----	-----
	1,066,809	971,881
Unamortized premium	4,297	2,590
Deferred loan origination fees, net of costs	(2,571)	(3,096)
	-----	-----
	1,068,535	971,375
Allowance for loan losses	(22,608)	(19,895)
	-----	-----
	\$ 1,045,927	\$ 951,480
	=====	=====

At December 31, 2000, approximately 78.1%, 9.3% and 12.6% of the Bank's loans collateralized by real estate are secured by income producing properties, properties under development and residential one-to-four family properties, respectively. Approximately 65.8% of our loans secured by real estate were collateralized by properties located in California.

At December 31, 2000, approximately \$283.7 million of real estate loans were pledged to secure a line of credit at the Federal Home Loan Bank of San Francisco ("FHLB"). (See Note 10 - FHLB Advances.)

52

53

ITLA CAPITAL CORPORATION AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 DECEMBER 31, 2000, 1999, AND 1998

NOTE 3--REAL ESTATE LOANS (Continued)

## Edgar Filing: ITLA CAPITAL CORP - Form 10-K

The following is the activity in the allowance for loan losses on real estate loans for the periods indicated.

	AS OF AND FOR THE YEARS ENDED DECEMBER 31		
	2000	1999	1998
	(IN THOUSANDS)		
Balance at beginning of year	\$ 19,895	\$ 16,811	\$ 12,178
Provision for loan losses	4,775	4,950	4,550
Charge-offs:			
Real estate loans	(1,453)	(2,088)	(64)
Construction loans	(1,000)	--	--
Total charge-offs	(2,453)	(2,088)	(64)
Recoveries:			
Real estate loans	391	222	147
Total recoveries	391	222	147
Net (charge-offs) recoveries	(2,062)	(1,866)	83
Balance at end of year	\$ 22,608	\$ 19,895	\$ 16,811

As of December 31, 2000 and 1999, the accrual of income had been suspended on approximately \$17.4 million and \$8.0 million, respectively, of loans secured by real estate. Interest income that was contractually due on loans that were on nonaccrual status that was not recognized during the years ended December 31, 2000, 1999 and 1998 was approximately \$679,000, \$574,000 and \$326,000 respectively.

The provision for valuation allowance on loans held for sale totaled \$1.4 million for the year ending December 31, 1998. During 1998, we designated a pool of loans previously classified as held for investment as held for sale. In connection therewith, we recorded a provision for valuation allowance of \$1.4 million. These loans were subsequently sold during the year with no additional gain or loss.

As of December 31, 2000 and 1999, restructured loans totaled \$4.4 million and \$14.0 million respectively. There were no related commitments to lend additional funds on restructured loans. For the years ended December 31, 2000, 1999 and 1998, \$826,000, \$1.4 million and \$175,000, respectively, of gross interest income would have been recorded had the loans been current in accordance with their original terms compared to \$780,000, \$1.4 million and \$140,000, respectively, of interest income which was included in net income for the same periods. The average yield on restructured loans was 9.28% at December 31, 2000.

Edgar Filing: ITLA CAPITAL CORP - Form 10-K

54

ITLA CAPITAL CORPORATION AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 DECEMBER 31, 2000, 1999, AND 1998

NOTE 3--REAL ESTATE LOANS (Continued)

The Bank's recorded investment in impaired loans, and the related valuation allowance, were as follows:

	DECEMBER 31, 2000		DECEMBER 31, 1999	
	RECORDED INVESTMENT	VALUATION ALLOWANCE	RECORDED INVESTMENT	VALUATION ALLOWANCE
	(IN THOUSANDS)		(IN THOUSANDS)	
Valuation allowance required	\$11,086	\$ 1,818	\$ 3,724	\$ 734
No valuation allowance required	7,021	--	16,602	--
	-----	-----	-----	-----
Total impaired loans	\$18,107	\$ 1,818	\$20,326	\$ 734
	=====	=====	=====	=====

All impaired loans with a valuation allowance were on nonaccrual status at December 31, 2000. The average recorded investment in impaired loans for the years ended December 31, 2000, 1999 and 1998 was \$13.4 million, \$8.7 million and \$5.5 million, respectively. Interest income recognized on impaired loans for the years ended December 31, 2000, 1999 and 1998 was \$368,000, \$414,000 and \$22,000, respectively.

Loans having carrying values of \$3.0 million and \$4.8 million were transferred to OREO in 2000 and 1999, respectively.

54

55

ITLA CAPITAL CORPORATION AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 DECEMBER 31, 2000, 1999, AND 1998

NOTE 4--ACQUISITION OF ICCMAC MULTIFAMILY AND COMMERCIAL TRUST 1999-1

On March 28, 2000, ITLA Capital completed the acquisition of the ICCMAC Trust. The acquisition of the ICCMAC Trust has been recorded using the purchase method of accounting. At the time of the acquisition, the ICCMAC Trust contained \$250.5 million of loans, consisting of approximately 35% commercial real estate and 65% multi-family real estate loans. The ICCMAC Trust's loans were held as collateral for \$205.4 million of bonds in the form of CMO's. ITLA Capital's investment in the ICCMAC Trust is held through Imperial Capital REIT, its qualified Real Estate Investment Trust subsidiary. ITLA Capital paid \$51.1

## Edgar Filing: ITLA CAPITAL CORP - Form 10-K

million to acquire 100 percent of the equity and certain CMO's of the ICCMAC Trust. As of December 31, 2000, and for the period from March 28 to December 31, 2000 the financial condition and results of operations of the ICCMAC Trust have been included in the accompanying consolidated financial statements of ITLA Capital.

Real estate loans held in trust for collateralized mortgage obligations consisted of the following at December 31, 2000:

	BALANCE
	-----
	(IN THOUSANDS)
Real estate loans	\$ 209,297
Unamortized premium	7,003
	-----
	216,300
Allowance for loan losses	(4,578)
	-----
	\$ 211,722
	=====

The following is the activity in the allowance for loan losses relating to real estate loans held in the ICCMAC Trust from the date of acquisition to December 31, 2000:

	BALANCE
	-----
	(IN THOUSANDS)
Balance at beginning of year	\$ --
Additions due to purchases	4,614
Charge-offs	(36)
	-----
Balance at end of year	\$ 4,578
	=====

At December 31, 2000, our recorded investment in impaired loans of the ICCMAC Trust was \$740,000. There was no valuation allowance required on these loans.

The average recorded investment in impaired real estate loans of the ICCMAC Trust from the date of acquisition through December 31, 2000 was \$946,000. There was no interest income recognized on these impaired loans for the year ended December 31, 2000.



# Edgar Filing: ITLA CAPITAL CORP - Form 10-K

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2000, 1999, AND 1998

NOTE 4--ACQUISITION OF THE ICCMAC MULTIFAMILY AND COMMERCIAL TRUST 1999-1  
(Continued)

The following is a summary of the outstanding CMO's of the ICCMAC Trust as of December 31, 2000:

CLASS	RECORDED AMOUNT	INTEREST RATE MARGIN OVER 6 MONTH LIBOR	ESTIMATED WEIGHTED AVERAGE LIFE	RATING
-----	-----	-----	-----	-----
	(IN THOUSANDS)		(IN YEARS)	
A-1	\$ 18,540	0.28%	0.2	AAA
A-2	94,831	0.42%	1.1	AAA
S	5,400	zero coupon	3.2	AAA
A-3	17,447	0.60%	2.4	AAA
B	11,631	0.88%	2.8	AA
C	14,539	1.55%	3.3	A
	-----			
	162,388			
Discount	(536)			
	-----			
	\$161,852			
	=====			

The interest rate on the variable rate CMO's adjusts monthly and the repayment of the bonds is based on the cash flows of the underlying loan portfolio.

NOTE 5--OTHER REAL ESTATE OWNED

Other real estate owned was stated as follows:

	DECEMBER 31	
	2000	1999
	-----	-----
	(IN THOUSANDS)	
Real estate owned held for sale	\$ 2,377	\$ 1,248
Less valuation allowance	(127)	(207)
	-----	-----
Other real estate owned, net	\$ 2,250	\$ 1,041
	=====	=====

Edgar Filing: ITLA CAPITAL CORP - Form 10-K

57

ITLA CAPITAL CORPORATION AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 DECEMBER 31, 2000, 1999, AND 1998

NOTE 5--OTHER REAL ESTATE OWNED (Continued)

The activity in the allowance for other real estate owned was as follows:

	AS OF AND FOR THE YEARS ENDED	
	2000	1999
	-----	-----
	(IN THOUSANDS)	
Balance at beginning of year	\$ 207	\$ 221
Provision for estimated losses on other real estate owned	167	195
Charge-offs upon sale of other real estate owned	(247)	(209)
	-----	-----
Balance at end of year	\$ 127	\$ 207
	=====	=====

NOTE 6--PREMISES AND EQUIPMENT

Premises and equipment are stated at cost less accumulated depreciation and amortization and consist of the following:

	DECEMBER 31	
	2000	1999
	-----	-----
	(IN THOUSANDS)	
Furniture, fixtures and equipment	\$ 3,706	\$ 5,171
Leasehold improvements	4,487	3,918
Automobiles	265	282
	-----	-----
Accumulated depreciation and amortization	8,458	9,371
	(5,768)	(6,118)
	-----	-----
	\$ 2,690	\$ 3,253
	=====	=====

Depreciation and amortization expense on premises and equipment for the years ended December 31, 2000, 1999 and 1998 was \$796,000, \$987,000 and

Edgar Filing: ITLA CAPITAL CORP - Form 10-K

\$903,000, respectively.

57

58

ITLA CAPITAL CORPORATION AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 DECEMBER 31, 2000, 1999, AND 1998

NOTE 7--DEPOSIT ACCOUNTS

Deposit accounts consist of the following:

	DECEMBER 31	
	2000	1999
	(IN THOUSANDS)	
Money market and passbook accounts	\$ 102,868	\$ 126,529
Time certificates under \$100,000	572,851	522,227
Time certificates \$100,000 and over	339,980	264,857
	-----	-----
	\$1,015,699	\$ 913,613
	=====	=====

Money market and passbook accounts have no contractual maturity and pay interest at rates ranging from 1.00% to 8.16% per annum. Additionally, some money market accounts have limited checking features which allow three check withdrawals per month. Time certificates have maturities ranging from 30 days to five years and bear interest at varying rates based on market conditions, ranging from 2.46% to 8.77% per annum.

