IMPERIAL CAPITAL BANCORP, INC.
Form 10-K
March 17, 2008

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

FORM 10-K

(Mark One)
[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2007

OR

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

For the Transition Period From __________________ To __________________

Commission File Number 1-33199

IMPERIAL CAPITAL BANCORP, INC.
(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:

Title of Each Class	Name of Exchange on Which Registered
Common Stock, $.01 Par Value	New York Stock Exchange

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [ ] No [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes [ ] No [X]

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

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

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

Large Accelerated Filer [ ]	Accelerated Filer [X]
Non-Accelerated Filer [ ] (Do not check if a smaller reporting company)	Smaller reporting company [ ]

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

As of March 3, 2008, there were issued and outstanding 5,426,760 shares of the Registrant's Common Stock. The aggregate market value of the voting stock held by non-affiliates of the Registrant as of June 30, 2007, computed by reference to the closing price of such stock as of June 30, 2007, was $285.2 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.)

IMPERIAL CAPITAL BANCORP, INC.

FORM 10-K

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2007

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Forward-Looking Statements

"Safe Harbor" statement under the Private Securities Litigation Reform Act of 1995: This Form 10-K contains forward-looking statements that are subject to risks and uncertainties, including, but not limited to, changes in economic conditions in our market areas, changes in policies by regulatory agencies, the impact of competitive loan products, loan demand risks, the quality or composition of our loan or investment portfolios, increased costs from pursuing the national expansion of our lending platform and operational challenges inherent in implementing this expansion strategy, fluctuations in interest rates, and changes in the relative differences between short- and long-term interest rates, levels of non-performing assets and other loans of concern, and operating results, the economic impact of any terrorist actions and other risks detailed from time to time in our filings with the Securities and Exchange Commission. We caution readers not to place undue reliance on any 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 2008 and beyond to differ materially from those expressed in any forward-looking statements by, or on behalf of, us, and could negatively affect the Company's operating and stock price performance.

As used throughout this report, the terms "we", "our", "us", or the "Company" refer to Imperial Capital Bancorp, Inc. and its consolidated subsidiaries.

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PART I

Item 1. Business

General

Imperial Capital Bancorp, Inc. (formerly ITLA Capital Corporation) ("ICB") is a diversified bank holding company headquartered in San Diego County, California with consolidated assets of $3.6 billion, consolidated net loans of $3.1 billion, consolidated deposits of $2.2 billion and consolidated shareholders' equity of $227.6 million as of December 31, 2007. We conduct and manage our business principally through our wholly-owned subsidiary, Imperial Capital Bank (the "Bank"), an institution with $3.5 billion in assets and six retail branches located in California (Beverly Hills, Costa Mesa, Encino, Glendale, San Diego, and San Francisco), one retail branch located in Carson City, Nevada, and one retail branch located in Baltimore, Maryland. During 2008, we expect to open an additional retail branch office to be located in Las Vegas, Nevada. Our branch offices are primarily used for our deposit services and lending business. Additionally, the Bank has 25 loan origination offices serving the Western United States, the Southeast region, the Mid-Atlantic region, the Ohio Valley, the Metro New York area and New England. The Bank has been in business for 33 years. In 2005, we opened our east coast headquarters in Times Square in New York City. This office manages and supports our east coast real estate lending efforts.

We are primarily engaged in:

- Originating and purchasing real estate loans secured by income producing properties for retention in our loan portfolio;
- Originating entertainment finance loans; and
- Accepting customer deposits through the following products: certificates of deposits, money market, passbook and demand deposit accounts. Our deposit accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to the legal limits.

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

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

Lending Activities

General. During 2007, our core lending activities were as follows:

- Originating and, to a lesser extent, purchasing real estate loans secured by income producing properties, or properties under construction; and
- Originating entertainment finance loans.

Income Producing Property Loans. We originate and purchase real estate loans secured by first trust deeds or first mortgages on commercial and multi-family real estate. Our collateral consists primarily of the following types of properties:

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

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At December 31, 2007, we had $2.6 billion of income producing property loans outstanding, representing 85.6% of our total real estate loans, and 83.1% of our gross loan portfolio. Most of our real estate borrowers are business owners, individual investors, investment partnerships or limited liability entities. The income producing property lending that we engage in typically involves loans to a single borrower and is generally viewed as exposing the lender to a greater risk of loss than one- to four-family residential lending, because repayment of the loan generally is dependent, in large part, on the successful operation of the property securing the loan or the business conducted on the property securing the loan.

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;
- •Increases in other operating expenses (including energy costs);
- •Declines in rental, room or occupancy rates in hotels, apartment complexes or commercial properties;
- •Declines in real estate values;
- •Availability of financing for investors/owners of income producing properties;
- •Other factors beyond the control of the borrower or the lender;
- •Increases in interest rates, real estate and personal property tax rates; and
- •Changes in governmental rules, regulations and fiscal policies, including rent control ordinances, environmental legislation and taxation.

We originate real estate loans through our retail branches and loan origination offices. These offices are staffed by a total of 42 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.

Income producing property loans are generally made in amounts up to 75% of the appraised value of the property; however, multi-family loan originations may be made at a loan to value ratio of up to 80%. Loans are generally made for terms of between ten and 30 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.

The average yield on our real estate loan portfolio was 7.39% in 2007 compared to 7.74% in 2006. A significant portion of our loan portfolio is comprised of adjustable rate loans indexed to either six month LIBOR or the Prime Rate, most with interest rate floors and caps below and above which the loan's contractual interest rate may not adjust. Approximately 49.3% of our loan portfolio was adjustable at December 31, 2007, and approximately 46.5% of the loan portfolio as of that date was comprised of hybrid loans, which after an initial fixed rate period of three or five years, will convert to an adjustable interest rate for the remaining term of the loan. As of December 31, 2007, our hybrid loans had a weighted average of 2.3 years remaining until conversion to an adjustable rate loan. Our adjustable rate loans generally reprice on a quarterly or semi-annual basis with increases generally limited to maximum adjustments of 2% per year up to 5% for the life of the loan. At December 31, 2007, approximately $2.7 billion, or 85.0%, of our adjustable and hybrid loan portfolio contained interest rate floors, below which the loans' contractual interest rate may not adjust. The inability of our loans to adjust downward can contribute to increased income in periods of declining interest rates, and also assists us in our efforts to limit the risks to earnings resulting from changes in interest rates, subject to the risk that borrowers may refinance these loans during periods of declining interest rates. At December 31, 2007, the weighted average floor interest rate of these loans was 7.31%. At that date, approximately $251.9 million, or 7.9%, of these loans were at the floor interest rate. At December 31, 2007, 42.0% of the adjustable rate loans outstanding had a lifetime interest rate cap. The weighted-average lifetime interest rate cap on our adjustable rate loan portfolio was 11.80% at that date. At December 31, 2007, none of the loans in our adjustable rate loan portfolio were at their cap rate.

Total loan production, including the unfunded portion of loans, was $1.2 billion for the year ended December 31, 2007, as compared to $1.6 billion, for each of the years ended December 31, 2006 and 2005. Loan production in 2007 consisted of the origination of $721.5 million of commercial real estate loans, $331.9 million of small balance multi-family real estate loans and $114.4 million of entertainment finance loans, and the acquisition of $47.3 million of commercial and multi-family real estate loans by our wholesale loan operations. In our real estate loan purchases, we generally apply the same underwriting criteria as loans internally originated and reserve the right to reject particular loans from a loan pool being purchased that do not meet our underwriting criteria. The decline in loan production in 2007 was primarily due to a $450.4 million decrease in wholesale loan acquisitions during the year, primarily related to a reduction in loan pools being offered in the secondary market that met our pricing and credit requirements.

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Real Estate Construction and Land Loans. We originate construction and land loans for the primary purpose of developing or rehabilitating single-family residences, condominiums, and commercial real estate. At December 31, 2007, our construction and land loans amounted to $421.1 million, or 13.4%, of our gross loan portfolio. Approximately $210.3 million, or 49.9%, of our construction and land loan portfolio consisted of new condominium or condominium conversion loans, $106.9 million, or 25.4%, consisted of commercial and multifamily real estate loans, $61.1 million, or 14.5%, consisted of land loans, and $42.8 million, or 10.2%, consisted of single-family residential construction loans. At December 31, 2007, $226.2 million, or 53.7%, of our construction projects were located in California, $65.5 million, or 15.6%, were for projects located in New York, $39.7 million, or 9.4%, were for projects located in Arizona, $21.3 million, or 5.1%, were for projects located in Texas and $19.1 million, or 4.5%, were for projects located in Florida.

Loan commitment amounts for residential and condominium construction loans typically range from $3.0 to $20.0 million with an average loan commitment at December 31, 2007 of $15.6 million and $7.7 million, respectively. At December 31, 2007, the unadvanced portion of residential and condominium construction loans were $39.2 million and $105.4 million, respectively. Commercial construction loans typically consist of mixed-use retail and other commercial related projects. At December 31, 2007, the average loan commitment for our commercial construction loans was $5.8 million and the unadvanced portion of these commitments was $59.5 million. Our land loans generally finance the acquisition and/or development of improved lots or unimproved raw land that will be utilized in the development of single-family tract housing. At December 31, 2007, the average loan commitment for our land loans was $4.4 million and the unadvanced portion of these commitments was $7.4 million.

Loans to finance our construction projects are generally offered to experienced builders and developers. We regularly monitor our real estate construction loans and the economic conditions and markets where our projects are located, including the number of unsold properties in our residential and condominium construction loan portfolio. Maturity dates for construction loans are largely a function of the estimated construction period of the project, and generally do not exceed 12 to 24 months. Substantially all of our construction loans have adjustable rates of interest based on the Prime Rate.

