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METROCORP BANCSHARES, INC.

FORM 10-Q
(Quarterly Report)

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

FORM 10-Q

(Mark One)

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2012**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number: 000-25141

MetroCorp Bancshares, Inc.
(Exact name of registrant as specified in its charter)

Texas	**76-0579161**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

9600 Bellaire Boulevard, Suite 252
Houston, Texas 77036
(Address of principal executive offices including zip code)

(713) 776-3876
(Registrant's telephone number, including area code)

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 ☑ No ☐

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

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

Large Accelerated Filer ☐ Accelerated Filer ☐

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 ☑

As of November 1, 2012, the number of outstanding shares of Common Stock was 18,746,385.

PART I
FINANCIAL INFORMATION

Item 1. ***Financial Statements.***

METROCORP BANCSHARES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share amounts)
(Unaudited)

	September 30, 2012	December 31, 2011
ASSETS		
Cash and due from banks	$ 21,998	$ 28,798
Federal funds sold and other short-term investments	152,913	164,811
Total cash and cash equivalents	174,911	193,609
Securities available-for-sale, at fair value	133,140	121,633
Securities available-for-sale pledged with creditors' right to repledge, at fair value	45,142	50,756
Total securities available-for-sale	178,282	172,389
Securities held-to-maturity (fair value $4,772 and $4,536 at September 30, 2012 and December 31, 2011, respectively)	4,046	4,046
Other investments	5,774	6,484
Loans, net of allowance for loan losses of $25,542 and $28,321 at September 30, 2012 and December 31, 2011, respectively	1,071,313	1,015,095
Loans, held-for-sale	–	1,200
Accrued interest receivable	3,938	4,327
Premises and equipment, net	4,195	4,697
Goodwill	14,327	14,327
Deferred tax asset, net	13,902	14,995
Customers' liability on acceptances	6,051	5,152
Foreclosed assets, net	7,915	19,018
Cash value of bank owned life insurance	32,456	31,427
Prepaid FDIC assessment	3,902	5,204
Other assets	5,076	2,561
Total assets	$ 1,526,088	$ 1,494,531
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Noninterest-bearing	$ 289,979	$ 259,397
Interest-bearing	975,078	992,178
Total deposits	1,265,057	1,251,575
Junior subordinated debentures	36,083	36,083
Other borrowings	26,000	26,315
Accrued interest payable	258	310
Acceptances outstanding	6,051	5,152
Other liabilities	18,085	9,913
Total liabilities	1,351,534	1,329,348
Commitments and contingencies	–	–
Shareholders' equity:		
Preferred stock, $1.00 par value, 2,000,000 shares authorized; no shares and 45,000 shares issued and outstanding at September 30, 2012 and December 31, 2011, respectively	–	45,003
Common stock, $1.00 par value, 50,000,000 shares authorized; 18,766,765 and 13,340,815 shares issued and 18,749,912 and 13,340,815 outstanding at September 30, 2012 and December 31, 2011, respectively	18,767	13,341
Additional paid-in-capital	74,976	33,816
Retained earnings	80,033	73,188
Accumulated other comprehensive income (loss)	923	(165)

Treasury stock, at cost, 16,853 and no shares at September 30, 2012 and December 31, 2011, respectively	(145)	–
Total shareholders' equity	174,554	165,183
Total liabilities and shareholders' equity	$ 1,526,088	$ 1,494,531

See accompanying notes to condensed consolidated financial statements.