There were no brokered deposits at December 31, 2000. Interest expense on time certificates \$100,000 and over for the years ended December 31, 2000, 1999 and 1998 amounted to approximately \$17.4 million, \$12.9 million and \$11.2 million, respectively.

The Bank is a member of the FDIC and its deposits are insured up to \$100,000 each per insured depositor.

As of December 31, 2000, the contractual maturities of time certificate accounts were as follows:

YEAR OF MATURITY	AMOUNT
-----	-----
	(IN THOUSANDS)
2001	\$ 837,560

Edgar Filing: ITLA CAPITAL CORP - Form 10-K

2002	68,758
2003	5,419
2004	1,094
	-----
	\$ 912,831
	=====

58

59

ITLA CAPITAL CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2000, 1999, AND 1998

NOTE 8--LINES OF CREDIT

As of December 31, 2000 and 1999, the Bank had uncommitted, unsecured lines of credit with two banks renewable daily in the amount of \$30.0 million. There were no borrowings against these lines at December 31, 2000 and 1999.

NOTE 9--GUARANTEED PREFERRED BENEFICIAL INTERESTS IN COMPANY'S  
JUNIOR SUBORDINATED DEFERRABLE INTEREST DEBENTURES

In September 2000, the Company formed a wholly-owned trust subsidiary, ITLA Capital Statutory Trust I ("Statutory Trust I") and sold \$14.0 million of 10.60% cumulative trust preferred securities which are reflected on the Consolidated Statement of Financial Condition as Guaranteed Preferred Beneficial Interests in the Company's Junior Subordinated Deferrable Interest Debentures (the "Trust Preferred securities"). The Trust Preferred securities mature on September 7, 2030 and pay dividends each March 7 and September 7 during the term of this security. Statutory Trust I used the proceeds from the sale of the Trust Preferred securities to purchase 10.60% junior subordinated deferrable interest debentures issued by the Company. The sole assets of the Statutory Trust I are \$14.0 million of junior subordinated deferrable interest debentures, which eliminate in consolidation and have the same maturities, dividend payment and terms as the Trust Preferred securities. The obligations of the Company related to the Statutory Trust I constitute a full and unconditional guarantee by the Company of the Statutory Trust I issuer's obligations under the Trust Preferred securities. We used the proceeds from the junior subordinated debentures for general corporate purposes, including a \$13.5 million capital contribution to the Bank to support future growth. The dividends payable on the Trust Preferred securities are reflected as minority interest in income of subsidiary in the consolidated financial statements. From the date of sale through December 31, 2000, we recorded minority interest in income of subsidiary totaling \$478,000. The recorded balance of Trust Preferred securities was \$13.5 million at December 31, 2000. The deferred issuance costs of the Trust Preferred Securities are being amortized over a ten year period.

59

60

NOTE 10--FHLB ADVANCES

FHLB advances represent collateralized obligations with the FHLB of San Francisco, and are summarized by contractual maturity as follows:

Edgar Filing: ITLA CAPITAL CORP - Form 10-K

YEAR OF MATURITY -----	AMOUNT ----- (IN THOUSANDS)
2001	\$62,500
2002	5,000
2003	5,750
2004	6,000
	-----
	\$79,250
	=====

We have pledged real estate loans with a carrying value of \$283.7 million, and cash equivalents and investment securities available for sale with a carrying value of \$46.3 million, for a total of \$330.0 million of assets pledged as collateral for this borrowing facility. The total borrowing capacity available from the collateral that has been pledged is approximately \$245.3 million, of which \$79.3 million has been utilized as of December 31, 2000.

The following table represents the maximum month-end balance outstanding, weighted-average daily balance outstanding, average rates paid during the year, and the average rates on the balance at year-end for FHLB advances:

	DECEMBER 31 -----	
	2000 -----	1999 -----
	(DOLLARS IN THOUSANDS)	
Maximum month-end balance outstanding	\$79,250	\$67,250
Weighted-average daily balance outstanding	\$30,366	\$37,235
Average rates paid during the year	5.84%	5.39%
Average rates on balance at year-end	6.56%	5.61%
Balance at year-end	\$79,250	\$67,250

60

61

ITLA CAPITAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2000, 1999, AND 1998

NOTE 11--NONRECURRING GENERAL AND ADMINISTRATIVE EXPENSES

Nonrecurring general and administrative expenses of \$1.4 million were recognized during the year ended December 31, 2000. The nonrecurring expenses consist primarily of the write-off of fixed assets, leasehold improvements and estimated costs related to sublease contracts on leased premises at market rates

Edgar Filing: ITLA CAPITAL CORP - Form 10-K

that are lower than the contractual lease rate. These expenses were the result of the consolidation of the Bank's headquarters with the Company's headquarters in La Jolla, California, effective during the March 2000 quarter.

Activity in the allowance for restructuring charges during 2000 was as follows:

	DECEMBER 31, 2000		
	ALLOWANCE PROVIDED	CHARGES INCURRED	BALANCE
	-----	-----	-----
	(DOLLARS IN THOUSANDS)		
Write-off of fixed assets, leasehold improvements	\$ 847	\$ (693)	\$ 154
Costs related to sublease contract	553	(211)	342
	-----	-----	-----
Total	\$1,400	\$ (904)	\$ 496
	=====	=====	=====

NOTE 12--BENEFIT PLANS

Salary Savings Plan. We have a salary savings plan (the "Savings Plan") that qualifies as a deferred salary arrangement under Section 401(k) of the Internal Revenue Code. Under the Savings Plan, participating employees may defer a portion of their pretax earnings, up to 15% of their compensation. We match 50% of each employee's salary deferral, up to a maximum 6% of the employee's salary. Employees vest in employer contributions and the earnings thereon over a five year period. Our matching contributions to the Savings Plan were \$118,000, \$147,000 and \$181,000 in 2000, 1999 and 1998, respectively.

Nonqualified Deferred Compensation Plans. We have deferred compensation plans designed to provide additional retirement benefits for certain officers and key employees who cannot take full advantage of the Savings Plan. There were no costs associated with these deferred compensation plans in 2000 and 1999. Costs associated with these deferred compensation plans, primarily interest expense, amounted to \$4,000 in 1998.

ITLA CAPITAL CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2000, 1999, AND 1998

NOTE 12--BENEFIT PLANS (Continued)

Long-Term Supplemental Executive Retirement Plan. We have adopted a Long-Term Supplemental Executive Retirement Plan (the "SERP") for certain officers and key employees which provides for participants to be awarded shares of common stock of the Company on a tax deferred basis from the current

## Edgar Filing: ITLA CAPITAL CORP - Form 10-K

Recognition and Retention Plan ("RRP") previously approved by the shareholders. Such shares vest in three-year cycles or earlier at the discretion of the Compensation Committee of the Board of Directors, and once vested, may be distributed to participants upon a change in control or the participant's death, disability, retirement date or date of termination of employment. During 1998, we issued shares of common stock, representing the remaining number of unissued shares authorized to be awarded under the RRP, to a Rabbi Trust managed by a third-party financial institution. No shares were allocated during 2000. For 1999 and 1998, 58,017 and 29,393 shares, respectively, were then allocated to designated SERP accounts for the future benefit of certain Company executives. (The 1999 amount consisted of 28,624 shares allocated for 1999 and a retroactive allocation of 29,393 shares for 1997.) We recognized \$264,000 and \$528,000 of compensation expense from the SERP/RRP in 2000 and 1999 respectively.

**Stock Plans.** We adopted an employee stock incentive plan and stock option plan for nonemployee directors (collectively, "the Stock Plan") which provides for the award of up to 1,000,000 shares of common stock to officers, directors and employees as compensation for future services, not to exceed a combined 550,000 shares during 1995, the first year of the Stock Plan, with annual awards thereafter limited to 100,000 additional shares. As of December 31, 2000, we granted an aggregate of 1,152,000 options under the Stock Plan, of which 86,749 have been exercised and 309,001 have been forfeited. The exercise price per share of the options so granted ranges from \$10 to \$18 per share and will generally vest 33-1/3% per year, beginning with the first anniversary of the date of each individual grant.

62

63

ITLA CAPITAL CORPORATION AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 DECEMBER 31, 2000, 1999, AND 1998

NOTE 12--BENEFIT PLANS (Continued)

The number of options and weighted-average exercise prices of options for each of the following groups of options, for the periods indicated, are as follows:

	NUMBER OF OPTIONS		WEIGHTED-AVE	
	2000	1999	EXERCISE PR	
	-----	-----	-----	-----
Options outstanding at the beginning of the year	789,500	750,000	\$13.26	\$
Options granted during the year	119,000	100,000	\$12.20	\$
Options exercised during the year	(3,833)	(51,000)	\$10.35	\$
Options forfeited during the year	(148,417)	(9,500)	\$15.07	\$
	-----	-----		
Options outstanding at the end of the year	756,250	789,500	\$12.75	\$
	=====	=====		
Options exercisable at the end of the year	569,333	534,500	\$12.33	\$

Edgar Filing: ITLA CAPITAL CORP - Form 10-K

=====

The fair value of each option grant was estimated on the date of grant using an option pricing model with the following weighted-average assumptions for option grants:

	WEIGHTED-AVERAGE ASSUMPTIONS FOR OPTION GRANTS		
	2000	1999	1998
Dividend Yield	0.0%	0.0%	0.0%
Expected Volatility	31.2%	31.9%	28.8%
Risk-Free Interest Rates	5.89% - 6.79%	4.72%	5.58%
Expected Lives	Seven Years	Seven Years	Seven Years
Weighted-Average Fair Value	\$5.36 - \$6.84	\$6.18	\$7.93

We account for the Stock Plan under APB Opinion No. 25 and, accordingly, no compensation costs have been recognized in the accompanying consolidated statements of income for 2000, 1999 or 1998. If compensation costs for the Stock Plan had been determined under SFAS No. 123 - "Accounting for Stock-Based Compensation", pro forma net income would have been \$17.8 million, \$15.7 million and \$14.2 million and Diluted Earnings Per Share would have been \$2.46, \$2.14 and \$1.82 for the years ended December 31, 2000, 1999 and 1998, respectively.