Entertainment Finance Loans. We conduct our entertainment finance operations through ICB Entertainment Finance ("ICBEF"), a division of the Bank. Typically, ICBEF lends to independent producers of film and television on a senior secured basis. Collateral documents include a mortgage of copyright, security agreements and assigned sales contracts. Credit decisions are based in part on the creditworthiness and reputation of the producer, the sales agent and distributors who have contracted to distribute the films. ICBEF provides loans (with a typical term of 12 to 18 months) and letters of credit for the production of motion pictures and television shows or series that have a predictable market worldwide, and therefore, a predictable level of revenue arising from licensing of the worldwide distribution rights.

ICBEF lends to independent producers of film and television, many of which are located in California. To a lesser extent, ICBEF also has borrowing clients outside of the United States; however, loans are typically denominated in United States dollars. Independent producers tend to be those producers that do not have major studio distribution outlets for their product. Large film and television studios generally maintain their own distribution outlets and finance their projects with internally generated financing. In addition to funding production loans against a number of distribution contracts, ICBEF may permit an advance, generally not to exceed 20% of the budget amount, against its valuation of unsold rights. ICBEF uses industry standards in the valuation of unsold rights. ICBEF's lending officers review the quality of the distributors and their contracts, the budget, the producer's track record, the script, the genre, talent elements, the schedule of advances, and valuation of all distribution rights when considering a new lending opportunity. Generally, ICBEF loans require the borrower to provide a completion bond that guarantees the completion of the film or the payoff of the outstanding balance of the loan in the event the film is not completed. After closing, each requested advance is approved by the bonding company on a regular basis to ensure that ICBEF is not advancing ahead of an agreed-upon cash flow schedule. The loan documentation grants ICBEF the right to impose certain penalties on the borrower and exercise certain other rights, including replacing the sales agent, if sales are not consummated within the appropriate time. Loans are repaid principally from revenue received from distribution contracts. In many instances, the distribution contracts provide for multiple payments payable at certain milestones (such as execution of contract, commencement of principal photography or completion of principal photography). The maturity date of the loan is generally six to nine months after completion of the production. Delivery of the completed production is typically made to the various distributors upon or after their minimum guarantees have been paid in full. To the extent a distributor fails to make payment upon completion of the film, or the predicted level of revenue is less than expected, we may incur a loss if rights cannot be resold for the same amount or other loan collateral cannot cover required loan payments.

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ICBEF typically charges its customers an interest rate of three month LIBOR plus a margin (exclusive of loan fees) on the outstanding balance of the loan. Loan fees range from 0.75% to 1.50% with an additional fee up to 7.00% depending on the unsecured amount of the production budget being financed.

At December 31, 2007 and 2006, our entertainment finance portfolio totaled $76.3 million and $74.2 million, respectively, representing 2.4% and 2.5% of our gross loan portfolio as of these dates. Of these amounts, approximately $14.1 million and $10.3 million, respectively, were issued to producers domiciled outside of the United States. The foreign loans outstanding at December 31, 2007 were primarily issued to producers located in Australia. Approximately $8.6 million, $5.6 million and $7.7 million of interest income was earned during 2007, 2006 and 2005, respectively, in connection with our entertainment finance portfolio.

Franchise Loans. During 2005, we closed our franchise lending operations and sold approximately $110.0 million, or 89.0%, of the remaining loans within this portfolio. We do not currently anticipate originating or purchasing franchise loans in the future. Franchise loans are loans to owners of businesses, both franchisors and franchisees, such as fast food restaurants or gasoline retailers that are affiliated with nationally or regionally recognized chains and brand names. Various combinations of land, building, business equipment and fixtures may secure these loans, or they may be a general obligation of the borrower based on an evaluation of the borrower's business and debt service ability. As of December 31, 2007 and 2006, our franchise loan portfolio was $2.7 million and $9.3 million, respectively, which represented less than one percent of our gross loan portfolio as of those dates.

Loan Underwriting. Initial loan review for potential applications is performed by the Regional Directors and Area Manager of our loan origination offices, in consultation with the Chief Lending Officer, the Chief Operating Officer, Chief Underwriter, and the Chief Credit Officer. Our loan underwriters are responsible for detailed reviews of borrowers, collateral, and loan terms, and prepare a written presentation for every loan application submitted to the real estate loan committee, which is comprised of the following Bank officers:

•Chairman, President, and Chief Executive Officer
•Vice Chairman of the Board
•Executive Managing Director/Chief Credit Officer
•Executive Managing Director/Chief Operating Officer
•Senior Managing Director/Chief Lending Officer
•Managing Director/Business Lending Credit
•Deputy Managing Director/Director of Portfolio Management
•Deputy Managing Director/Eastern Area Manager
•Deputy Managing Director/Western Area Manager
•Deputy Managing Director/Chief Underwriter
•First Vice President/East Coast Credit Executive

The underwriting standards for loans secured by income producing real estate 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.

All real estate secured loans over $3.0 million must be submitted to the loan committee for approval. At least one loan committee member or designee must personally conduct on-site inspections of any property involved in connection with a real estate loan recommendation of $2.0 million or more for unstabilized properties and $3.0 million for stabilized properties. Loans up to $750,000 may be approved by any loan committee member. Loans of $750,000 to $2.0 million require approval by any two members of the Bank's loan committee, while loans in excess of $2.0 million require approval of three loan committee members, one of whom must be the Chief Lending Officer, and only one of whom may be from the Loan Production Unit. Additionally, loans over $3.0 million require the approval of the Chief Credit Officer; and individual loans over $7.5 million, loans resulting in an aggregate borrowing relationship to one borrower in excess of $10.0 million, and all purchased loan pools must be approved by the Executive Committee of the Bank's Board of Directors.

All entertainment finance loans over $1.0 million are submitted to the business lending loan committee for approval. All loans must be approved by the Managing Director/Credit Risk Director and loans over $3.0 million must be approved by the Executive Managing Director/Chief Credit Officer. Individual loans over $7.5 million, loans resulting in an aggregate borrowing relationship to one borrower in excess of $10.0 million, and all purchased loan pools must be approved by the executive committee of the Bank's Board of Directors.

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

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The maximum size of a single loan made by the Bank is limited by California law to 25% of the Bank's equity capital. At December 31, 2007, that limit was approximately $70.0 million. Our largest combined credit extension to related borrowers was $40.3 million at December 31, 2007. We had three other relationships in excess of $20.0 million at December 31, 2007, with a combined aggregate balance of $72.0 million at that date. At December 31, 2007, we had a total of 207 extensions of credit, with a combined outstanding principal balance of $818.8 million that were over $5.0 million to a single borrower or related borrowers. All combined extensions of credit over $5.0 million were performing in accordance with their repayment terms, with the exception of two credit relationships aggregating $16.3 million that were on nonaccrual status at December 31, 2007. At December 31, 2007, we had 3,334 real estate loans outstanding, with an average balance per loan of approximately $942,000.

Servicing and Collections. Our loan portfolio is predominantly serviced by our loan servicing department, which is designed to provide prompt customer service, accurate and timely information for account follow-up, financial reporting and management review. We monitor our loans to ensure that projects are performing as underwritten. This monitoring allows us 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 fifteenth 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 reviewed more closely by our asset management department which is responsible for implementing a collection or restructuring plan, or a disposition strategy, and evaluates any potential loss exposure on the asset. Our servicing department has received a primary servicer rating of "SBPS3" by Fitch Ratings. Fitch rates small balance commercial mortgage primary and special servicers on a scale of 1 to 5, with 1 being the highest rating. According to Fitch Ratings the rating reflects the Bank's experienced servicing management and staff, including asset managers and its longtime experience as a small balance commercial mortgage loan servicer. The special servicer rating was based on our ability to work out, resolve and dispose of small balance commercial mortgage loans and real estate owned (REO) properties.

Competition. We face substantial competition in all phases of our operations, including deposit accounts and loan originations, from a variety of competitors. Our competition for existing and potential customers is principally from community banks, savings and loan associations, industrial banks, real estate financing conduits, specialty finance companies, small insurance companies, and larger banks. Many of these entities enjoy competitive advantages over us relative to a potential borrower in terms of a prior business relationship, wider geographic presence or more accessible branch office locations, the ability to offer additional services or more favorable pricing alternatives, or a lower cost of funds structure. We attempt to offset the potential effect of these factors by providing borrowers with higher interest rates for deposits and 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 collateralized mortgage obligations ("CMOs") of the ICCMAC Multi-family and Commercial Trust 1999-1 ("ICCMAC Trust") through our real estate investment trust subsidiary, Imperial Capital Real Estate Investment Trust ("Imperial Capital REIT"). During 2004, the CMOs were retired and the ICCMAC Trust was dissolved. The remaining outstanding loans were contributed to Imperial Capital REIT. At December 31, 2007, Imperial Capital REIT held net real estate loans of $1.8 million. The cash flow from Imperial Capital REIT loan pool provides cash flow on a monthly basis to ICB. ICB recognized $171,000 of interest income from the loans held in Imperial Capital REIT during the year ended December 31, 2007.

Non-performing Assets and Other Loans of Concern

At December 31, 2007, non-performing assets totaled $57.4 million or 1.62% of total assets. Non-performing assets consisted of $38.0 million of non-accrual loans and $19.4 million of other real estate and other assets owned consisting of 19 properties. For additional information regarding non-performing assets see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Credit Risk Elements".

As of December 31, 2007, we had loans with an aggregate outstanding balance of $27.4 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. This known information may result in the future inclusion of such loans in the non-accrual loan category. All of these loans are classified as substandard pursuant to the regulatory guidelines discussed below.