METROCORP BANCSHARES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)
(Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2012	2011	2012	2011
Interest income:				
Loans	$ 14,593	$ 15,364	$ 44,346	$ 46,696
Securities:				
Taxable	1,020	1,025	3,051	3,413
Tax-exempt	145	99	407	296
Other investments	42	41	129	125
Federal funds sold and other short-term investments	229	239	675	426
Total interest income	16,029	16,768	48,608	50,956
Interest expense:				
Time deposits	1,288	1,857	4,194	6,057
Demand and savings deposits	508	800	1,729	2,647
Junior subordinated debentures	338	327	1,007	976
Subordinated debentures and other borrowings	247	259	741	803
Total interest expense	2,381	3,243	7,671	10,483
Net interest income	13,648	13,525	40,937	40,473
Provision for loan losses	(300)	875	300	2,450
Net interest income after provision for loan losses	13,948	12,650	40,637	38,023
Noninterest income:				
Service fees	1,099	1,124	3,347	3,214
Loan-related fees	139	89	326	268
Letters of credit commissions and fees	197	143	584	492
Gain on securities, net	24	203	108	129
Total other-than-temporary impairments (“OTTI”) on securities	(14)	(32)	(101)	(215)
Less: Noncredit portion of “OTTI”	(7)	(2)	(17)	(20)
Net impairments on securities	(7)	(30)	(84)	(195)
Other noninterest income	420	287	1,154	1,138
Total noninterest income	1,872	1,816	5,435	5,046
Noninterest expense:				
Salaries and employee benefits	6,016	5,214	17,934	15,702
Occupancy and equipment	1,792	1,896	5,224	5,545
Foreclosed assets, net	552	1,222	1,915	2,741
FDIC assessment	480	632	1,362	2,016
Other noninterest expense	2,689	2,471	7,339	7,217
Total noninterest expense	11,529	11,435	33,774	33,221
Income before provision for income taxes	4,291	3,031	12,298	9,848
Provision for income taxes	1,410	762	4,023	3,090
Net income	$ 2,881	$ 2,269	$ 8,275	$ 6,758
Dividends and discount – preferred stock	(20)	(601)	(1,429)	(1,811)
Adjustment from repurchase of preferred stock	(149)	—	557	—
Net income available to common shareholders	$ 2,712	$ 1,668	$ 7,403	$ 4,947
Earnings per common share:				
Basic	$ 0.15	$ 0.13	$ 0.47	$ 0.38
Diluted	$ 0.15	$ 0.13	$ 0.47	$ 0.37

Weighted average shares outstanding:				
Basic	18,307	13,145	15,666	13,141
Diluted	18,648	13,234	15,876	13,216
Dividends per common share	$ –	$ –	$ –	$ –

See accompanying notes to condensed consolidated financial statements.

METROCORP BANCSHARES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)
(Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2012	2011	2012	2011
Net income	$ 2,881	$ 2,269	$ 8,275	$ 6,758
Other comprehensive income, net of taxes:				
Change in accumulated gain (loss) on effective cash flow hedging derivative	8	(297)	42	(389)
Unrealized loss on investment securities, net:				
Securities with OTTI charges during the period	(9)	(21)	(65)	(138)
Less: OTTI charges recognized in net income	(4)	(20)	(54)	(125)
Net unrealized losses on investment securities with OTTI	(5)	(1)	(11)	(13)
Unrealized holding gain arising during the period	623	1,155	1,126	2,277
Less: reclassification adjustment for gain included in net income	15	130	69	83
Net unrealized gains on investment securities	608	1,025	1,057	2,194
Other comprehensive income, net of taxes	611	727	1,088	1,792
Total comprehensive income	$ 3,492	$ 2,996	$ 9,363	$ 8,550

See accompanying notes to condensed consolidated financial statements.

METROCORP BANCSHARES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the Nine Months Ended September 30, 2012
(In thousands)
(Unaudited)

	Preferred Stock		Common Stock		Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Treasury Stock, at cost	Total
	Shares	At par	Shares	At par					
Balance at December 31, 2011	45	$ 45,003	13,341	$ 13,341	$ 33,816	$ 73,188	$ (165)	$ –	$ 165,183
Issuance of common stock	–	–	5,426	5,426	40,543	–	–	–	45,969
Repurchase of common stock	–	–	–	–	–	–	–	(145)	(145)
Repurchase of preferred stock	(45)	(45,000)	–	–	557	–	–	–	(44,443)
Stock-based compensation expense related to stock options recognized in earnings	–	–	–	–	60	–	–	–	60
Net income	–	–	–	–	–	8,275	–	–	8,275
Amortization of preferred stock discount	–	285	–	–	–	(285)	–	–	–
Other comprehensive income	–	–	–	–	–	–	1,088	–	1,088
Dividends – preferred stock	–	(288)	–	–	–	(1,145)	–		(1,433)
Balance at September 30, 2012	–	$ –	18,767	$ 18,767	$ 74,976	$ 80,033	$ 923	$ (145)	$ 174,554