63

64

ITLA CAPITAL CORPORATION AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 DECEMBER 31, 2000, 1999, AND 1998

NOTE 13--INCOME TAXES

Deferred income taxes reflect the net effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Significant components of our deferred tax assets and liabilities are as follows:

DECEMBER 31	
2000	1999
(IN THOUSANDS)	

Components of the deferred tax asset:



Edgar Filing: ITLA CAPITAL CORP - Form 10-K

Allowance for loan losses	\$ 8,903	\$ 8,818
Accrued expenses	2,655	2,658
State income taxes	1,198	1,059
Premiums on purchased loans	606	--
Other real estate owned	144	278
Permanent impairment on equity security	156	186
Unrealized loss on investment securities available for sale	--	123
	-----	-----
Total deferred tax assets	13,662	13,122
	-----	-----
Components of the deferred tax liability:		
Deferred loan origination costs	1,116	1,645
FHLB stock dividends	1,195	1,234
Unrealized gain on investment securities available for sale	16	719
Other	33	123
	-----	-----
Total deferred tax liabilities	2,360	3,721
	-----	-----
Net deferred tax asset	\$11,302	\$ 9,401
	=====	=====

The deferred tax asset is considered fully realizable, as when the temporary differences associated with the deferred tax asset are recognized for income tax purposes, those deductions are expected to be fully offset, either by carryback against previously taxed income or by future taxable income. Accordingly, we have not established a valuation allowance on the deferred tax asset.

64

65

ITLA CAPITAL CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2000, 1999, AND 1998

NOTE 13--INCOME TAXES (Continued)

A summary of the provision for income taxes follows:

	YEARS ENDED DECEMBER 31		
	2000	1999	1998
	-----	-----	-----
	(IN THOUSANDS)		
Current:			
Federal	\$ 9,912	\$ 11,362	\$ 9,347
State	3,289	3,759	2,898
	-----	-----	-----
	13,201	15,121	12,245

Edgar Filing: ITLA CAPITAL CORP - Form 10-K

	-----	-----	-----
Deferred:			
Federal	(804)	(2,841)	(1,630)
State	(517)	(1,010)	(311)
	-----	-----	-----
	(1,321)	(3,851)	(1,941)
	-----	-----	-----
	\$ 11,880	\$ 11,270	\$ 10,304
	=====	=====	=====

A reconciliation of the federal statutory income tax rate to the effective income tax rate is as follows:

	YEARS ENDED DECEMBER 31		
	2000	1999	1998
	-----	-----	-----
Federal statutory income tax rate	35.0%	35.0%	35.0%
State income tax, net of federal income tax benefit	7.0%	7.0%	7.0%
State income tax credits and other benefits	(2.4%)	(1.0%)	(1.0%)
	-----	-----	-----
Effective income tax rate	39.6%	41.0%	41.0%
	=====	=====	=====

The income tax (benefit) expense component of other comprehensive income was \$(580,000), \$595,000 and \$(112,000) for the years ended December 31, 2000, 1999 and 1998, respectively.

65

66

ITLA CAPITAL CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2000, 1999, AND 1998

NOTE 14--FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

We are a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of our customers. These financial instruments consist of commitments to extend credit. These instruments may involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The contractual amounts of those instruments reflect the extent of involvement we have in particular classes of financial instruments.

We have exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit. This

## Edgar Filing: ITLA CAPITAL CORP - Form 10-K

exposure is represented by the contractual amount of those instruments as the Company uses the same lending policies for these instruments as it does for the loan portfolio. We had outstanding unfunded loan commitments, including the unfunded portion of construction loans, of approximately \$53.1 million and \$71.7 million at December 31, 2000 and 1999, respectively.

### NOTE 15--COMMITMENTS AND CONTINGENCIES

#### COMMITMENTS

We lease office facilities under noncancelable operating leases. Estimated future minimum lease payments required under leases with initial or remaining noncancelable terms in excess of one year at December 31, 2000 are as follows:

(IN THOUSANDS)	
2001	\$ 1,603
2002	1,509
2003	1,384
2004	1,150
2005	1,101
Thereafter	719
	-----
	\$ 7,466
	=====

Certain leases contain rental escalation clauses based on increases in the Consumer Price Index, and renewal options of up to ten years which may be exercised by the Company. We incurred rent expense of \$1.6 million, \$1.7 million and \$1.8 million in 2000, 1999 and 1998, respectively.

66

67

ITLA CAPITAL CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2000, 1999, AND 1998

### NOTE 15--COMMITMENTS AND CONTINGENCIES (Continued)

#### CONTINGENCIES

We are subject to various pending legal actions which arise in the normal course of business. We maintain reserves for losses from legal actions which are both probable and estimable. Although the amount of the ultimate exposure, if any, cannot be determined at this time, in management's opinion, based upon advice of counsel, the disposition of claims currently pending will not have a material adverse effect on our financial condition or results of operations.

## Edgar Filing: ITLA CAPITAL CORP - Form 10-K

### NOTE 16--REGULATORY REQUIREMENTS

The Bank is subject to supervision and regulation by the FDIC and the Department of Financial Institutions ("DFI") of the State of California under the provisions of the California Banking Law. These provisions authorize the Bank's issuance of certificates of deposit, place limits on the size of loans the Bank can make, and specify the maintenance of minimum liquidity levels.

The Bank is also subject to various capital requirements administered by the FDIC. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary action by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements and ultimately the consolidated financial statements of the Company. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of Total and Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average total assets ("Leverage Ratio"). Management believes, as of December 31, 2000, that the Bank meets all applicable capital adequacy requirements.

As of December 31, 2000, the most recent notification from the FDIC categorized the Bank as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized", the Bank must maintain minimum Total Risk-Based, Tier 1 Risk-Based and Tier 1 Leverage Ratios as set forth in the following table. There are no conditions or events since that notification that management believes have changed the Bank's category.

67

68

### ITLA CAPITAL CORPORATION AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2000, 1999, AND 1998

### NOTE 16--REGULATORY REQUIREMENTS (Continued)

The Bank's actual regulatory capital amounts and ratios are presented in the following table:

ACTUAL		MINIMUM REQUIREMENT FOR CAPITAL ADEQUACY PURPOSES		CAPITAL REQ TO MAINTA "WELL CAPITA DESIGNATI
AMOUNT	RATIO	AMOUNT	RATIO	AMOUNT
-----	-----	-----	-----	-----
(DOLLARS IN THOUSANDS)				

AS OF DECEMBER 31, 2000

Edgar Filing: ITLA CAPITAL CORP - Form 10-K

-----

Total capital					
(to risk-weighted assets)	\$124,025	11.6%	\$ 85,403	8.0%	\$106,754
Tier 1 capital					
(to risk-weighted assets)	\$110,581	10.4%	\$ 42,702	4.0%	\$ 64,052
Tier 1 capital					
(to average total assets)	\$110,581	9.1%	\$ 48,504	4.0%	\$ 60,630

AS OF DECEMBER 31, 1999

-----

Total capital					
(to risk-weighted assets)	\$110,531	11.4%	\$ 77,770	8.0%	\$ 97,213
Tier 1 capital					
(to risk-weighted assets)	\$ 98,299	10.1%	\$ 38,885	4.0%	\$ 58,328
Tier 1 capital					
(to average total assets)	\$ 98,299	9.0%	\$ 43,485	4.0%	\$ 54,356

68

69

ITLA CAPITAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2000, 1999, AND 1998

NOTE 17--EARNINGS PER SHARE

The following is a reconciliation of the amounts used in the calculation of Basic Earnings Per Share and Diluted Earnings Per Share.

	NET INCOME	WEIGHTED- AVERAGE SHARES OUTSTANDING	PER SHARE AMOUNT
	-----	-----	-----
(IN THOUSANDS, EXCEPT PER SHARE DATA)			
YEAR ENDED DECEMBER 31, 2000			
-----			
Basic Earnings Per Share	\$18,139	7,046	\$2.57
Dilutive Effect of Stock Options	--	192	(0.06)
	-----	-----	-----
Diluted Earnings Per Share	\$18,139	7,238	\$2.51
	=====	=====	=====

YEAR ENDED DECEMBER 31, 1999

-----

Edgar Filing: ITLA CAPITAL CORP - Form 10-K

Basic Earnings Per Share	\$16,205	7,182	\$2.26
Dilutive Effect of Stock Options	--	157	(0.05)
	-----	-----	-----
Diluted Earnings Per Share	\$16,205	7,339	\$2.21
	=====	=====	=====

YEAR ENDED DECEMBER 31, 1998

-----

Basic Earnings Per Share	\$14,823	7,603	\$1.95
Dilutive Effect of Stock Options	--	232	(0.06)
	-----	-----	-----
Diluted Earnings Per Share	\$14,823	7,835	\$1.89
	=====	=====	=====

69

70

ITLA CAPITAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2000, 1999, AND 1998

NOTE 18--DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value estimates are based on judgments regarding credit risk, investor expectations of future economic conditions, normal cost of administration of these instruments and other risk characteristics, including interest rate risk and prepayment risk. These estimates are subjective in nature, involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates. The fair value estimates presented do not include the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments.

We use the following methods and assumptions to estimate the fair value of each class of financial instruments for which it is practicable to estimate value:

Cash and Cash Equivalents - The carrying values reported in the balance sheet approximate fair values due to the short-term nature of the assets.

Investment Securities - Fair values are based on bid prices and quotations published and/or received from established securities dealers.

Stock in Federal Home Loan Bank - The fair value is based on bid prices quoted from the FHLB.

Real estate loans - The fair value is estimated using the present value of future cash flows, discounted using the current rate at which similar loans would be made to borrowers with similar credit ratings and for the same maturities and giving consideration to estimated prepayment risk and credit risk.