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Classified Assets

Management uses a loan classification system consistent with the classification system used by bank regulatory agencies to help it evaluate the risks inherent in its loan portfolio. Loans are identified as “pass”, “substandard”, “doubtful” or “loss” based upon consideration of all sources of repayment, underlying collateral values, current and anticipated economic conditions, trends and uncertainties, and historical experience. Pass loans are further divided into four additional sub-categories, based on the type and nature of underlying collateral, as well as the borrower’s financial strength and ability to service the debt. 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, 2007, we classified $65.4 million of loans as “substandard”, none as “doubtful” and none as “loss” of which, $38.0 million of these classified loans were included in the non-performing assets table in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations - Credit Risk Elements”.

Funding Sources

The primary source of funding for our lending operations and investments are deposits. Our deposits are federally insured by the FDIC to the maximum extent permitted by law. At December 31, 2007 deposits totaled $2.2 million of which approximately 86.5% were term deposits that pay fixed rates of interest for periods ranging from 90 days to five years, 11.5% were adjustable rate passbook accounts and adjustable rate money market accounts with limited checking features, and 2.0% were customer demand deposit accounts.

Our retail checking account balance was $43.3 million at December 31, 2007. We generally accumulate deposits by relying on renewals of term accounts by existing depositors, participating in deposit rate surveys which promote the rates offered by us on our deposit products, and periodically advertising in various local market newspapers and other media. Management believes that our deposits are a reliable funding source and that the cost of funds resulting from our deposit gathering strategy is comparable to those of other banks pursuing a similar strategy. However, because we compete for deposits primarily on the basis of rates, we could experience difficulties in attracting deposits if we could not continue to offer deposit rates at levels above those of other financial institutions. Management also believes that any efforts to significantly increase the size of our deposit base may require greater marketing efforts and/or increases in deposit rates. At December 31, 2007, $379.4 million, or 17.4% of total deposits, were brokered deposits.

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 also uses advances from the Federal Home Loan Bank or FHLB of San Francisco and borrowings from other unaffiliated financial institutions as funding sources. FHLB advances are collateralized by pledges of qualifying cash equivalents, investment securities, mortgage-backed securities and loans. At December 31, 2007, FHLB advances outstanding totaled $1.0 billion, and the remaining available borrowing capacity, based on the loans and securities pledged as collateral, totaled $415.6 million, net of the $13.2 million of additional FHLB Stock that we would be required to purchase to support the additional borrowings. Additionally, the Bank has a $30.0 million repurchase agreement borrowing from an unaffiliated financial institution that is secured by mortgage-backed securities. As of December 31, 2007, we had an available borrowing capacity under the Federal Reserve Bank of San Francisco credit facility of $178.5 million. We also had available $131.0 million of uncommitted, unsecured lines of credit with four unaffiliated financial institutions, and a $37.5 million revolving credit facility with an unaffiliated financial institution. See “Item 8. Financial Statements and Supplementary Data — Notes to Consolidated Financial Statements — Notes 7, 8, and 9”.

Regulation

As a bank holding company, ICB is regulated by the Board of Governors of the Federal Reserve System (the “Federal Reserve Board” or “FRB”). As a California-chartered commercial bank, the Bank is regulated by the California Department of Financial Institutions (the “DFI”) and the Federal Deposit Insurance Corporation (the “FDIC”).

Holding Company Regulation

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

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

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

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

This statute also prohibits a bank holding company, with certain exceptions, from acquiring direct or indirect ownership or control of more than 5% of the voting shares of any company which is not a bank or bank holding company, or from engaging directly or indirectly in activities other than those of banking, managing or controlling banks, or providing services for its subsidiaries. The principal exceptions to these prohibitions involve certain non-bank activities which have been identified as activities closely related to the business of banking or managing or controlling banks. Companies that qualify as financial holding companies may also engage in securities, insurance and merchant banking activities.

Dividends. The Federal Reserve Board has issued a policy statement on the payment of cash dividends by bank holding companies, which expresses the Federal Reserve Board’s view that a bank holding company should pay cash dividends only to the extent that its net income for the past year is sufficient to cover both the cash dividends and a rate of earnings retention that is consistent with the bank holding company’s capital needs, asset quality and overall financial condition. Furthermore, under its source of strength doctrine, the Federal Reserve Board expects a bank holding company to serve as a source of financial strength for its bank subsidiaries, which could limit the ability of a holding company to pay dividends if a bank subsidiary did not have sufficient capital.

Repurchase or Redemption of Equity Securities. A bank holding company is required to give the Federal Reserve Board prior written notice of any purchase or redemption of its outstanding equity securities if the gross consideration for the purchase or redemption, when combined with the net consideration paid for all such purchases or redemptions during the preceding 12 months, is equal to 10% or more of its consolidated net worth. The Federal Reserve Board may disapprove such a purchase or redemption if it determines that the proposal would constitute an unsafe or unsound practice or would violate any law, regulation, Federal Reserve Board order, or any condition imposed by, or written agreement with, the Federal Reserve Board. This notification requirement does not apply to any company that meets the well-capitalized standard for bank holding companies, has a safety and soundness examination rating of at least a “2” and is not subject to any unresolved supervisory issues.

Regulatory Capital Requirements. The Federal Reserve has established risk-based measures and a leverage measure of capital adequacy for bank holding companies.

The risk-based capital standards are designed to make regulatory capital requirements more sensitive to differences in risk profiles among banks and bank holding companies, to account for off-balance-sheet exposure, and to minimize disincentives for holding liquid assets. Assets and off-balance-sheet items, such as letters of credit and unfunded loan commitments, are assigned to broad risk categories, each with appropriate risk weights. The resulting capital ratios represent capital as a percentage of total risk-weighted assets and off-balance-sheet items.

The minimum ratio of total capital to risk-weighted assets is 8.0%. Total capital consists of two components, Tier 1 capital and Tier 2 capital. Tier 1 capital generally consists of common shareholders' equity, including retained earnings, noncumulative perpetual preferred stock, certain trust preferred securities and minority interest in equity accounts of fully consolidated subsidiaries, less goodwill and other specified intangible assets. Tier 1 capital must equal at least 4.0% of risk-weighted assets. Tier 2 capital generally consists of subordinated debt and other hybrid capital instruments, other preferred stock, a limited amount of loan loss reserves and a limited amount of unrealized holding gains on equity securities. The total amount of Tier 2 capital is limited to 100% of Tier 1 capital. At December 31, 2007, our ratio of total capital to risk-weighted assets was 11.3% and our ratio of Tier 1 capital to risk-weighted assets was 9.7%.

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In addition, the Federal Reserve has established minimum leverage ratio guidelines for bank holding companies. These guidelines provide for a minimum ratio of Tier 1 capital to average assets, less goodwill and other specified intangible assets, of 3.0% for certain bank holding companies that meet specified criteria, including having the highest regulatory rating and implementing the Federal Reserve's risk-based capital measure for market risk. All other bank holding companies generally are required to maintain a leverage ratio of at least 4.0%. At December 31, 2007, ICB's required leverage ratio was 4.0% and its actual leverage ratio was 8.4%.

ICB currently is deemed "well capitalized" under the Federal Reserve Board capital requirements. To be well capitalized, a bank holding company must have a ratio of total capital to risk weighted assets of at least 10% and a ratio of Tier 1 capital to risk weighted assets of at least 6.0%.

Failure to meet capital guidelines could subject a bank or bank holding company to a variety of enforcement remedies, including issuance of a capital directive, the termination of deposit insurance by the FDIC, a prohibition on accepting brokered deposits, and other restrictions on its business. As described below, significant additional restrictions can be imposed on FDIC-insured depository institutions that fail to meet applicable capital requirements.

Bank Regulation — California Law

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

Bank Regulation — Federal Law

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

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

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

Tier 1 Capital Ratio. FDIC regulations establish a minimum 3.0% ratio of tier 1 capital to total average assets for the most highly-rated state-chartered, FDIC-supervised banks. All other FDIC supervised banks must maintain at least a 4.0% tier 1 capital ratio. At December 31, 2007, the Bank's required minimum tier 1 capital ratio was 4.0% and its actual tier 1 capital ratio was 8.3%.

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

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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 and certain 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, the allowance for loan losses up to a maximum of 1.25% of risk-weighted assets and a limited amount of unrealized holding gains on securities. At December 31, 2007 the Bank’s required minimum tier 1 risk-based and total capital ratios were 4.0% and 8.0% respectively and its actual was 9.6% and 10.9%, respectively.

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

Prompt Corrective Action Requirements. The FDIC has implemented a system requiring regulatory sanctions against state-chartered banks that are not adequately capitalized, with the sanctions growing more severe the lower the institution’s capital. The FDIC has established specific capital ratios for five separate capital categories: “well capitalized”, “adequately capitalized”, “undercapitalized”, “significantly undercapitalized”, and “critically undercapitalized”.

An institution is treated as “well capitalized” if its total risk based capital ratio is 10.0% or more, its tier 1 risk-based ratio is 6.0% or more, its tier 1 capital ratio is 5.0% or greater, and it is not subject to any order or directive by the FDIC to meet a specific capital level. The Bank exceeded these requirements at December 31, 2007.

The FDIC is authorized and, under certain circumstances, required to take certain actions against institutions that are not at least adequately capitalized. 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. The capital restoration plan must include a limited guaranty by the institution’s holding company. 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”.

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.