See accompanying notes to condensed consolidated financial statements.

METROCORP BANCSHARES, INC
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	For the Nine Months Ended September 30,	
	2012	**2011**
Cash flows from operating activities:		
Net income	$ 8,275	$ 6,758
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	792	1,070
Provision for loan losses	300	2,450
Impairment on securities	84	195
Gain on securities transactions, net	(108)	(129)
Loss on writedown and sale of foreclosed assets	944	1,313
Loss on sale of premises and equipment	—	11
Amortization of premiums and discounts on securities, net	330	116
Amortization of deferred loan fees and discounts	(858)	(881)
Amortization of core deposit intangibles	42	65
Stock-based compensation	60	68
Changes in:		
Accrued interest receivable	389	776
Other assets	(1,781)	1,911
Accrued interest payable	(52)	(151)
Other liabilities	8,214	4,177
Net cash provided by operating activities	16,631	17,749
Cash flows from investing activities:		
Purchases of securities available-for-sale	(105,708)	(91,002)
Purchases of other investments	(2)	(2)
Proceeds from sales of securities available-for-sale	—	7,927
Proceeds from maturities, calls, and principal paydowns of securities available-for-sale	101,146	112,363
Proceeds from sales and maturities of other investments	711	333
Net change in loans	(60,259)	60,127
Proceeds from sale of foreclosed assets	15,958	14,460
Purchases of premises and equipment	(290)	(780)
Net cash (used in) provided by investing activities	(48,444)	103,426
Cash flows from financing activities:		
Net change in:		
Deposits	13,482	(52,692)
Other borrowings	(315)	(20,388)
Proceeds from issuance of common stock	45,969	—
Repurchase of common stock	(145)	—
Repurchase of preferred stock	(44,443)	—
Cash dividends paid on preferred stock	(1,433)	(2,272)
Net cash provided by (used in) financing activities	13,115	(75,352)
Net (decrease) increase in cash and cash equivalents	(18,698)	45,823
Cash and cash equivalents at beginning of period	193,609	151,725
Cash and cash equivalents at end of period	$ 174,911	$ 197,548
Supplemental information:		
Interest paid	$ 7,723	$ 10,633
Income taxes paid	3,482	1,022
Noncash investing and financing activities:		

Issuance of common stock pursuant to incentive plan	—	609
Issuance of common stock – restricted shares	3,024	—
Foreclosed assets acquired	5,799	19,661
Loans originated to finance foreclosed assets	6,501	3,305

See accompanying notes to condensed consolidated financial statements.

METROCORP BANCSHARES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The unaudited condensed consolidated financial statements include the accounts of MetroCorp Bancshares, Inc. (the "Company") and wholly-owned subsidiaries, MetroBank, National Association ("MetroBank") and Metro United Bank ("Metro United"), in Texas and California, respectively (collectively, the "Banks"). MetroBank is engaged in commercial banking activities through its thirteen branches in the greater Houston and Dallas, Texas metropolitan areas, and Metro United is engaged in commercial banking activities through its six branches in the San Diego, Los Angeles and San Francisco, California metropolitan areas. All significant intercompany accounts and transactions have been eliminated in consolidation. Certain principles which significantly affect the determination of financial position, results of operations and cash flows are summarized below.