Real Estate Loans Held in Trust for Collateralized Mortgage Obligations - The fair value is estimated using the present value of

Edgar Filing: ITLA CAPITAL CORP - Form 10-K

future cash flows, discounted using the current rate at which similar loans would be made to borrowers with similar credit ratings and for the same maturities and giving consideration to estimated prepayment risk and credit risk.

Accrued Interest Receivable -- The carrying values reported in the balance sheet approximate the fair values due to the short-term nature of the asset.

Deposit Accounts - The fair value of money market and passbook accounts is estimated to be the amount payable on demand. The fair values for time certificates, both over and under \$100,000, are estimated by discounting the expected cash flows at current market rates over expected maturities.

Federal Home Loan Bank Advances - The fair value is estimated by discounting the expected cash flows at current market rates over contractual maturities.

70

71

ITLA CAPITAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2000, 1999, AND 1998

NOTE 18--DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The carrying amounts and estimated fair values of our financial instruments are as follows:

	DECEMBER 31, 2000		
	COST OR CARRYING AMOUNT	ESTIMATED FAIR VALUE	
			(IN THOUSANDS)
Financial assets:			
Cash and cash equivalents	\$ 70,950	\$ 70,950	\$
Investment securities	46,325	46,325	
Stock in Federal Home Loan Bank	3,963	3,963	
Real estate loans, net	1,045,927	1,057,537	
Real estate loans held in trust, net	211,722	206,271	
Accrued interest receivable	\$ 11,821	\$ 11,821	\$
Financial liabilities:			
Deposit accounts	\$1,015,699	\$1,002,831	\$
Federal Home Loan Bank advances	79,250	79,292	
Collateralized mortgage obligations	161,852	161,963	
Guaranteed preferred beneficial interests in company's junior subordinated deferrable			

Edgar Filing: ITLA CAPITAL CORP - Form 10-K

interest debentures

13,519

13,526

71

72

ITLA CAPITAL CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2000, 1999, AND 1998

NOTE 19---BUSINESS SEGMENT INFORMATION

SFAS No. 131 - "Disclosures About Segments of an Enterprise and Related Information" requires disclosure of segment information in a manner consistent with the "management approach". The management approach is based on the way the chief operating decision-maker organizes segments within a company for making operating decisions and assessing performance.

The main factors that we used to identify our operating segments were the specific product and business lines of the various operating segments of the Company. Our operating segments are organized separately by product and service offered. As of December 31, 2000, we have identified one operating segment that meets the criteria of being a reportable segment in accordance with the provisions of SFAS No. 131. This reportable segment is the origination and purchase of commercial and residential real estate loans, which by its legal form, is identified as operations of the Bank and Imperial Capital REIT. This segment derives the majority of its revenue by originating and purchasing loans secured by income producing real estate. Other operating segments of the Company that did not meet the criteria of being a reportable segment in accordance with SFAS No. 131 have been aggregated and reported as "All Other". Transactions from all of our operating segments occur in the United States. The Company has no transactions with a single external customer that exceeds ten percent of the Company's consolidated revenues.

Transactions between the reportable segment of the Company and its other operating segments are made at terms which approximate arm's-length transactions and in accordance with GAAP. There is no significant difference between the measurement of the reportable segment's assets and profits and losses disclosed below and the measurement of assets and profits and losses in our consolidated balance sheet and statement of income. Accounting allocations are made in the same manner for all operating segments.

72

73

ITLA CAPITAL CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2000, 1999, AND 1998

NOTE 19--BUSINESS SEGMENT INFORMATION (Continued)

Required reported segment information for 2000, 1999 and 1998 is detailed below:



Edgar Filing: ITLA CAPITAL CORP - Form 10-K

	ORIGINATION AND PURCHASE OF REAL ESTATE LOANS	ALL OTHER
	-----	-----
AS OF OR FOR THE YEAR ENDED DECEMBER 31, 2000:		
Revenues from external customers	\$ 126,499	\$ 1,468
Total interest income	124,168	1,468
Total interest expense	70,029	464
Depreciation and amortization expense	425	371
Provision (benefit) for income taxes	10,492	1,388
Capital expenditures	387	474
Deferred income taxes	8,481	2,821
Total assets	1,426,298	21,079
Income before provision for income taxes	\$ 29,757	\$ 740
AS OF OR FOR THE YEAR ENDED DECEMBER 31, 1999:		
Revenues from external customers	\$ 99,888	\$ 2,226
Total interest income	98,889	2,324
Total interest expense	48,402	58
Depreciation and amortization expense	690	297
Provision (benefit) for income taxes	11,643	(373)
Capital expenditures	497	360
Deferred income taxes	8,050	1,351
Total assets	1,087,162	28,661
Income (loss) before provision (benefit) for income taxes	\$ 28,392	\$ (917)
AS OF OR FOR THE YEAR ENDED DECEMBER 31, 1998:		
Revenues from external customers	\$ 100,312	\$ 3,800
Total interest income	99,419	2,246
Total interest expense	51,345	42
Depreciation and amortization expense	900	656
Provision (benefit) for income taxes	11,927	(1,623)
Capital expenditures	665	562
Deferred income taxes	5,775	495
Total assets	1,010,273	22,374
Income (loss) before provision (benefit) for income taxes	\$ 29,098	\$ (3,971)

73

74

ITLA CAPITAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2000, 1999, AND 1998

NOTE 20--PARENT COMPANY ONLY CONDENSED FINANCIAL STATEMENTS

CONDENSED BALANCE SHEETS

DECEMBER 31

-----  
2000

19

Edgar Filing: ITLA CAPITAL CORP - Form 10-K

(IN THOUSANDS)

ASSETS

Cash and cash equivalents	\$ 410	\$ 8
Investment securities available for sale	6	16
Investments in wholly-owned subsidiaries:		
Imperial Capital Bank	110,811	98
Imperial Capital Real Estate Investment Trust	33,954	
ITLA Capital Statutory Trust 1	416	
Other subsidiaries	609	1
Other assets	5,195	2
	-----	-----
Total assets	\$151,401	\$126
	=====	=====

LIABILITIES AND SHAREHOLDERS' EQUITY

Junior subordinated debentures	\$ 14,000	\$
Liabilities	3,847	3
Shareholders' equity	133,554	123
	-----	-----
Total liabilities and shareholders' equity	\$151,401	\$126
	=====	=====

74

75

ITLA CAPITAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2000, 1999, AND 1998

NOTE 20--PARENT COMPANY ONLY CONDENSED FINANCIAL STATEMENTS (Continued)

CONDENSED STATEMENTS OF INCOME

	YEARS ENDED DECEMBER 31		
	2000	1999	1998
	-----	-----	-----
	(IN THOUSANDS)		
Interest income	\$ 962	\$ 2,263	\$ 554
Interest expense	464	--	--
	-----	-----	-----
Net interest income	498	2,263	554
Noninterest income:			
Gain on sale of investment securities available for sale	1,412	--	--
Other	(6)	--	--

Edgar Filing: ITLA CAPITAL CORP - Form 10-K

Total noninterest income	1,406	--	--
Noninterest expense:			
General and administrative expense	1,517	2,832	1,309
Income before income tax benefit and equity in net income of subsidiaries	387	(569)	(755)
Income tax expense (benefit)	1,431	(225)	(309)
Loss before equity in net income of subsidiaries	(1,044)	(344)	(446)
Equity in net income of subsidiaries	19,183	16,549	15,269
NET INCOME	\$ 18,139	\$ 16,205	\$ 14,823

76

75

ITLA CAPITAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2000, 1999, AND 1998

NOTE 20--PARENT COMPANY ONLY CONDENSED FINANCIAL STATEMENTS (Continued)

CONDENSED STATEMENTS OF CASH FLOWS

	YEARS E ----- 2000 -----
Cash Flows From Operating Activities:	
Net income	\$ 18,139
Adjustments to net income:	
Equity in undistributed net income of subsidiaries	(19,193)
Permanent impairment on investment in equity securities	--
Gain on sale of investment securities	(1,412)
Increase in other assets	(2,200)
Increase in liabilities	1,091
Net cash used in operating activities	(3,575)
Cash Flows From Investing Activities:	
Proceeds from sale of investment securities available for sale	16,176
Purchases of investment securities available for sale	--
Cash paid to acquire ICCMAC Trust	(33,497)
Capital contribution to Imperial Capital Bank, net	(13,475)

Edgar Filing: ITLA CAPITAL CORP - Form 10-K

Cash paid for common equity of Trust Preferred I	(433)
Dividends received from Imperial Capital Bank	17,300
Dividends received from ITLA Management Company	1,000
Dividends received from Imperial Capital Real Estate Investment Trust	2,775
Capital contribution to ITLA Commercial Investment Corporation	--
Capital distribution from ITLA Commercial Investment Corporation	--
Other, net	7
	-----
Net cash (used in) provided by investing activities	(10,147)
	-----
Cash Flows From Financing Activities:	
Sale of subordinated debentures to Trust Preferred I, net	13,580
Proceeds from exercise of employee stock options	36
Cash paid to acquire treasury stock	(7,701)
	-----
Net cash provided by (used in) financing activities	5,915
	-----
Net (decrease) increase in cash and cash equivalents	(7,807)
Cash and cash equivalents at beginning of period	8,217
	-----
Cash and cash equivalents at end of period	\$ 410
	=====

76

77

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

EXECUTIVE OFFICERS AND DIRECTORS OF THE REGISTRANT

The executive officers of the Registrant are identified below.