Deposit Insurance. The Bank’s deposits are insured up to applicable limits by the Deposit Insurance Fund, or DIF, which is administered by the FDIC. The FDIC insures deposits up to the applicable limits and this insurance is backed by the full faith and credit of the United States government. As insurer, the FDIC imposes deposit insurance premiums and is authorized to conduct examinations of and to require reporting by institutions insured by the FDIC. It also may prohibit any institution insured by the FDIC from engaging in any activity determined by regulation or order to pose a serious risk to the institution. The FDIC also has the authority to initiate enforcement actions against insured institutions and may terminate the deposit insurance if it determines that an institution has engaged in unsafe or unsound practices or is in an unsafe or unsound condition.

Under regulations effective January 1, 2007, the FDIC adopted a new risk-based premium system that provides for quarterly assessments based on an insured institution's ranking in one of four risk categories based upon supervisory and capital evaluations. Well-capitalized institutions (generally those with capital adequacy, asset quality, management, earnings and liquidity, or "CAMELS" composite ratings of 1 or 2) are grouped in Risk Category I and assessed for deposit insurance at an annual rate of between five and seven basis points. The assessment rate for an individual institution is determined according to a formula based on a weighted average of the institution's individual CAMEL component ratings plus either five financial ratios or, in the case of an institution with assets of $10.0 billion or more, the average ratings of its long-term debt. Institutions in Risk Categories II, III and IV are assessed at annual rates of 10, 28 and 43 basis points, respectively. This assessment for the year ended December 31, 2007 was approximately $1.0 million and was offset by a one-time credit assessment allocated to member institutions under the Federal Deposit Insurance Reform Act of 2005. As of December 31, 2007, the remaining assessment credit available to offset our future deposit insurance assessment was $34,000.

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The FDIC also collects assessments against the assessable deposits of insured institutions to service the debt on bonds issued during the 1980s to resolve the thrift bailout. Our expense related to this assessment for the year ended December 31, 2007 was $250,000.

Community Reinvestment Act and Fair Lending Requirements. 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 its most recent examination, the FDIC rated the Bank "satisfactory" in complying with its Community Reinvestment Act obligations. The Bank is also subject to certain fair lending (nondiscrimination) requirements. In addition to substantial penalties and corrective measures that may be required for a violation of certain fair lending laws, the federal banking agencies take compliance with such laws into account when regulating and supervising other activities such as mergers and acquisitions.

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 our business, results of operations and financial condition.

Federal Reserve Board regulations require the Bank to maintain non-interest earning reserves against the Bank's transaction deposit accounts. Currently, the first $8.5 million of otherwise reservable balances are exempt from the reserve requirement, a 3% reserve requirement applies to balances over $9.3 million up to $43.9 million and a 10% reserve requirement applies to balances over $43.9 million. The Bank was in compliance with these requirements as of December 31, 2007.

Privacy Provisions. Banking regulators, as required under the Gramm-Leach-Bliley Act ("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 generally 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 affect how consumer information is transmitted through diversified financial services companies and conveyed to outside vendors.

The State of California has adopted The California Financial Information Privacy Act ("CFPA"), which took effect in 2004. The CFPA requires a financial institution to provide specific information to a consumer related to the sharing of that consumer's nonpublic personal information. A consumer may direct the financial institution not to share his or her nonpublic personal information with affiliated or nonaffiliated companies with which a financial institution has contracted to provide financial products and services, and requires that permission from the consumer be obtained by a financial institution prior to sharing such information. These provisions are more restrictive than the privacy provisions of the GLB Act.

In December 2003, the U.S. Congress adopted, and President Bush signed, the Fair and Accurate Transactions Act (the "FACT Act"). In 2005, federal courts determined that the provisions of the CFPA limiting shared information with affiliates are preempted by provisions of the GLB Act, the FACT Act and the Fair Credit Reporting Act.

International Money Laundering Abatement and Financial Anti-Terrorism Act of 2001. President Bush signed the USA Patriot Act of 2001 into law in October 2001. This act contains the International Money Laundering Abatement and Financial Anti-Terrorism Act of 2001 (the "IMLAFA"). The IMLAFA substantially broadened existing anti-money laundering legislation and the extraterritorial jurisdiction of the United States, imposes new compliance and due diligence obligations, creates new crimes and penalties, compels the production of documents located both inside and outside the United States, and clarifies the safe harbor from civil liability to customers. The U.S. Treasury Department has issued a number of regulations implementing the USA Patriot Act that apply certain of its requirements to financial institutions such as the Bank. The regulations impose obligations on financial institutions to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing. The increased obligations of financial institutions, including us, to identify their customers, watch for and report suspicious transactions, respond to requests for information by regulatory authorities and law enforcement agencies, and share information with other financial institutions, requires the implementation and maintenance of internal procedures, practices and controls which have increased, and may continue to increase, our costs and may subject us to liability.

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Enforcement and compliance-related activity by government agencies has increased. Money laundering and anti-terrorism compliance are among the areas receiving a high level of focus in the present environment.

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

Employees

As of December 31, 2007, we had 268 employees. Management believes that its relations with employees are satisfactory. We are not subject to any collective bargaining agreements.

Segment Reporting

Financial and other information regarding our operating segments is contained in Note 17 to our audited consolidated financial statements included in Item 8 of this report.

Internet Website

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

Item 1A. Risk Factors

An investment in our common stock is subject to risks inherent in our business. Before making an investment decision, you should carefully consider the risks and uncertainties described below together with all of the other information included in this report. In addition to the risks and uncertainties described below, other risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition and results of operations. The value or market price of our common stock could decline due to any of these identified or other risks, and you could lose all or part of your investment.

Fluctuations in interest rates could reduce our profitability and affect the value of our assets.

Like other financial institutions, we are subject to interest rate risk. Our primary source of income is net interest income, which is the difference between interest earned on loans and investments and the interest paid on deposits and borrowings. We expect that we will periodically experience imbalances in the interest rate sensitivities of our assets and liabilities and the relationships of various interest rates to each other. Over any defined period of time, our interest-earning assets may be more sensitive to changes in market interest rates than our interest-bearing liabilities, or vice versa. In addition, the individual market interest rates underlying our loan and deposit products may not change to the same degree over a given time period. In any event, if market interest rates should move contrary to our position, our earnings may be negatively affected. In addition, loan volume and quality and deposit volume and mix can be affected by market interest rates. Changes in levels of market interest rates could materially adversely affect our net interest spread, asset quality, origination volume and overall profitability.

We principally manage interest rate risk by managing our volume and mix of our earning assets and funding liabilities. In a changing interest rate environment, we may not be able to manage this risk effectively. If we are unable to manage interest rate risk effectively, our business, financial condition and results of operations could be materially harmed.

Changes in the level of interest rates also may negatively affect our ability to originate loans, the value of our assets and our ability to realize gains from the sale of our assets, all of which ultimately affect our earnings.

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An increase in loan prepayments may adversely affect our profitability.

Prepayment rates are affected by customer behavior, conditions in the real estate and other financial markets, general economic conditions and the relative interest rates on our fixed-rate and adjustable-rate mortgage loans and mortgage-backed securities. Changes in prepayment rates are therefore difficult for us to predict.

We recognize our deferred loan origination costs and premiums paid in originating these loans by adjusting our interest income over the contractual life of the individual loans. As prepayments occur, the rate at which net deferred loan origination costs and premiums are expensed accelerates. The effect of the acceleration of deferred costs and premium amortization may be mitigated by prepayment penalties paid by the borrower when the loan is paid in full within a certain period of time which varies between loans. If prepayment occurs after the period of time when the loan is subject to a prepayment penalty, the effect of the acceleration of premium and deferred cost amortization is no longer mitigated.

We may not be able to reinvest prepayments on loans or mortgage-backed securities at rates comparable to the prepaid instrument particularly in periods of declining interest rates.

An inadequate allowance for loan losses would reduce our earnings.

We are exposed to the risk that our borrowers will be unable to repay their loans according to their terms and that any collateral securing the payment of their loans will not be sufficient to assure full repayment. Credit losses are inherent in the lending business and could have a material adverse effect on our operating results. Volatility and deterioration in the economy may also increase our risk for credit losses. We evaluate the collectibility of our loan portfolio and provide an allowance for loan losses that we believe is adequate based upon such factors as:

- the risk characteristics of various classifications of loans;
- general portfolio trends relative to asset and portfolio size;
- potential credit and geographic concentrations;
- delinquency trends and nonaccrual levels;
- historical loss and recovery experience and risks associated with changes in economic, social and business conditions;
- the amount and quality of the collateral;
- the views of our regulators; and
- the underwriting standards in effect when the loan is made.

If our evaluation is incorrect and borrower defaults cause losses exceeding our allowance for loan losses, our earnings could be materially and adversely affected. We cannot assure you that our allowance will be adequate to cover loan losses inherent in our portfolio. We may experience losses in our loan portfolio or perceive adverse trends that require us to significantly increase our allowance for loan losses in the future, which would also reduce our earnings. In addition, the Bank’s regulators, as an integral part of their examination process, may require us to make additional provisions for loan losses.

Our income producing property loans involve higher principal amounts and expose us to a greater risk of loss than one-to-four family residential loans.

At December 31, 2007, we had $2.6 billion of loans secured by commercial and multi-family real estate, representing 85.6% of our total real estate loans and 83.1% of our gross loan portfolio. The income generated from the operation of the property securing the loan is generally considered by us to be the principal source of repayment on this type of loan. A significant portion of the income producing property lending in which we engage typically involves larger loans to a single borrower and is generally viewed as exposing the lender to a greater risk of loss than one-to-four family residential lending because these loans generally are not fully amortizing over the loan period, but have a balloon payment due at maturity. A borrower's ability to make a balloon payment typically will depend on being able to either refinance the loan or timely sell the underlying property. 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:

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- 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;
- increases in interest rates, real estate and personal property tax rates, and
- other factors beyond the control of the borrower or the lender.