A legal entity is referred to as a Variable Interest Entity ("VIE") if any of the following conditions exist: (1) the total equity at risk is insufficient to permit the legal entity to finance its activities without additional subordinated financial support from other parties, or (2) the entity has equity investors that cannot make significant decisions about the entity's operations or that do not absorb their proportionate share of the expected losses or receive the expected returns of the entity. In addition, as specified in VIE accounting guidance, a VIE must be consolidated by the Company if it is deemed to be the primary beneficiary of the VIE. The primary beneficiary is the party that has both (1) the power to direct the activities of an entity that most significantly impact the VIE's economic performance, and (2) through its interests in the VIE, the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE. All facts and circumstances are taken into consideration when determining whether the Company has variable interest that would deem it the primary beneficiary and, therefore, require consolidation of the related VIE or otherwise rise to the level where disclosure would provide useful information to the users of the Company's financial statements. In the case of the Company's sole VIE, MCBI Statutory Trust I, it is qualitatively clear based on the extent of the Company's involvement that the Company is not the primary beneficiary of the VIE. Accordingly, the accounts of this entity are not consolidated in the Company's financial statements.

The accompanying unaudited condensed consolidated financial statements were prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions for Form 10-Q. In the opinion of management, the unaudited condensed consolidated financial statements reflect all adjustments, consisting only of normal and recurring adjustments, necessary for a fair statement of the Company's financial position at September 30, 2012, results of operations for the three and nine months ended September 30, 2012 and 2011, and cash flows for the nine months ended September 30, 2012 and 2011. Interim period results are not necessarily indicative of results for a full year period. The year-end condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by U.S. generally accepted accounting principles.

Certain items in prior financial statements have been reclassified to conform to the 2012 presentation, with no impact on the balance sheet, net income, shareholders' equity or cash flows.

These unaudited condensed consolidated financial statements and the notes thereto should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

2. SECURITIES

The amortized cost and approximate fair value of securities is as follows:

	As of September 30, 2012				
	Amortized Cost	Unrealized Gains	Unrealized Losses	OTTI	Fair Value
			(In thousands)		
Securities available-for-sale					
Debt Securities					
U.S. Treasury and other U.S. government corporations and agencies	$ 75,457	$ 466	$ (10)	$ —	$ 75,913
Obligations of state and political subdivisions	12,849	552	—	—	13,401
Corporate	6,086	266			6,352
Mortgage-backed securities and collateralized mortgage obligations:					
Government issued or guaranteed	65,585	1,847	—	—	67,432
Privately issued residential	775	309	(5)	(402)	677
Asset backed securities	196	122	—	(175)	143
Equity Securities					
Investment in CRA funds	13,964	400	—	—	14,364
Total available-for-sale securities	$ 174,912	$ 3,962	$ (15)	$ (577)	$ 178,282
Securities held-to-maturity					
Obligations of state and political subdivisions	$ 4,046	$ 726	$ —	$ —	$ 4,772
Total held-to-maturity securities	$ 4,046	$ 726	$ —	$ —	$ 4,772
Other investments					
FHLB/Federal Reserve Bank stock (1)	$ 4,691	$ —	$ —	$ —	$ 4,691
Investment in subsidiary trust (1)	1,083	—	—	—	1,083
Total other investments	$ 5,774	$ —	$ —	$ —	$ 5,774

	As of December 31, 2011				
		Unrealized			
	Amortized Cost	Gains	Losses	OTTI	Fair Value
			(In thousands)		
Securities available-for-sale					
Debt securities					
U.S. Treasury and other U.S. government corporations and agencies	$ 91,660	$ 546	$ (7)	$ —	$ 92,199
Obligations of state and political subdivisions	5,467	279	(40)	—	5,706
Corporate	6,102	57	(18)	—	6,141
Mortgage-backed securities and collateralized mortgage obligations:					
Government issued or guaranteed	52,594	1,160	(15)	—	53,739
Privately issued residential	900	232	(23)	(442)	667
Asset backed securities	231	56	—	(185)	102
Equity securities					
Investment in CRA funds	13,700	135	—	—	13,835
Total available-for-sale securities	$ 170,654	$ 2,465	$ (103)	$ (627)	$ 172,389
Securities held-to-maturity					
Obligations of state and political subdivisions	$ 4,046	$ 490	$ —	$ —	$ 4,536
Total held-to-maturity securities	$ 4,046	$ 490	$ —	$ —	$ 4,536
Other investments					
FHLB /Federal Reserve Bank stock(1)	5,401	—	—	—	5,401
Investment in subsidiary trust(1)	1,083	—	—	—	1,083
Total other investments	$ 6,484	$ —	$ —	$ —	$ 6,484