NAME	AGE	POSITION
-----	-----	-----
George W. Haligowski	46	Chairman of the Board, President and Chief Executive Officer of ITLA Capital and the Bank
Norval L. Bruce	59	Vice Chairman of the Board and Chief Credit Officer of ITLA Capital and the Bank
Timothy M. Doyle	44	Managing Director and Chief Financial Officer of ITLA Capital and the Bank
Don Nickbarg	48	Managing Director-- Asset Acquisition and New Business Development of ITLA Capital and the Bank

## Edgar Filing: ITLA CAPITAL CORP - Form 10-K

Mark E. Jaques	49	Managing Director-- Chief Administrative Officer of ITLA Capital and the Bank
Steven C. Romelt	51	Senior Vice President and Chief Lending Officer of ITLA Capital and the Bank
Scott A. Wallace	38	Deputy Managing Director-- Chief Accounting Officer of ITLA Capital and the Bank
Anthony A. Rusnak	37	First Vice President, General Counsel and Corporate Secretary of ITLA Capital and the Bank

George W. Haligowski has served as ITLA Capital's Chairman of the Board, President and Chief Executive Officer since inception. He has also served as the Bank's Chairman of the Board and Chief Executive Officer since 1992, and was the Bank's President from 1992 to October 1997. In 2000 he was reinstated as the President of the Bank. From 1990 to the present, he has also served as President, Chief Executive Officer and Principal of Halivest International, Ltd., an international finance and asset management company. He was previously employed as a Vice President by Shearson Lehman Hutton (1988 to 1990) and Prudential-Bache Securities (1983 to 1988), and by Avco Financial Services as Regional Director of its Japanese branch operations (1976 to 1981), as Training Coordinator for Avco Thrift and Loan (1976) and as a Branch Manager (1974 to 1976).

Norval L. Bruce has served as the Vice Chairman and Chief Credit Officer for ITLA Capital and the Bank since June of 1999. He was previously President and Chief Operating Officer of the Bank from October 1997 to June 1999, and previously was the Executive Vice President and Chief Credit Officer of the Bank from 1990 to October 1997. Mr. Bruce is also a director of the Bank. From 1988 to 1989, he served as Executive Vice President and Chief Credit Officer of Security Pacific Bank, Nevada. He was previously employed by Security Pacific Bank from 1965

77

78

to 1988 in a variety of positions including management positions in which he was responsible for both loan origination and credit quality.

Timothy M. Doyle has served as Managing Director and Chief Financial Officer of ITLA Capital and the Bank since May 2000. He was previously Managing Director and Chief Administrative Officer of ITLA Capital and the Bank since 1996. Before joining the Bank, he was the Controller and Director of Operations at Northeastern Plastics from 1995 to 1996; Assistant Controller of Alpha Wire Corporation from 1992 to 1994; and Vice President and Chief Financial Officer of Halivest International, Ltd. from 1989 to 1991. From 1982 to 1988, he was the Corporate Controller of the Shepaug Corporation.

Don Nickbarg is Managing Director -- Asset Acquisition and New Business Development of ITLA Capital and the Bank. He has served in several other capacities, including Managing Director and Chief Administrative Officer as well as Treasurer. Prior to joining ITLA Capital in 1998, he was a consultant with Centennial International LLC from 1996 to 1998; Chief Financial Officer of AIOC Corporation from 1994 to 1996; Vice President and Team Leader at The Chase Manhattan Bank from 1991 to 1994; Vice President and Treasurer of Drexel Burnham Lambert Holdings, Ltd. from 1986 to 1990; Vice President with The Hong Kong and Shanghai Banking Company from 1980 to 1986; and Assistant Treasurer with the Swiss Bank Corporation from 1976 to 1980.

## Edgar Filing: ITLA CAPITAL CORP - Form 10-K

Mark E. Jaques is Managing Director and Chief Administrative Officer of ITLA Capital and the Bank. He has served in several other capacities, including Director of both Loan Operations and Residential Real Estate Loan Acquisitions. Prior to joining the Bank in 1998 he was President and CEO of Secure Savings Bank from 1993 to 1997; Senior Vice President and Chief Financial Officer of the Bank of Hemet from 1992 to 1993; President and CEO of Inland Savings and Loan from 1991 to 1992; President and CEO of Westwood Savings from 1987 to 1990; and Vice President, CFO and Treasurer of Central Savings from 1985 to 1987. From 1976 to 1987, Mr. Jaques held various positions with Far West Federal.

Steven C. Romelt has served as Senior Vice President and Chief Lending Officer of the Bank since January 1997. He was Director of Bank Lending for the Bank from November 1996 to January 1997. Previously, he was Vice President and Regional Manager for Southern Pacific Bank from March 1995 to November 1996. He also held various senior level lending positions for the Bank from December 1990 to March 1995 and held various lending positions with a number of other financial institutions from 1979 to December 1990.

Scott A. Wallace is the Deputy Managing Director -- Chief Accounting Officer of ITLA Capital and the Bank. Prior to joining the Bank in September 1996, he was Vice President -- Finance of Westfield Corporation, Inc. in 1996 and was Vice President -- Controller of First Los Angeles Bank in 1995. From 1984 to 1994, he was a senior manager with Kenneth Leventhal & Company.

Anthony A. Rusnak has served as ITLA Capital and the Bank's First Vice President, General Counsel and Corporate Secretary since November 1997. Prior to joining us, he was in private practice for seven years representing financial institutions, businesses, corporations and individuals in business, real estate transactions and litigation. Previously, he worked for law firms in the San Diego area, as well as for San Diego Gas and Electric's corporate in-house counsel.

The directors of the Registrant, excluding Mr. Haligowski and Mr. Bruce, are identified below.

Jeffrey L. Lipscomb, age 46, is an Investment Advisory Associate with AXA Advisors and formerly was a Registered Principal and Assistant Manager of the San Diego office of Equitable Financial Companies since 1986, handling corporate group benefits and personal financial planning, and also was with Kidder Peabody from 1983 to 1986.

Sandor X. Mayuga, age 52, is a member of the California State Bar and has been a member of the law firm of Tisdale & Nicholson since 1994. He conducted his own law practice from 1983 to 1994 and was a partner in the Financial Institutions Department of Finley, Kumble, Wagner, Heine, Underberg, Manly & Casey, a New York-based national law firm, from 1980 to 1983. Previously, he served as Assistant General Counsel of Hunt-Wesson

Foods, Inc., a subsidiary of Norton Simon, Inc., and was associated with two large regional law firms in Los Angeles County. Since 1980, Mr. Mayuga's practice has focused on the representation of financial institutions and other finance-related businesses in corporate, transactional and regulatory matters.

Hiroataka Oribe, age 66, is a licensed architect with international experience in real estate development and urban planning. Since 1993, Mr. Oribe has served as an advisor to Kajima Development Resources, Inc. From 1979 to 1993, Mr. Oribe was Executive Vice President, Chief Operating Officer and a

## Edgar Filing: ITLA CAPITAL CORP - Form 10-K

Director of Kajima Development Corporation, a firm engaged in development and construction of single-family and multi-family housing, office buildings, retail space and land development. Mr. Oribe previously held other positions with affiliates of Kajima Corporation of Japan from 1973 to 1979 and was a practicing architect from 1962 to 1973.

Robert R. Reed, age 64, is retired from Household International where he was employed in various positions from 1960 to 1992. Mr. Reed served as Vice President of Household Bank from 1980 to 1992. Mr. Reed was previously employed in management positions with Household Financial Corporation from 1962 to 1980.

### EMPLOYEES

As of December 31, 2000, we had 124 employees. Management believes that its relations with employees are satisfactory. We are not subject to any collective bargaining agreements.

### SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires ITLA Capital's directors and executive officers, and persons who own more than 10% of a registered class of our equity securities, to file with the SEC initial reports of ownership and reports of changes in ownership of common stock and other equity securities of ITLA Capital. Officers, directors and greater than 10% stockholders are required by SEC regulation to furnish ITLA Capital with copies of all Section 16(a) forms they file.

To our knowledge, based solely on a review of the copies of such reports furnished to us and written representations that no other reports were required, during the fiscal year ended December 31, 2000, all Section 16(a) filing requirements applicable to its officers, directors and greater than 10% beneficial owners were complied with. During fiscal 1999, Director Jeffrey L. Lipscomb inadvertently failed to timely report one transaction on a Form 4.

79

80

### ITEM 11. EXECUTIVE COMPENSATION

The following table sets forth the compensation of the Chief Executive Officer and the named executive officers of ITLA Capital with salary and bonus greater than \$100,000 for the year ended December 31, 2000.

NAME AND PRINCIPAL POSITION	YEAR	SALARY (\$)	BONUS (\$)	OPTIONS (#) (1)
-----	----	-----	-----	-----
George W. Haligowski	2000	\$ 396,249	\$ 582,125	--
Chairman of the Board, President and Chief Executive Officer	1999	\$ 350,013	\$ 402,500 (2)	10,000
	1998	\$ 345,765	\$ 344,144	45,000
Norval L. Bruce	2000	\$ 192,064 (11)	\$ 110,825 (11)	5,000
Vice Chairman of the Board, Chief Credit Officer	1999	\$ 181,103	\$ 87,500	15,000
	1998	\$ 185,832	\$ 71,251	30,000
Michael A. Sicuro (10)	2000	\$ 82,281	\$ 107,711	5,000

## Edgar Filing: ITLA CAPITAL CORP - Form 10-K

Former Managing Director and Chief Financial Officer	1999	\$ 174,894	\$ 84,500	20,000
	1998	\$ 167,979	\$ 78,375	25,000
Steven C. Romelt	2000	\$ 153,697	\$ 72,660 (12)	--
Senior Vice President and Chief Lending Officer of Imperial	1999	\$ 144,975	\$ 84,000	10,000
	1998	\$ 138,750	\$ 75,000	15,000
Timothy M. Doyle	2000	\$ 150,499	\$ 65,913	5,000
Managing Director and Chief Financial Officer	1999	\$ 131,429	\$ 63,500	15,000
	1998	\$ 124,917	\$ 51,000	15,000
Scott A. Wallace	2000	\$ 119,604	\$ 36,300	2,000
Deputy Managing Director and Chief Accounting Officer	1999	\$ 107,400	\$ 32,667	5,000
	1998	\$ 98,000	\$ 29,042	4,000