We generally originate and acquire income producing property loans primarily to be held in our portfolio to maturity. Because the resale market for this type of loan is less liquid than the well-established secondary market for residential loans, should we decide to sell our income producing property loans, we may incur losses on any sale.

The unseasoned nature of many of the loans we originated as part of our small balance multi-family real estate loan platform, along with our limited experience in originating loans nationwide, may lead to additional provisions for loan losses or charge-offs, which would hurt our profits.

The national expansion of our real estate loan platform and, in particular, our small balance multi-family real estate loans has led to an increase in the number of these types of loans in our portfolio. Many of these loans are unseasoned and have not been subjected to unfavorable economic conditions. We have limited experience in originating loans outside the State of California and as a result do not have a significant payment history pattern with which to judge future collectibility. At December 31, 2007, $1.7 billion, or 56.2%, of our real estate secured loans were secured by properties located outside the state of California. As a result, it is difficult to predict the future performance of this portion of our real estate loan portfolio. These loans may have delinquency or charge-off levels above our historical experience, which could adversely affect our profitability.

Our construction loans are based upon estimates of costs and value associated with the complete project. These estimates may be inaccurate.

We originate construction loans for income producing properties, as well as for single family home construction. At December 31, 2007, construction and land loans totaled $421.1 million, or 13.4% of gross loans receivable. Residential, including condominium, construction loans consisted of $253.1 million, or 8.0% of our total loan portfolio at December 31, 2007. Construction lending involves additional risks because funds are advanced upon the security of the project, which is of uncertain value prior to its completion. There are also risks associated with the timely completion of the construction activities for their allotted costs, as a number of factors can result in delays and cost overruns, and the time needed to stabilize income producing properties or to sell residential tract developments. Because of the uncertainties inherent in estimating construction costs, as well as the market value of the completed project and the effects of governmental regulation of real property, it is relatively difficult to evaluate accurately the total funds required to complete a project and the related loan-to-value ratio. This type of lending also typically involves higher loan principal amounts and is often concentrated with a small number of builders. As a result, construction loans often involve the disbursement of substantial funds with repayment dependent, in part, on the success of the ultimate project and the ability of the borrower to sell or lease the property or refinance the indebtedness, rather than the ability of the borrower or guarantor to repay principal and interest. If our appraisal of the value of the completed project proves to be overstated, we may have inadequate security for the repayment of the loan upon completion of construction of the project and may incur a loss.

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A slowdown in the commercial and residential real estate markets may have a negative impact on earnings and liquidity position.

The overall credit quality of our construction loan portfolio is impacted by trends in commercial and residential real estate prices. We continually monitor changes in key regional and national economic factors because changes in these factors can impact our construction loan portfolio and the ability of our borrowers to repay their loans. Across the United States over the past year, commercial and residential real estate markets have experienced significant adverse trends, including accelerated price depreciation. These conditions led to significant increases in loan delinquencies and credit losses, as well as increases in loan loss provisions, which in turn have had a negative affect on earnings for many banks across the country. Likewise, we have also experienced loan delinquencies in our construction loan portfolio. The current slowdown in commercial and residential real estate markets may continue to negatively impact real estate values and the ability of our borrowers to liquidate properties. Despite reduced sales prices, the lack of liquidity in the commercial and residential real estate markets and tightening of credit standards within the banking industry may continue to diminish all sales, further reducing our borrowers' cash flows and weakening their ability to repay their debt obligations to us. As a result, we may experience a further negative material impact on our earnings and liquidity positions.

Our real estate lending also exposes us to the risk of environmental liabilities.

In the course of our business, we may foreclose and take title to real estate, and could be subject to environmental liabilities with respect to these properties. We may be held liable to a governmental entity or to third persons for property damage, personal injury, investigation and clean-up costs incurred by these parties in connection with environmental contamination, or may be required to investigate or clean up hazardous or toxic substances, or chemical releases at a property. The costs associated with investigation or remediation activities could be substantial. In addition, as the owner or former owner of a contaminated site, we may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from the property. If we ever become subject to significant environmental liabilities, our business, financial condition and results of operations could be materially and adversely affected.

Repayment of our entertainment finance loans is primarily dependent on revenues from distribution contracts.

Through ICBEF, we originate entertainment finance loans to independent producers of film and television on a senior secured basis. Although these loans are typically collateralized by a mortgage of copyright, security agreements and assigned sales contracts, the primary source of repayment is the revenue received by the borrower from the licensing of distribution rights. For this reason, our credit decisions are based in part on the creditworthiness and reputation of the producer, sales agent and distributors who have contracted to distribute the films. In many instances, the distribution contracts provide for multiple payments payable at certain milestones (such as execution of contract, commencement of principal photography or completion of principal photography). The maturity date of the loan is generally six to nine months after completion of the production. To the extent a distributor fails to make payment upon completion of the film, or the predicted level of revenue is less than expected, we may incur a loss if rights cannot be resold for the same amount or other loan collateral cannot cover required loan payments.

Negative events in certain geographic areas, particularly California, could adversely affect us.

Although we have significantly increased the geographic diversification of our loan portfolio since commencing our national expansion, our real estate loans remain heavily concentrated in the State of California, with approximately 43.8% of our real estate loans as of December 31, 2007 secured by collateral and made to borrowers in that state. In addition, as of that date, approximately 5.6%, 4.3%, 3.4%, 4.4% and 11.1% of our real estate loans were secured by collateral and made to borrowers in the States of Arizona, Florida, Georgia, New York and Texas, respectively. We have no other state geographic concentration of loans in excess of three percent of our total gross loan portfolio. A worsening of economic conditions in California or in any other state in which we have a significant concentration of borrowers could have a material adverse effect on our business, by reducing demand for new financings, limiting the ability of customers to repay existing loans, and impairing the value of our real estate collateral and real estate owned properties. Real estate values are affected by various other factors, including changes in general or regional economic conditions, governmental rules or policies and natural disasters such as earthquakes, tornados and hurricanes.

Our wholesale funding sources may prove insufficient to replace deposits and support our future growth.

We must maintain sufficient funds to respond to the needs of depositors and borrowers. As a part of our liquidity management, we use a number of funding sources in addition to core deposit growth and repayments and maturities of loans and investments. These sources include brokered certificates of deposit, repurchase agreements, federal funds purchased and Federal Home Loan Bank advances. Adverse operating results or changes in industry conditions could lead to an inability to replace these additional funding sources at maturity. Our financial flexibility will be severely constrained if we are unable to maintain our access to funding or if adequate financing is not available to accommodate future growth at acceptable interest rates. Finally, if we are required to rely more heavily on more expensive funding sources to support future growth, our revenues may not increase proportionately to cover our costs. In this case, our profitability would be adversely affected.

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Competition with other financial institutions could adversely affect our profitability.

The banking and financial services industry is very competitive. Legal and regulatory developments have made it easier for new and sometimes unregulated competitors to compete with us. Consolidation among financial service providers has resulted in fewer very large national and regional banking and financial institutions holding a large accumulation of assets. These institutions generally have significantly greater resources, a wider geographic presence or greater accessibility. Our competitors sometimes are also able to offer more services, more favorable pricing or greater customer convenience than we do. In addition, our competition has grown from new banks and other financial services providers that target our existing or potential customers. As consolidation continues among large banks, we expect additional institutions to try to exploit our market.

Technological developments have allowed competitors including some non-depository institutions, to compete more effectively in local markets and have expanded the range of financial products, services and capital available to our target customers. If we are unable to implement, maintain and use such technologies effectively, we may not be able to offer products or achieve cost-efficiencies necessary to compete in our industry. In addition, some of these competitors have fewer regulatory constraints and lower cost structures.

We rely heavily on the proper functioning of our technology.

We rely on our computer systems, and outside sources providing technology, for much of our business, including recording our assets and liabilities. If our computer systems or outside technology sources fail, are not reliable or there is a breach of security, our ability to maintain accurate financial records may be impaired, which could materially affect our operations and financial condition.

We are dependent upon the services of our management team.

We are dependent upon the ability and experience of a number of our key management personnel who have substantial experience with our operations, the financial services industry and the markets in which we offer our services. It is possible that the loss of the services of one or more of our senior executives or key managers would have an adverse effect on our operations. Our success also depends on our ability to continue to attract, manage and retain other qualified personnel as we grow. We cannot assure you that we will continue to attract or retain such personnel.

Terrorist activities could cause reductions in investor confidence and substantial volatility in real estate and securities markets.

It is impossible to predict the extent to which terrorist activities may occur in the United States or other regions, or their effect on a particular security issue. It is also uncertain what affects any past or future terrorist activities and/or any consequent actions on the part of the United States government and others will have on the United States and world financial markets, local, regional and national economics, and real estate markets across the United States. Among other things, reduced investor confidence could result in substantial volatility in securities markets, a decline in general economic conditions and real estate related investments and an increase in loan defaults. Such unexpected losses and events could materially affect our results of operations.

We are subject to extensive regulation that could restrict our activities and impose financial requirements or limitations on the conduct of our business.

Bank holding companies and California-charted commercial banks operate in a highly regulated environment and are subject to supervision and examination by federal and state regulatory agencies. We are subject to the Bank Holding

Company Act of 1956, as amended, and to regulation and supervision by the FRB. Imperial Capital Bank is subject to regulation and supervision by the FDIC, and DFI. The cost of compliance with regulatory requirements may adversely affect our results of operations or financial condition. Federal and state laws and regulations govern numerous matters including: changes in the ownership or control of banks and bank holding companies; maintenance of adequate capital and the financial condition of a financial institution; permissible types, amounts and terms of extensions of credit and investments; permissible non-banking activities; the level of reserves against deposits; and restrictions on dividend payments.