(1) Represents securities with restrictions and limited marketability which are carried at cost.

The following table displays the gross unrealized losses and fair value of securities available-for-sale as of September 30, 2012 for which other-than-temporary impairments ("OTTI") has not been recognized, that were in a continuous unrealized loss position for the periods indicated. There were no securities held-to-maturity in a continuous unrealized loss position as of September 30, 2012 or December 31, 2011.

	September 30, 2012					
	Less Than 12 Months		Greater Than 12 Months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(In thousands)					
Securities available-for-sale						
Debt securities						
Obligations of state and political subdivisions	$ 9,953	$ (10)	$ —	$ —	$ 9,953	$ (10)
Mortgage-backed securities and collateralized mortgage obligations:						
Government issued or guaranteed	—	—	111	(5)	111	(5)
Total available-for-sale securities	$ 9,953	$ (10)	$ 111	$ (5)	$ 10,065	$ (15)

	As of December 31, 2011					
	Less Than 12 Months		Greater Than 12 Months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(In thousands)					
Securities available-for-sale						
Debt securities						
U.S. Treasury and other U.S. government corporations and agencies	$ 4,993	$ (7)	$ —	$ —	$ 4,993	$ (7)
Obligations of state and political subdivisions	1,580	(40)	—	—	1,580	(40)
Corporate	3,017	(18)	—	—	3,017	(18)
Mortgage-backed securities and collateralized mortgage obligations:						
Government issued or guaranteed	8,786	(15)	10	—	8,796	(15)
Privately issued residential	—	—	168	(23)	168	(23)
Total available-for-sale securities	$ 18,376	$ (80)	$ 178	$ (23)	$ 18,554	$ (103)

As of September 30, 2012, management did not have the intent to sell any of the securities classified as available-for-sale in unrealized loss positions and believes it is not more likely than not that the Company will have to sell any such securities before a recovery of the cost. However, if strategic opportunities arise, the Company may consider selling selected securities. Any unrealized losses on such selected securities would be charged to earnings.

The unrealized losses are largely due to increases in the market interest rates over the yields available at the time the underlying securities were purchased. The fair value is expected to recover as the securities approach their maturity date or repricing date or if market yields for such securities decline. Management does not believe that any of the unrealized losses above are due to credit quality. Accordingly, management believes the $15,000 of unrealized losses as of September 30, 2012 is temporary and the remaining $577,000 of OTTI as of September 30, 2012 represents an unrealized loss for which an impairment has been recognized in other comprehensive income.

Other-Than-Temporary Impairments (OTTI)

The following table presents a rollforward for the three and nine months ended September 30, 2012, of the credit loss component of OTTI losses that have been recognized in income related to debt securities that the Company does not intend to sell.

	Impairment related to credit losses	
	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2012
	(In thousands)	
Credit losses at beginning of period	$ 1,672	$ 1,595
Additions to OTTI that were previously recognized when there is no intent to sell and no requirement to sell before recovery of amortized cost basis	5	51
Transfers from accumulated other comprehensive income to OTTI related to credit losses	2	33
Credit losses at end of period	$ 1,679	$ 1,679

For the nine months ended September 30, 2012, credit-related losses of $72,000 on seven non-agency residential mortgage-backed securities and $13,000 on one asset-backed security were recognized. There were no noncredit impairments included in accumulated other comprehensive income (loss) for the nine months ended September 30, 2012.