-----

- (1) Options were granted on various dates and vest one-third on each of the three subsequent anniversary dates of issuance.
- (2) \$329,513 of the 1999 bonus was deferred at the election of the named executive officer under ITLA Capital's Nonqualified Deferred Compensation plan.
- (3) Consists of (a) \$23,400 in auto related benefits, (b) \$30,000 in supplemental housing payments, (c) \$7,760 in life insurance premiums, (d) \$5,100 in employer contributions to ITLA Capital's 401(k) plan and (e) \$9,995 in preferential interest on employee savings accounts in 2000. The respective amounts were \$4,685, \$30,000, \$7,553, \$4,800 and \$16,085 in 1999 and \$5,114, \$30,000, \$7,290, \$4,800 and \$15,547 in 1998.
- (4) Consists of (a) \$2,182 in auto related benefits, (b) \$1,724 in life insurance premiums, (c) \$5,100 in employer contributions to ITLA Capital's 401(k) plan and (d) \$5,393 in preferential interest on employee savings accounts and (e) \$45 of reimbursed gym fees in 1999. The respective amounts were \$2,139, \$2,017, \$4,800 and \$35 in 1999 and \$2,139, \$136, \$4,800 and \$325 in 1999.
- (5) Consists of (a) \$691 of auto related benefits, (b) \$5,100 in employer contributions to ITLA Capital's 401(k) plan and (c) \$122 of life insurance benefits in 2000. The respective amounts were \$1,236, \$4,800 and \$4,410 in 1999 and \$1,236, \$4,800 and none in 1998.
- (6) Consists of (a) \$9,000 in auto related benefits, (b) \$705 in life insurance premiums, (c) \$5,100 in employer contributions to ITLA Capital's 401(k) plan and (d) \$5,873 in preferential interest on employee savings accounts in 2000. The respective amounts were \$9,000, \$463 in 1999 and \$9,000, none, \$4,800 and \$1,005 in 1998.
- (7) Consists of (a) \$1,476 in auto related benefits, (b) \$5,100 in employer contributions to ITLA Capital's 401(k) plan and (c) \$4,943 in life insurance benefits in 2000. The respective amounts were \$1,476, \$4,800, and \$4,893 in 1999 and \$10,200, \$4,800 and none in 1998.
- (8) Consists of (a) \$1,950 in auto related benefits, (b) \$5,100 in employer contributions to ITLA Capital's 401(K) plan and (c) \$203 in life insurance benefits. The respective amounts were \$6,000, \$4,800 and \$142 in 1999 and \$6,000, \$4,800 and none in 1998.



## Edgar Filing: ITLA CAPITAL CORP - Form 10-K

- (9) Includes ITLA Capital stock granted and allocated to the Long-Term Supplemental Executive Retirement Plan under the Recognition and Retention Plan previously approved by the shareholders.
- (10) Mr. Sicuro resigned from the company effective May 5, 2000.
- (11) \$46,124 of the 2000 salary and \$85,636 of the 2000 bonus was deferred at the election of the named executive officer under ITLA Capital's Nonqualified Deferred Compensation Plan.
- (12) \$61,770 of the 2000 bonus was deferred at the election of the named executive officer under ITLA Capitals Nonqualified Deferred Compensation Plan.

80

81

### AGREEMENTS WITH MR. HALIGOWSKI

We have entered into an employment agreement with Mr. Haligowski. The employment agreement provides for an initial employment term of five years, with the agreement automatically annually extending for an additional one-year period each year unless either party provides the other with at least 90 days notice of the nonextension or termination. The employment agreement provides that we may terminate Mr. Haligowski "for cause," as defined in the employment agreement. In the event Mr. Haligowski is involuntarily terminated as defined in the employment agreement, including following a change of control as defined in the employment agreement, Mr. Haligowski will be entitled to receive during the remaining term of the agreement his base salary calculated at the highest annual rate during the three years prior to his involuntary termination and the average amount of cash bonus and incentive compensation paid for the two years prior to his involuntary termination, if any, the continuation of all employment related benefits for the 60 months following the date of termination and the immediate vesting of any stock options and restricted stock awards previously granted and outstanding. As a result of a change of control, Mr. Haligowski will also be retained as a consultant for an eighteen month period following the change in control at a monthly consulting fee equal to 75% of his base salary and an additional contribution to his account in our Supplemental Executive Retirement Plan equal to 3.95 times his base salary. In addition, the terms of the employment agreement shall be extended 60 months and stock options and restricted stock awards previously granted and outstanding, salary continuation plans, equity club memberships and other fringe benefits shall immediately vest following a change of control. The annual base salary for Mr. Haligowski under the employment agreement is currently \$395,000 (which may be increased from time to time by the Board of Directors). The employment agreement also provides for, among other things, annual incentive compensation, disability pay, participation in stock benefit and salary continuation plans, and other fringe benefits, including a supplemental housing payment of not less than \$2,500 per month, an automobile allowance of not less than \$1,950 per month, and life insurance coverage in an amount not less than four times Mr. Haligowski's annual salary. In addition we shall maintain health, dental and life insurance benefits for the 60 months following an involuntary termination and transfer title to our owned vehicle currently used by Mr. Haligowski. In March 2000, we adopted a Salary Continuation Plan for the benefit of Mr. Haligowski. Under the terms of this plan, Mr. Haligowski will be entitled to receive monthly payments, based on 75% of his average monthly base salary for the three years preceding the year in which the plan benefits become payable, for a 15 year period. The benefits under the plan become payable on the earlier of Mr. Haligowski's retirement upon reaching age 65, or his death, disability, or involuntary termination (other than a termination for cause, as defined in the agreement). If Mr. Haligowski voluntarily terminates his employment prior to reaching age 65, the benefit

## Edgar Filing: ITLA CAPITAL CORP - Form 10-K

payable to him under the plan will be prorated based on the ratio of the actual period that he worked while the plan is in effect to the scheduled period of time that he would have worked if he had continued to work until reaching age 65. If we undergo a change of control, the vesting of plan benefits accelerates and become payable monthly over a ten year period, with an increased monthly payment to reflect the shorter payment period.

### CHANGE OF CONTROL AGREEMENTS

We have entered into change of control agreements with Messrs. Bruce, Doyle, Romelt and Wallace. The change in control agreements have initial terms of one year and shall automatically extend for additional one-year periods upon a change of control, as defined in the agreement, or upon their anniversary date, unless either party provides the other with at least 90 days notice of termination. These agreements provide that in the event the officer is involuntarily terminated within 24 months following a change of control, as defined in the agreement, the officer shall be entitled to receive upon such termination an amount equal to the greater of the annualized salary as in effect on the date of the change of control or the date of termination for a period of up to 18 months and a pro rata portion of his bonus from the previous year. In addition we will maintain health, dental and life insurance benefits for the next 18 months for each officer and transfer title to our owned vehicle currently used by the officer or, in the event the officer receives a monthly cash car allowance in lieu of the use of our vehicle, we shall pay an amount equal to 18 times the monthly allowance. Stock options and restricted stock awards previously granted and outstanding will also immediately vest. The annual base salary for Messrs. Bruce, Doyle, Romelt and Wallace is currently \$201,000, \$167,000, \$159,000 and \$120,000, respectively.

Both Mr. Haligowski's employment agreement and the change of control agreements also provide that to the extent any payments made may be considered excess parachute payments under Section 280G of the Internal Revenue Code that are subject to excise tax, we will pay an additional amount needed to insure that the amount of payments and value of benefits received equals the same amount in the absence of any excise tax.

### SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN (SERP)

The SERP provides that the compensation committee may make restricted stock awards under ITLA Capital's Recognition and Retention Plan (RRP) on a tax deferred basis through the SERP. The SERP further provides that Mr. Haligowski shall receive an allocation annually, subject to the performance terms of the RRP, of a restricted stock award equal to one-third of his base salary and all other participants shall receive an award equal to one-fifth of base salary subject to the approval of the compensation committee, which may also allocate a greater or

lesser award or no award in its discretion. For this purpose, each share of common stock has been valued at \$9.00 per share, the fair market value of the common stock on the date of issuance to the SERP. A participant shall only have a vested right to amounts allocated to his or her account if the participant is employed on the last day of a three year vesting cycle or earlier at the discretion of the compensation committee. Upon a change in control (as defined in the SERP), the participant shall have an accelerated vesting of all shares allocated to his or her account. The participant shall only have a right to vested shares in his or her account upon normal retirement, death, disability or termination. The last day of the next vesting cycle for shares allocated to the SERP accounts for the benefit of the participants for the years 2000, 2001 and

## Edgar Filing: ITLA CAPITAL CORP - Form 10-K

2002 is December 31, 2002. For additional discussion, please see Benefits - Recognition and Retention Plan.

### BENEFITS

Insurance Plans. All full-time employees, after approximately three months employment with us, are covered under group plans providing major medical, dental, and vision benefits, and long-term disability, travel accident, accidental death and dismemberment insurance, and group term life insurance.

Salary Savings Plan. The ITLA Capital Salary Savings Plan is a cash or deferred arrangement under Section 401(k) of the Internal Revenue Code (the "Code") designed to provide employees with the opportunity to accumulate retirement funds (the "401(k) Plan"). Permanent employees age 21 or older are eligible to participate in the 401(k) Plan as of January 1 or July 1 first following their hire date. Under the 401(k) Plan, subject to limitations imposed under Section 401(k) and Section 415 of the Code, a participant may elect to defer on a monthly basis up to 15% of compensation by directing us to contribute such amount to the 401(k) Plan on such employee's behalf. We currently make matching contributions to the 401(k) Plan equal to 50% of the first 6% of the participant's monthly contribution. The Board reviews the match on an annual basis, and we may also make discretionary contributions to the 401(k) Plan. "Compensation" for purposes of the 401(k) Plan is defined as a participant's compensation from us as reported annually on Form W-2, including contributions to the 401(k) Plan by the employee, and contributions by us in the employee's behalf to any other pension, insurance, welfare or other employee benefit plan. Under the 401(k) Plan, a separate account is established for each participant. Participants are always 100% vested in their contributions and the earnings thereon. Participants become vested in employer contributions and the earnings thereon at the rate of 20% per year commencing with the first full year of service (defined as completion of 12 consecutive months of work). Participants become fully vested in employer contributions and the earnings thereon on their fifth anniversary of employment, or in the event of death, permanent disability or attainment of age 65 while employed by us. The 401(k) Plan provides for in-service hardship distributions of elective deferrals, as well as loans of a portion of vested account balances. Distributions from the 401(k) Plan are made upon termination of service in a lump sum or in annual installments over a period of years at the election of the participant with the right to take a lump sum payment at any time during such period.