The FDIC and DFI possess cease and desist powers to prevent or remedy unsafe or unsound practices or violations of law by banks subject to their regulation, and the FRB possesses similar powers with respect to bank holding companies. These and other restrictions limit the manner in which we may conduct our business and obtain financing.

Item 1B. Unresolved Staff Comments

None.

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Item 2. Properties

The following sets forth our material facilities as of December 31, 2007.

Locations	Office Uses	Square Footage	Year Current Lease Term Expires
La Jolla, CA	Corporate Headquarters	21,903	2008
Glendale, CA	Loan Operations Division/Loan Administration/Asset Management/Operations Support	28,467	2012
New York, NY	East Coast Corporate Headquarters	3,810	2009
Century City, CA	ICB Entertainment Finance	7,003	2008
Glendale, CA	Bank Branch	4,791	2012
Encino, CA	Bank Branch	5,145	2009
San Francisco, CA	Bank Branch	5,005	2014
Costa Mesa, CA	Bank Branch	3,850	2011
San Diego, CA	Bank Branch	3,046	2011
Beverly Hills, CA	Bank Branch	2,218	2010
Carson City, NV	Bank Branch	3,000	2008
Baltimore, MD	Bank Branch	3,467	2013
Las Vegas, NV (1)	Bank Branch	5,400	2014
Walnut Creek, CA	Loan Origination Office	2,220	2009
Boston, MA	Loan Origination Office	3,309	2009
Atlanta, GA	Loan Origination Office	3,148	2008
Red Bank, NJ	Loan Origination Office	1,800	2009
Houston, TX	Loan Origination Office	3,420	2011

(1) The Las Vegas bank branch is scheduled to open in 2008.

For additional information regarding our premises, see “Item 8. Financial Statements and Supplementary Data — Notes to Consolidated Financial Statements - Note 5”.

In February 2008, we relocated our ICB Entertainment Finance office to Glendale, CA and increased the Glendale space currently occupied by our loan operations and loan administration departments. The combined additional space occupied by these divisions is 12,516 square feet with a lease expiration of 2012.

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

Item 3. Legal Proceedings

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

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

No matter was submitted to a vote of security holders, through the solicitation of proxies or otherwise, during the quarter ended December 31, 2007.

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PART II

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

In December 2006, we filed an application and received approval to list our common stock on the New York Stock Exchange ("NYSE"). Our common stock began trading on the NYSE on December 29, 2006 under the symbol "IMP". Prior to trading on the NYSE, our common stock traded on the NASDAQ Global Select Market under the symbol "ITLA". As of March 3, 2008, there were 108 holders of record of ICB's common stock representing an estimated 1,119 beneficial shareholders with a total of 5,426,760 shares outstanding.

The following table sets forth, for the periods indicated, the range of high and low trade prices for ICB's common stock and the cash dividends declared per share. Stock price data reflects inter-dealer prices, without retail mark-up, mark-down or commission.

	Market Price			Average Daily Closing Price
	High	Low	Close	
2007				
4th Quarter	$ 28.29	$ 17.43	$ 18.30	$ 21.94
3rd Quarter	54.11	27.51	28.25	39.14
2nd Quarter	55.59	48.00	52.12	51.62
1st Quarter	61.95	47.50	52.02	54.94
2006				
4th Quarter	$ 58.96	$ 50.75	$ 57.91	$ 54.91
3rd Quarter	55.15	49.10	53.76	51.76
2nd Quarter	52.93	46.14	52.58	49.55
1st Quarter	50.20	44.65	48.22	47.28

Cash dividends declared per share	2007	2006
1st Quarter	$ 0.16	$ 0.15
2nd Quarter	0.16	0.15
3rd Quarter	0.16	0.15
4th Quarter	0.16	0.15
Total	$ 0.64	$ 0.60

As a bank holding company, ICB's ability to pay dividends may be affected by regulations, including those governing the payment of dividends by the Bank to ICB, which could be a source of funds for any dividends paid by ICB, as well as by the policies of the Federal Reserve Board. Under federal regulations, the dollar amount of dividends the Bank may pay depends upon its capital position and recent net income. Generally, if the Bank satisfies its regulatory capital requirements, it may make dividend payments up to the limits prescribed under state law and FDIC regulations.

Payments of the distributions on our trust preferred securities from the special purpose subsidiary trusts we sponsored are fully and unconditionally guaranteed by us. The junior subordinated debentures that we have issued to our subsidiary trusts are senior to our shares of common stock. As a result, we must make required payments on the junior subordinated debentures before any dividends can be paid on our common stock and, in the event of our bankruptcy, dissolution or liquidation, the interest and principal obligations under the junior subordinated debentures must be satisfied before any distributions can be made on our common stock. We may defer the payment of interest on each of the junior subordinated debentures for a period not to exceed 20 consecutive quarters, provided that the deferral period does not extend beyond the stated maturity. During such deferral period, distributions on the corresponding trust preferred securities will also be deferred and we may not pay cash dividends to the holders of shares of our common stock.

We expect to pay a cash dividend of $0.16 per share for each quarter in 2008; however, there can be no assurance as to future dividends because they are dependent on our future earnings, capital requirements and financial condition. See “Item 1. Business—Regulation” and Note 15 to our consolidated financial statements included in Item 8 of this report.

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Stock Repurchases

The following table sets forth the repurchases of our common stock for the fiscal quarter ended December 31, 2007.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (1)
October 1, 2007 to October 31, 2007	—	$ —	—	110,486
November 1, 2007 to November 30, 2007	—	—	—	110,486
December 1, 2007 to December 31, 2007	—	—	—	110,486
Total	—	$ —	—	110,486

(1) There were no repurchases under the twelfth extension of our stock repurchase program during the three months ended December 31, 2007. The twelfth extension was announced on March 14, 2006, and authorized the repurchase of an additional 5% of the outstanding shares as of the authorization date. At December 31, 2007, a total of 110,486 shares remained available for repurchase under this extension.

Performance Graph

The following graph compares the performance of our Common Stock with that of the New York Stock Exchange Composite Index, the NASDAQ Composite Index (U.S. Companies) and the SNL Bank Index over a five year period through December 31, 2007. The comparison assumes $100 was invested on December 31, 2002 in our Common Stock and in each of the foregoing indices and assumes the reinvestment of all dividends. Historical stock price performance is not necessarily indicative of future stock price performance.

	12/31/02	12/31/03	12/31/04	12/31/05	12/31/06	12/31/07
Imperial Capital Bancorp, Inc.	100.00	150.77	176.92	147.01	176.28	56.86
NYSE Composite	100.00	127.92	146.23	156.39	184.33	197.74
NASDAQ Composite (1)	100.00	150.01	162.89	165.13	180.85	198.60
SNL Bank Index	100.00	134.90	151.17	153.23	179.24	139.28

(1) The NASDAQ Composite Index was used in our last performance graph, and is used again in this performance graph, because our Common Stock traded on the New York Stock Exchange for only one day in 2006.

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Item 6. Selected Financial Data

The following condensed consolidated statements of operations and financial condition and selected performance ratios as of December 31, 2007, 2006, 2005, 2004, and 2003 and for the years then ended have been derived from our audited consolidated financial statements. The information below is qualified in its entirety by the detailed information included elsewhere herein and should be read along with "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Item 8. Financial Statements and Supplementary Data."

	For the years ended December 31,				
	2007	2006	2005	2004	2003
	(in thousands, except per share amounts)				
Condensed Consolidated Statements of Operations					
Total interest income	$ 251,271	$ 226,501	$ 178,158	$ 124,954	$ 115,977
Total interest expense	164,583	132,075	86,486	41,418	30,867
Net interest income before provision for loan losses	86,688	94,426	91,672	83,536	85,110
Provision for loan losses	11,077	5,000	10,250	4,725	7,760
Net interest income after provision for loan losses	75,611	89,426	81,422	78,811	77,350
Non-interest income (1)	3,133	2,772	6,574	14,508	15,240
Non-interest expense:					
Compensation and benefits	23,899	21,265	21,737	21,444	18,870
Occupancy and equipment	7,832	7,439	7,177	5,924	4,839
Other general and administrative expenses	19,633	17,743	17,344	14,666	13,006
Other real estate and other assets owned expense, net	1,125	369	193	712	1,212
Total non-interest expense	52,489	46,816	46,451	42,746	37,927
Income before provision for income taxes and minority interest in income of subsidiary	26,255	45,382	41,545	50,573	54,663
Minority interest in income of subsidiary (2)(3)	—	—	—	—	6,083
Income before provision for income taxes	26,255	45,382	41,545	50,573	48,580
Provision for income taxes	10,635	18,493	17,482	19,948	18,946
NET INCOME	$ 15,620	$ 26,889	$ 24,063	$ 30,625	$ 29,634
BASIC EARNINGS PER SHARE	$ 2.85	$ 4.83	$ 4.19	$ 5.04	$ 4.91
DILUTED EARNINGS PER SHARE	$ 2.81	$ 4.71	$ 4.04	$ 4.75	$ 4.55

	As of December 31,				
	2007	2006	2005	2004	2003
	(in thousands, except per share amounts)				
Condensed Consolidated Statements of Financial Condition					
Cash and cash equivalents	$ 8,944	$ 30,448	$ 93,747	$ 87,580	$ 178,318
Investment securities available-for-sale, at fair value	117,924	99,527	92,563	66,845	53,093
Investment securities held-to-maturity, at amortized cost	159,023	193,512	233,880	296,028	—
Stock in Federal Home Loan Bank	53,497	48,984	43,802	23,200	17,966

Loans, net	3,125,072	2,973,368	2,523,480	1,793,815	1,505,424
Interest receivable	20,841	20,753	16,287	10,695	8,958
Other real estate and other assets owned, net	19,396	6,729	3,960	—	7,048
Premises and equipment, net	8,550	7,851	6,718	6,645	5,766
Deferred income taxes	12,148	11,513	12,717	10,468	11,609
Goodwill	3,118	3,118	3,118	3,118	3,118
Other assets	22,706	19,707	20,924	19,677	26,915
Total Assets	$ 3,551,219	$ 3,415,510	$ 3,051,196	$ 2,318,071	$ 1,818,215
Deposit accounts	$ 2,181,858	$ 2,059,405	$ 1,735,428	$ 1,432,032	$ 1,147,017
Federal Home Loan Bank advances and other borrowings	1,021,235	1,010,000	992,557	584,224	378,003
Account payable and other liabilities	33,959	38,168	32,130	20,491	19,696
Junior subordinated debentures (3)	86,600	86,600	86,600	86,600	86,600
Shareholders' equity	227,567	221,337	204,481	194,724	186,899
Total Liabilities and Shareholders' Equity	$ 3,551,219	$ 3,415,510	$ 3,051,196	$ 2,318,071	$ 1,818,215
Book value per share	$ 44.22	$ 42.07	$ 37.85	$ 35.09	$ 31.30

(1) For 2004 and 2003, includes fee income earned in connection with the tax refund lending program pursuant to our strategic alliance with various subsidiaries of Household International, Inc. ("Household"), a wholly owned subsidiary of HSBC Holdings plc (NYSE-HBC). This program was terminated by Household in 2004 subsequent to the tax filing season.

(2) Represents distributions on our trust preferred securities.

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(3) As a result of our adoption of FASB Interpretation No. 46 (revised) issued by the Financial Accounting Standards Board effective December 31, 2003, we de-consolidated the trusts which issued our trust preferred securities. The effect of this was to recognize investments in the trusts in other assets, to report the amount of junior subordinated debentures we issued to these trusts as a liability in our consolidated balance sheets and, beginning on the date of adoption, to recognize the interest expense on the junior subordinated debentures in our consolidated statements of income. Prior to the de-consolidation, we reported our trust preferred securities in the mezzanine section of our balance sheet as "guaranteed preferred beneficial interests in the Company's junior subordinated deferrable interest debentures" and recognized distributions paid to the holders of the trust preferred securities as "minority interest in income of subsidiary" in our consolidated statements of income.

	As of and for the years ended December 31,				
	2007	2006	2005	2004	2003
Selected Performance Ratios					
Return on average assets	0.45%	0.86%	0.90%	1.47%	1.71%
Return on average shareholders' equity	6.88%	12.75%	12.12%	15.44%	16.88%
Net interest margin (1)	2.51%	3.06%	3.43%	4.12%	5.03%
Average interest earning assets to average interest bearing liabilities	107.74%	108.21%	109.32%	127.50%	135.03%
Efficiency ratio (2)	57.18%	47.79%	47.08%	42.87%	36.59%
Total general and administrative expense to average assets	1.47%	1.49%	1.73%	2.02%	2.29%
Average shareholders' equity to average assets	6.52%	6.78%	7.39%	9.51%	11.16%
Dividend payout ratio (3)	22.78%	12.74%	—	—	—
Nonperforming assets to total assets	1.62%	0.97%	0.92%	0.63%	0.86%
Allowance for loan losses to loans held for investment, net (4)	1.51%	1.53%	1.71%	1.94%	2.14%
Allowance for loan loss to nonaccrual loans	125.87%	175.40%	180.59%	242.17%	392.26%
Net charge-offs to average loans held for investment, net	0.30%	0.10%	0.09%	0.16%	0.52%

(1) Net interest margin represents net interest income divided by total average interest earning assets.
(2) Efficiency ratio represents general and administrative expenses divided by non-interest income and net interest income before provision for loan losses.
(3) Dividends declared per common share as a percentage of net income per diluted share.
(4) Loans held for investment, net, represent loans before allowance for loan losses.

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.

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Quarterly Operations (Unaudited)

	For the Quarters Ended			
	March 31	June 30	September 30	December 31
	(in thousands, except per share amounts)			
2007				
Interest income	$ 63,332	$ 62,983	$ 62,699	$ 62,257
Interest expense	39,343	41,166	42,021	42,053
Net interest income before provision for loan losses	23,989	21,817	20,678	20,204
Provision for loan losses	750	500	5,266	4,561
Non-interest income	716	843	949	625
General and administrative expense	12,421	11,903	13,255	13,785
Total real estate and other assets owned expense, net	163	195	199	568
Provision for income taxes	4,634	4,024	1,193	784
Net income	6,737	6,038	1,714	1,131
Basic earnings per share	$ 1.22	$ 1.10	$ 0.31	$ 0.21
Diluted earnings per share	$ 1.19	$ 1.08	$ 0.31	$ 0.21
2006				
Interest income	$ 51,428	$ 55,760	$ 59,130	$ 60,183
Interest expense	28,518	31,776	34,840	36,941
Net interest income before provision for loan losses	22,910	23,984	24,290	23,242
Provision for loan losses	750	1,500	1,500	1,250
Non-interest income	717	607	578	870
General and administrative expense	12,037	11,833	11,474	11,103
Total real estate owned expense, net	106	(177)	287	153
Provision for income taxes	4,402	4,689	4,759	4,643
Net income	6,332	6,746	6,848	6,963
Basic earnings per share	$ 1.13	$ 1.22	$ 1.24	$ 1.26
Diluted earnings per share	$ 1.10	$ 1.18	$ 1.20	$ 1.22

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

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

Application of Critical Accounting Policies and Accounting Estimates

The accounting and reporting policies followed by us conform, in all material respects, to accounting principles generally accepted in the United States and to general practices within the financial services industry. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. While we base our estimates on historical experience, current information and other factors deemed to be relevant, actual results could differ from those estimates.

We consider accounting estimates to be critical to reported financial results if (i) the accounting estimate requires management to make assumptions about matters that are highly uncertain and (ii) different estimates that management reasonably could have used for the accounting estimate in the current period, or changes in the accounting estimate that are reasonably likely to occur from period to period, could have a material impact on our financial statements. Accounting polices related to the allowance for loan losses are considered to be critical, as these policies involve considerable subjective judgment and estimation by management. We also consider our accounting polices related to other real estate and other assets owned to be critical due to the potential significance of these activities and the estimates involved. Critical accounting policies, and our procedures related to these policies, are described in detail below. Also see Note 1 — Organization and Summary of Significant Accounting Policies in the accompanying notes to the consolidated financial statements included elsewhere in this report.

Allowance for Loan Losses (“ALL”). Our management assesses the adequacy of the ALL prior to the end of each calendar quarter. This assessment includes procedures to estimate the allowance and test the adequacy and appropriateness of the resulting balance.

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We establish the ALL amount separately for two different risk groups (1) individual loans (loans with specifically identifiable risks); and (2) homogeneous loans (groups of loan with similar characteristics). We base the allocation for individual loans primarily on risk rating grades assigned to each of these loans as a result of our loan management and review processes. We then assign each risk-rating grade a loss ratio, which is determined based on the experience of management and our independent loan review process. We estimate losses on impaired loans based on estimated cash flows discounted at the loan's original effective interest rate or based on the underlying collateral value. Based on historical loss experience, as well as management's experience with similar loans, we also assign loss ratios to groups of loans. These loss ratios are assigned to the various homogenous categories of the portfolio.

The level of the allowance also reflects management's continuing evaluation of geographic and credit concentrations, specific credit risks, loan loss experience, current loan portfolio quality, present economic, political and regulatory conditions and unidentified losses inherent in the current loan portfolio. While management utilizes its best judgment and information available, the ultimate adequacy of the allowance is dependent upon a variety of factors beyond our control, including the performance of our loan portfolio, the economy, changes in interest rates and the view of the regulatory authorities toward loan classifications.

We test the ALL balance by comparing the balance in the ALL to historical trends and peer information. Our management team then evaluates the result of the procedures performed, including the result of our testing, and concludes on the appropriateness of the balance of the ALL in its entirety. See the section captioned "Allowance for Loan Losses and Nonperforming Assets" elsewhere in this discussion for further details of the risk factors considered by management in estimating the necessary level of the allowance for loan losses.

Other Real Estate and Other Assets Owned. Properties and other assets acquired through foreclosure, or in lieu of foreclosure, are transferred to the other real estate and other owned portfolio and initially recorded at estimated fair value less the estimated costs to sell the property. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of cost or estimated fair value less the estimated costs of disposition. The fair value of other real estate and other owned is generally determined from appraisals obtained from independent appraisers.

Adoption and Pending Adoption of Recent Accounting Pronouncements

In February 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 155, "Accounting for Certain Hybrid Financial Instruments" — an amendment of SFAS Nos. 133 and 140. SFAS No. 155 permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS No. 133, establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives, and amends SFAS No. 140 to eliminate the prohibition on a qualifying special purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. This statement was effective for us on January 1, 2007. The adoption of SFAS No. 155 did not have a material impact on our financial condition or results of operations.

In March 2006, the FASB issued SFAS No. 156, "Accounting for Servicing of Financial Assets". This statement amends SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities", with respect to the accounting for separately recognized servicing assets and servicing liabilities. SFAS No. 156 requires companies to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract. The statement permits a company to choose either the amortized cost method or fair value measurement method for each class of separately recognized servicing assets. This statement was effective for us on January 1, 2007. The adoption of SFAS No. 156 did not have a material impact on our financial condition or results of operations.