Nonqualified Deferred Compensation Plans. The ITLA Capital Corporation Supplemental Salary Savings Plan (the "Supplemental Plan") and Nonqualified Deferred Compensation Plan (the "Deferral Plan") are designed to provide additional retirement benefits for certain officers and highly compensated employees. The Supplemental Plan provides participating employees with an opportunity to make up benefits not available under the 401(k) Plan due to any application of limitations on compensation and maximum benefits under the 401(k) Plan. Benefits under the Supplemental Plan are provided at the same time and in the same form as benefits under the 401(k) Plan, and become taxable to the participant at that point. The Deferral Plan allows a participant to defer receipt of, and current taxation upon, designated portions of the participant's direct cash compensation until a future date specified by the participant. Both of these plans are unfunded plans, meaning that all benefits payable thereunder are payable from our general assets, and funds available to pay benefits are subject to the claims of our general creditors. We have established a Rabbi Trust with a third party FDIC insured financial institution which holds the contributions to the Supplemental Plan and Deferral Plan, for the purpose of providing the benefits set forth under the terms of the plans. Participants only have the rights of unsecured creditors with respect to the Rabbi Trust assets.

Stock Plans. We have adopted the 1995 Employee Stock Incentive Plan and the 1995 Stock Option Plan for Nonemployee Directors (collectively, the "Stock Option Plan") pursuant to which officers, directors and our employees are eligible to receive options to purchase Common Stock. The purpose of the Stock Option Plan is to enable us to attract, retain and motivate employees by providing for or increasing their proprietary interests in ITLA Capital, and in the case of nonemployee directors, to attract such directors and further align their interests with our interests. Every one of our employees is eligible to be considered for the grant of awards under the Stock Option Plan. The maximum number of shares of Common Stock that may be issued pursuant to awards granted under the Stock Option Plan is 1,000,000 shares of which a maximum of 550,000 shares may be awarded during the first year of the Stock Option Plan, with annual awards thereafter limited to 100,000 additional shares during each of the next five years of the Stock Option Plan (with the shares subject to the Stock Option Plan and all grants thereunder being subject to adjustments to prevent dilution).

The Stock Option Plan is administered by the Compensation Committee of the Board of Directors, except that grants to nonemployee directors are made by the Board of Directors pursuant to a predetermined formula, as described below. The Committee consists of two or more nonemployee directors of ITLA Capital, and has full and final authority to select the employees to receive awards and to grant such awards. Subject to provisions of the Stock Option Plan, the Committee has a wide degree of flexibility in determining the terms and conditions of awards and the number of shares to be issued pursuant thereto. The expenses of administering the Stock Option Plan are borne by us.

The Stock Option Plan authorizes the Committee to enter into any type of arrangement with an eligible employee that, by its terms, involves or might involve the issuance of Common Stock or any other security or benefit with a value derived from the value of Common Stock. Awards to employees are not restricted to any specified form or structure. Stock options to purchase 5,000 shares of Common Stock were automatically granted to the nonemployee directors upon the completion of our initial public offering and upon their election to the Board of Directors, and options to purchase an additional 1,000 shares are granted annually thereafter, provided such individuals continue to serve as directors.

Awards may not be granted under the Stock Option Plan after the tenth anniversary of the adoption of the Stock Option Plan. We have granted an aggregate of 1,152,000 options under the Stock Option Plan, of which 360,000 have been granted to Mr. Haligowski, 95,000, 60,000, 50,000 and 17,000 have been granted to Messrs. Bruce, Doyle, Romelt and Wallace, respectively, 39,000 have been granted to nonemployee directors, and 531,000 have been granted to other employees, of which 86,749 have been exercised and 309,001 have been forfeited. The exercise price per share of the options so granted ranges from \$10.00 to \$18.00 per share and will generally vest 33-1/3% per year, beginning with the first anniversary of the date of the grant.

Recognition and Retention Plan. We have adopted the Recognition and Retention Plan ("RRP"), the purpose of which is to promote our long-term interests and our shareholders by providing a means for attracting and retaining officers and employees of ITLA Capital and its affiliates. Under the RRP, awards of restricted shares of our common stock may be made to employees as additional long-term incentive compensation. Every one of our employees is eligible to be considered for the grant of awards under the RRP. The maximum number of shares of common stock which may be issued pursuant to the RRP is 300,000 shares over the ten year life of the plan. No RRP shares may be granted in any fiscal year in which the Bank fails to maintain an "adequately capitalized" designation under the FDIC regulations and ITLA Capital fails to achieve a return on average

## Edgar Filing: ITLA CAPITAL CORP - Form 10-K

assets of at least 50 basis points for the fiscal year. The RRP was approved by the shareholders and is administered by the Compensation Committee of the Board of Directors which has a wide degree of flexibility, within the provisions of the RRP, in determining the terms and conditions of awards and the number of shares to be issued pursuant thereto. The RRP shares granted to date have been allocated through the Supplemental Executive Retirement Plan as discussed above.

### DIRECTORS COMPENSATION

Directors Fees. Each nonemployee director was paid a monthly fee during 2000 of \$1,800 for serving on our Board of Directors. Each nonemployee director is paid \$500 for each Board or Committee meeting attended for service on such committee.

83

84

Voluntary Retainer Stock and Deferred Compensation Plan. In 1996, we adopted the Voluntary Retainer Stock and Deferred Compensation Plan for Outside Directors (the "Outside Director Plan"). The Outside Director Plan provides for the deferral of compensation earned by nonemployee directors in the form of Stock Units ("Stock Units") in a Stock Unit account ("Stock Unit Account"). Directors may elect to have up to 100% of their fees converted into stock units.

For dividends paid with respect to our common stock, each nonemployee director has credited to his Stock Unit Account an additional number of Stock Units in an amount determined under the Outside Director Plan. Each nonemployee director's Stock Unit Account will be settled by delivering to the nonemployee director (or his beneficiary) the number of shares of our common stock equal to the number of whole Stock Units then credited to the nonemployee director's Stock Unit Account, in either (i) a lump sum or (ii) substantially equal annual installments over a period not to exceed ten years.

Directors Stock Option Plans. Directors are also eligible to receive stock option grants as described above.

### COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

During 2000, the Compensation Committee was comprised of Directors Lipscomb and Oribe.

### OPTION GRANTS FOR 2000

The following table sets forth certain information regarding stock options granted pursuant to the Stock Option Plan for the named executive officers in 2000. No stock appreciation rights have been granted pursuant to the Stock Option Plan.

#### STOCK OPTION GRANTS IN LAST FISCAL YEAR

NAME	INDIVIDUAL GRANTS				EXPIRATION DATE	POTENTIAL R VALUE AT ANNUAL RATES PRICE APPREC OPTION 5% (\$)
	NUMBER OF UNDERLYING OPTIONS GRANTED (#)	% OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR	EXERCISE OR BASE PRICE (\$/SHARE)	EXPIRATION DATE		
-----						

Edgar Filing: ITLA CAPITAL CORP - Form 10-K

George W. Haligowski	--	--	--	--	--
Norval L. Bruce	5,000	4.1%	\$ 11.00	1/31/10	\$ 34,589
Michael A. Sicuro (1)	5,000	4.1%	\$ 11.00	1/31/10	\$ 34,589
Steven C. Romelt	--	--	--	--	--
Timothy M. Doyle	5,000	4.1%	\$ 11.00	1/31/10	\$ 34,589
Scott A. Wallace	2,000	1.7%	\$ 11.00	1/31/10	\$ 13,836

(1) Mr. Sicuro resigned from the company effective May 5, 2000, and the stock options awarded to him in the current year were forfeited.

84

85

The following table sets forth certain information concerning the number and value of stock options at December 31, 2000 held by the named executive officers.

OPTION VALUES AT DECEMBER 31, 2000

NAME	SHARES ACQUIRED ON EXERCISE (#)	VALUE REALIZED (\$)	NUMBER OF UNEXERCISED OPTIONS AT FISCAL YEAR-END (#)		VAL "IN- AT
			EXERCISABLE	UNEXERCISABLE	
George W. Haligowski	--	N/A	338,333	21,667	\$2,743
Norval L. Bruce	--	N/A	70,000	25,000	\$ 436
Michael A. Sicuro (2)	--	N/A	--	--	\$
Steven C. Romelt	--	N/A	38,333	11,667	\$ 143
Timothy M. Doyle	--	N/A	40,000	20,000	\$ 151
Scott A. Wallace	--	N/A	10,334	6,666	\$ 39

(1) The difference between the aggregate option exercise price and the closing price of \$19.125 of the underlying shares at December 31, 2000.

(2) Mr. Sicuro resigned from the company effective May 5, 2000.

85

86

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

At March 22, 2001, we had 6,596,413 shares of common stock outstanding.

## Edgar Filing: ITLA CAPITAL CORP - Form 10-K

The following table sets forth, as of March 22, 2001, certain information as to those persons who were known by management to be beneficial owners of more than five percent of our common stock outstanding.