In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurements.” SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 is effective for us on January 1, 2008. The adoption of SFAS No. 157 did not have a material impact on our financial condition or results of operations.

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities." SFAS No. 159 provides companies with an option to report selected financial assets and liabilities at fair value. The objective of SFAS No. 159 is to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. SFAS No. 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective for us on January 1, 2008. The adoption of SFAS No. 159 did not have a material impact on our financial condition or results of operations.

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In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB Statement No. 51." SFAS No. 160 amends Accounting Research Bulletin (ARB) No. 51, "Consolidated Financial Statements," to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 clarifies that a noncontrolling interest in a subsidiary, which is sometimes referred to as minority interest, is an ownership interest in the consolidated entity that should be reported as a component of equity in the consolidated financial statements. Among other requirements, SFAS No. 160 requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. It also requires disclosure, on the face of the consolidated income statement, of the amounts of consolidated net income attributable to the parent and to the noncontrolling interest. SFAS No. 160 is effective for the Company on January 1, 2009 and is not expected to have a significant impact on our financial condition or results of operations.

In June 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 establishes a single model to address accounting for uncertainty in tax positions. FIN 48 clarifies the accounting for uncertainty in income taxes by prescribing a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken, or expected to be taken, in a tax return. The interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition requirements. FIN 48 was effective for us on January 1, 2007. The adoption of FIN 48 did not have a material impact on our financial condition or results of operations.

Executive Summary

The following discussion and analysis is intended to identify the major factors that influenced our financial condition as of December 31, 2007 and 2006 and our results of operations for the years ended December 31, 2007, 2006 and 2005. Our primary business involves the acceptance of customer deposits and the origination and purchase of loans secured by income producing real estate and, to a lesser extent, the origination of entertainment finance loans.

Consolidated net income in 2007 was $15.6 million, or $2.81 per diluted share, compared to $26.9 million, or $4.71 per diluted share in 2006 and $24.1 million, or $4.04 per diluted share in 2005. The decrease in net income in 2007 was primarily due to a decrease in net interest income before provision for loan losses, which decreased 8.2% to $86.7 million during the year ended December 31, 2007, compared to $94.4 million for the prior year. This decrease was primarily due to the decline in the yield earned on our loan portfolio, as higher yielding loans have paid-off and were replaced by loan production that was originated at lower spreads over our cost of funds due to competitive pricing pressures. Net interest income was further negatively impacted by the increase in our cost of funds as deposits and all other interest bearing liabilities repriced to higher market interest rates, partially offset by the growth in the average balance of our loan portfolio. Net income was further impacted by a $6.1 million increase in the provision for loan losses recorded during 2007 compared to the prior year. The provision recorded during 2007 reflected an $11.7 million net increase in our non-performing loans during the year. As a percentage of our total loan portfolio, the amount of non-performing loans was 1.20% and 0.88% at December 31, 2007 and 2006, respectively. With the housing and secondary mortgage markets continuing to deteriorate and showing no signs of stabilizing in the near future, we continue to aggressively monitor our real estate loan portfolio, including our commercial and residential construction loan portfolio. Our construction and land loan portfolio at December 31, 2007 totaled $421.1 million, of which $253.1 million were residential and condominium construction loans, representing 8.0% of our total loan portfolio. At December 31, 2007, we had $8.8 million of non-performing lending relationships within our construction loan portfolio, consisting of two condominium construction projects located in Corona, California and Portland, Oregon. Net income was also impacted by a $5.7 million increase in non-interest expense incurred during the year as compared to the prior year. The increase related to the additional costs incurred in connection with operating the national expansion of our small balance multi-family lending platform, as well as increased marketing costs.

Total loan production, including the unfunded portion of loans, was $1.2 billion for the year ended December 31, 2007, as compared to $1.6 billion, for each of the years ended December 31, 2006 and 2005. Loan production in 2007 consisted of the origination of $721.5 million of commercial real estate loans, $331.9 million of small balance multi-family real estate loans and $114.4 million of entertainment finance loans, and the acquisition of $47.3 million of commercial and multi-family real estate loans by our wholesale loan operations. Total loan production declined in 2007 due to a reduction in wholesale loan acquisitions primarily related to a lack of loan pools being offered to us that met our pricing and credit requirements.

Our average total assets increased approximately 11.9% during 2007 to $3.5 billion. Average cash and investment securities totaled $356.6 million in 2007 compared to $419.8 million in 2006, a decrease of $63.2 million, or 15.0%. Average loans receivable totaled $3.1 billion in 2007 compared to $2.7 billion in 2006, an increase of $432.4 million, or 16.2%. Average interest bearing deposit accounts totaled $2.1 billion in 2007 compared to $1.8 billion in 2006, an increase of $270.6 million, or 14.7%. FHLB advances and other borrowings averaged $1.0 billion in 2007, compared to $926.9 million in 2006, an increase of $84.5 million, or 9.1%.

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The allowance for loan losses as a percentage of our total loans was 1.5% at December 31, 2007 and 2006. During the year ended December 31, 2007, we had net charge-offs of $9.3 million, compared to $2.8 million during the prior year.

At December 31, 2007, shareholders' equity totaled $227.6 million, or 6.4% of total assets. During 2007, we increased our regular quarterly cash dividend from $0.15 to $0.16 per share. During the year, we declared total dividends of $0.64 per share, or approximately $3.5 million in total. For the year ended December 31, 2007, we repurchased 187,475 shares at an average price of $47.42 per share. Since beginning share repurchases in April 1997, a total of 3.7 million shares have been repurchased, returning approximately $110.0 million of capital to our shareholders at an average price of $29.59 per share. Through our stock repurchase program, all of our contributed capital has been returned to shareholders. ICB's book value per share of common stock was $44.22 as of December 31, 2007, an increase of 5.1% from $42.07 per share as of December 31, 2006.

Results of Operations

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.

	Years Ended December 31,							
	–2007			–2006			–200	
	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Inc Ex
	(dollars in thousands)							
Assets								
Cash and investment securities	$ 356,608	$ 17,522	4.91%	$ 419,762	$ 19,181	4.57%	$ 432,774	$ 1
Real estate loans (1)	3,011,179	222,607	7.39%	2,588,452	200,322	7.74%	2,016,691	14
Franchise loans (1)	4,476	1,503	33.58%	11,578	475	4.10%	121,768	
Entertainment finance loans (1)	73,947	8,587	11.61%	59,262	5,620	9.48%	89,420	
Commercial and other loans (1)	11,053	1,052	9.52%	8,962	903	10.08%	11,382	
Total loans receivable	3,100,655	233,749	7.54%	2,668,254	207,320	7.77%	2,239,261	15
Total interest earning assets	3,457,263	$ 251,271	7.27%	3,088,016	$ 226,501	7.33%	2,672,035	$ 17
Non-interest earning assets	70,491			70,936			51,549	
Allowance for loan losses	(45,265)			(46,366)			(37,978)	
Total assets	$ 3,482,489			$ 3,112,586			$ 2,685,606	
Liabilities and Shareholders' Equity								
Interest bearing demand accounts	$ 25,381	$ 922	3.63%	$ 29,047	$ 836	2.88%	$ 51,684	$
Money market and passbook accounts	238,231	11,779	4.94%	207,962	9,379	4.51%	177,213	
Time certificates	1,847,220	97,410	5.27%	1,603,210	74,941	4.67%	1,421,415	4
Total interest bearing deposit accounts	2,110,832	110,111	5.22%	1,840,219	85,156	4.63%	1,650,312	5
FHLB advances and other borrowings	1,011,461	46,134	4.56%	926,916	38,722	4.18%	707,391	2
Junior subordinated debentures	86,600	8,338	9.63%	86,600	8,197	9.47%	86,600	
Total interest bearing liabilities	3,208,893	$ 164,583	5.13%	2,853,735	$ 132,075	4.63%	2,444,303	$ 8
Non-interest bearing demand accounts	10,657			12,738			27,671	
Other non-interest bearing liabilities	35,988			35,173			15,086	
Shareholders' equity	226,951			210,940			198,546	
	$ 3,482,489			$ 3,112,586			$ 2,685,606	

Total liabilities and shareholders' equity			
Net interest spread (2)	2.14%	2.70%	
Net interest income before provisions for loan losses	$ 86,688	$ 94,426	$ 9
Net interest margin (3)	2.51%	3.06%	

(1) Before allowance for loan losses and net of deferred loan fees and costs. Net loan fee accretion of $2.4 million, $2.8 million and $2.9 million was included in net interest income for 2007, 2006 and 2005, 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 earned on interest earning assets, including loans and investments, and the interest rates paid on interest bearing liabilities, including deposits and borrowings, which is referred to as "net interest spread", and (b) the relative amounts of interest earning assets and interest bearing liabilities. As of December 31, 2007, 2006 and 2005, our ratio of average interest earning assets to average interest bearing liabilities was 107.7%, 108.2% and 109.3%, respectively.

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

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	2007 vs. 2006 Increase (Decrease) Due to:			2006 vs. 2005 Increase (Decrease) Due to:		
	Volume	Rate	Total	Volume	Rate	Total
	(in thousands)					
Interest and fees earned on:						
Loans, net	$ 32,725	$ (6,296)	$ 26,429	$ 32,413	$ 15,187	$ 47,600
Cash and investment securities	(3,020)	1,361	(1,659)	(567)	1,310	743
Total increase (decrease) in interest income	29,705	(4,935)	24,770	31,846	16,497	48,343
Interest paid on:						
Deposit accounts	13,370	11,585	24,955	6,739	24,610	31,349
FHLB advances and other borrowings	3,712	3,700	7,412	8,758	4,456	13,214
Junior subordinated debentures	—	141	141	—	1,026	