BENEFICIAL OWNER	SHARES BENEFICIALLY OWNED	PERCENT OF CLASS
Franklin Mutual Advisors, Inc. 51 John F. Kennedy Parkway Short Hills, New Jersey 07078	689,000 (1)	10.45%
Thomson Horstmann & Bryant, Inc. Park 80 West, Plaza Two Saddle Brook, New Jersey 07663	614,900 (2)	9.32%
Dimensional Fund Advisors 1299 Ocean Avenue, 11th Floor Santa Monica, California 90401	559,800 (3)	8.49%
Wellington Management Company, LLP 75 State Street Boston, Massachusetts 02109	534,700 (4)	8.11%
T. Rowe Price Associates, Inc. 100 E. Pratt Street Baltimore, Maryland 21202	508,550 (5)	7.71%
Dalton, Greenier, Hartman, Mahar & Co. 565 Fifth Avenue, Suite 2101 New York, New York 10017	475,700 (6)	7.21%
Friedman, Billings, Ramsey Group, Inc. 1001 19th Street North Arlington, Virginia 22209	434,370 (7)	6.58%
George W. Haligowski 888 Prospect Street, Suite 110 La Jolla, California 92037	423,065 (8)	6.08%
Deprince, Race & Zollo, Inc. 201 S. Orange Avenue, Suite 850 Orlando, Florida 32801	363,400 (9)	5.51%

- (1) As reported by Franklin Resources, Inc. ("Franklin") on a Schedule 13G/A filed on or about January 18, 2000 with the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended. Franklin reported sole voting and dispositive powers as to 689,000 shares, and shared voting and dispositive powers as to none of the 689,000 shares covered by the report.
- (2) As reported by Thomson Horstmann & Bryant, Inc. ("Thomson") on a Schedule 13G/A filed on or about January 18, 2000 with the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended. Thomson reported sole voting power as

to 260,000 shares, sole dispositive power as to 614,900 shares, shared voting and dispositive power as to none of the 614,900 shares covered by the report.

- (3) As reported by Dimensional Fund Advisors ("Dimensional") on a Schedule 13G/A dated on or about February 6, 2001 and filed with the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended. Dimensional reported sole voting and dispositive powers as to 559,800 shares, and shared voting and dispositive powers as to none of the 559,800 shares covered by the report.
- (4) As reported by Wellington Management LLP ("Wellington") on a Schedule 13G/A filed on or about February 13, 2001 with the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended. Wellington reported sole voting and dispositive powers as to no shares, shared voting power as to 504,700 shares, and shared dispositive power as to 534,700 of the 534,700 shares covered by the report.
- (5) As reported by T. Rowe Price Associates, Inc. ("Price Associates") on a schedule 13G dated on or about February 14, 2001 and filed with the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended. Price Associates reported sole voting power as to 192,300 shares, sole dispositive power as to 508,550 shares, and shared voting and dispositive power as to none of the 508,550 shares covered by the report.
- (6) As reported by Dalton, Grenier, Hartman, Mahar & Co. ("Dalton") on a schedule 13G filed on or about February 5, 2001 with the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended. Dalton reported sole voting and dispositive powers as to 475,700 of the shares covered by the report, and shared voting and dispositive powers as to none of the 475,700 shares covered by the report.
- (7) As reported by Friedman, Billings, Ramsey Group, Inc. ("FBR") on a Schedule 13G/A filed on or about February 15, 2001 with the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended. FBR reported sole voting and dispositive powers as to 434,370 shares, and shared voting and dispositive powers as to none of the 434,370 shares covered by the report.
- (8) Includes 356,666 shares underlying stock options which are currently exercisable or which will become exercisable within 60 days of March 22, 2001.
- (9) As reported by Deprince, Race & Zollo, Inc. ("Deprince") on a schedule 13G filed on or about February 9, 2001 with the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended. Deprince reported sole voting and dispositive powers as to 363,400 shares and shared voting and dispositive powers as to none of the 363,400 shares covered by the report.

The following table sets forth, as of March 22, 2001, certain information as to the shares of common stock beneficially owned by the directors and named



## Edgar Filing: ITLA CAPITAL CORP - Form 10-K

executive officers and by all directors and executive officers of ITLA Capital as a group.

BENEFICIAL OWNER	SHARES BENEFICIALLY OWNED (1)	PERCENT OF CLASS
George W. Haligowski	423,065	6.08%
Norval L. Bruce	99,967	1.50%
Michael A. Sicuro (2)	--	0.00%
Steven C. Romelt	55,880	0.84%
Timothy M. Doyle	60,027	0.90%
Scott A. Wallace	14,001	0.21%
Sandor X. Mayuga	11,800	0.18%
Hiroataka Oribe	11,200	0.17%
Robert R. Reed	9,200	0.15%
Jeffrey L. Lipscomb	11,400	0.17%
All Directors and Executive Officers as a Group (12 Persons)	727,541	10.07%

-----

(1) Includes shares held directly, as well as an aggregate of 629,668 shares which are subject to immediately exercisable options and options exercisable within 60 days of March 22, 2001, under ITLA Capital's Stock Option Plan, vested shares held by the SERP, and shares held in retirement accounts or by certain members of the named individual's families or corporations for which an individual is an officer or director or held by trust of which an individual is trustee or a substantial beneficiary, over which shares the individual may be deemed to have sole or shared voting and/or dispositive power. The above named individuals held exercisable options and options exercisable within 60 days of March 22, 2001 as follows: Chairman Haligowski -- 356,666 shares; Director Lipscomb -- 11,000 shares; Director Mayuga -- 11,000 shares; Director Oribe -- 11,000 shares; Director Reed -- 10,000 shares; Norval L. Bruce -- 86,667 shares; Timothy M. Doyle -- 51,667 shares; Steven C. Romelt -- 46,666 shares and Scott A. Wallace -- 14,001 shares.

(2) Mr. Sicuro resigned from the company effective May 5, 2000.

### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

During the year, we utilized the services of Tisdale & Nicholson. Director Mayuga is a partner in that law firm. During 2000, this law firm received \$13,826 in legal fees from ITLA Capital, which was not in excess of 5% of the firm's total revenues for the year.

During the year, we utilized the services of a public relations firm which is owned by Director Lipscomb's spouse. During 2000, this public relations firm received \$37,289 in fees from ITLA Capital.

Edgar Filing: ITLA CAPITAL CORP - Form 10-K

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) (1) FINANCIAL STATEMENTS:

Our consolidated financial statements, and Report of Independent Public Accountants thereon, are included in this Form 10-K at the pages listed below:

	PAGE
	---
Report of Independent Public Accountants	42
Consolidated Balance Sheets as of December 31, 2000 and 1999	43
Consolidated Statements of Income for the Years Ended December 31, 2000, 1999 and 1998	44
Consolidated Statements of Changes in Shareholders' Equity for the Period January 1, 1998 to December 31, 2000	45
Consolidated Statements of Cash Flows for the Years Ended December 31, 2000, 1999 and 1998	46
Notes to Consolidated Financial Statements	47

(a) (2) FINANCIAL STATEMENT SCHEDULES:

All financial statement schedules have been omitted as the required information is inapplicable or has been included in the Notes to Consolidated Financial Statements.

(a) (3) EXHIBITS:

REGULATION S-K EXHIBIT NUMBER	DOCUMENT	REFEREN PRIOR F OR EXH NUMB ATTAC HERE
-----	-----	-----
3.1	Certificate of Incorporation, as amended	**
3.2	Bylaws, as amended	**
4	Instruments Defining the Rights of Security Holders, Including Indentures	Non
9	Voting Trust Agreement	Non

Edgar Filing: ITLA CAPITAL CORP - Form 10-K

10.1	1995 Stock Option Plan for Nonemployee Directors	*
10.2	1995 Employee Stock Incentive Plan	*
10.3	Nonqualified Deferred Compensation Plan	***
10.4	Supplemental Salary Savings Plan	*
10.5	Glendale Headquarters Lease Agreement	*
10.6	Data Processing Agreement	*
10.7	Employment Agreement with George W. Haligowski	*
10.8	Change of Control Agreements	***
10.9	Recognition and Retention Plan	**
10.10	Voluntary Retainer Stock and Deferred Compensation Plan for Outside Directors	**
10.11	Supplemental Executive Retirement Plan	***
10.12	ITLA Capital Corporation Rabbi Trust Agreement	***
10.13	Salary Continuation Plan	10.13
11	Statement Regarding Computation of Per Share Earnings	Non
12	Statement Regarding Computation of Ratios	Non
13	Annual Report to Security Holders	Not req
18	Letter Regarding Change in Accounting Principles	Non
21	Subsidiaries of the Registrant	21
22	Published Report Regarding Matters Submitted to Vote of Security Holders	Non
23	Consent of Independent Certified Public Accountants	23
24	Power of Attorney	Not req
28	Information from Reports Furnished to State Insurance Regulatory Authorities	Non

-----

- \* Filed as exhibits to Imperial's Registration Statement on Form S-1 (File No. 33-96518) filed with the Commission on September 1, 1995, pursuant to Section 5 of the Securities Act of 1933.
- \*\* Filed as exhibits to the Company's Registration Statement on Form S-4 (File No. 333-03551) filed with the Commission on May 10, 1996, pursuant to Section 5 of the Securities Act of 1933.
- \*\*\* Previously filed on Registrants Form 10-K405 for the year ended December 31, 1999.

(b) REPORTS ON FORM 8-K:

None

SIGNATURES

PURSUANT TO THE REQUIREMENTS OF SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934, THE REGISTRANT HAS DULY CAUSED THIS REPORT TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED, THEREUNTO DULY AUTHORIZED.

ITLA CAPITAL CORPORATION

Date: April 2, 2001

By: /s/ George W. Haligowski

-----

Edgar Filing: ITLA CAPITAL CORP - Form 10-K

George W. Haligowski  
 Chairman of the Board, President  
 and Chief Executive Officer  
 (Duly Authorized Representative)

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES EXCHANGE ACT OF 1934, THIS REPORT HAS BEEN SIGNED BELOW BY THE FOLLOWING PERSONS IN THE CAPACITIES AND ON THE DATES INDICATED.

SIGNATURE -----	TITLE -----	DATE ---
/s/ George W. Haligowski ----- George W. Haligowski	Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer)	April 2
/s/ Timothy M. Doyle ----- Timothy M. Doyle	Managing Director and Chief Financial Officer (Principal Financial and Accounting Officer)	April 2
/s/ Norval L. Bruce ----- Norval L. Bruce	Director	April 2
/s/ Jeffrey L. Lipscomb ----- Jeffrey L. Lipscomb	Director	April 2
/s/ Sandor X. Mayuga ----- Sandor X. Mayuga	Director	April 2
/s/ Robert R. Reed ----- Robert R. Reed	Director	April 2
/s/ Hirotaka Oribe ----- Hirotaka Oribe	Director	April 2