To measure credit losses, external credit ratings and other relevant collateral details and performance statistics on a security-by-security basis were considered. Securities exhibiting significant deterioration are subjected to further analysis. Assumptions were developed for prepayment speed, default rate, and loss severity for each security using third party sources and based on the collateral history. The resulting projections of future cash flows of the underlying collateral were then discounted by the underlying yield before any write-downs were considered to determine the net present value of the cash flows ("NPV"). The difference between the cost basis and the NPV was taken as a credit loss in the current period to the extent that these losses have not been previously recognized. The difference between the NPV and the quoted market price is considered a noncredit related loss and was included in other comprehensive income (loss).

Other Securities Information

The following sets forth information concerning sales (excluding calls and maturities) of available-for-sale securities (in thousands). There were no sales or transfers of held-to-maturity securities for the nine months ended September 30, 2012 or 2011.

	Nine Months Ended September 30,	
	2012	2011
Amortized cost	$ —	$ 7,973
Proceeds	—	7,927
Gross realized gains	—	94
Gross realized losses	—	(140)

At September 30, 2012, future contractual maturities of debt securities were as follows (in thousands):

	Securities Available-for-sale		Securities Held-to-maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Within one year	$ 706	$ 725	$ —	$ —
Within two to five years	8,083	8,357	—	—
Within six to ten years	74,247	74,816	—	—
After ten years	11,552	11,911	4,046	4,772
Mortgage-backed securities and collateralized mortgage obligations	66,360	68,109	—	—
Total debt securities	$ 160,948	$ 163,918	$ 4,046	$ 4,772

The Company holds mortgage-backed securities which may mature at an earlier date than the contractual maturity due to prepayments. The Company also holds certain securities which may be called by the issuer at an earlier date than the contractual maturity date.

3. LOANS

The loan portfolio is classified by major type as follows:

	As of September 30, 2012		As of December 31, 2011	
	Amount	Percent	Amount	Percent
	(Dollars in thousands)			
Commercial and industrial	$ 377,054	34.30%	$ 345,265	32.98%
Real estate mortgage:				
Residential	40,391	3.67	42,682	4.08
Commercial	667,162	60.68	644,727	61.58
	707,553	64.35	687,409	65.66
Real estate construction:				
Residential	4,087	0.37	6,984	0.67
Commercial	3,824	0.35	3,324	0.32
	7,911	0.72	10,308	0.99
Consumer and other	6,955	0.63	3,936	0.37
Gross loans	1,099,473	100.00%	1,046,918	100.00%
Unearned discounts, interest and deferred fees	(2,618)		(2,302)	
Total loans	1,096,855		1,044,616	
Allowance for loan losses	(25,542)		(28,321)	
Loans, net	$ 1,071,313		$ 1,016,295	

The recorded investment in loans is the face amount increased or decreased by applicable accrued interest and unamortized premium, discount, or finance charges, and may also reflect previous direct write-downs of the loans.

The recorded investment in loans at the dates indicated is determined as follows as of the dates indicated (in thousands):

September 30, 2012	Gross Loan Balance	Deferred Loan Fees	Accrued Interest Receivable	Recorded Investment in Loans
Commercial and industrial	$ 377,054	$ (755)	$ 1,010	$ 377,309
Real estate mortgage	707,553	(1,599)	2,167	708,121
Real estate construction	7,911	(12)	8	7,907
Consumer and other	6,955	(252)	20	6,723
Total	$ 1,099,473	$ (2,618)	$ 3,205	$ 1,100,060

December 31, 2011	Gross Loan Balance	Deferred Loan Fees	Accrued Interest Receivable	Recorded Investment in Loans
Commercial and industrial	$ 345,265	$ (777)	$ 1,077	$ 345,565
Real estate mortgage	687,409	(1,327)	2,270	688,352
Real estate construction	10,308	(2)	29	10,335
Consumer and other	3,936	(196)	14	3,754
Total	$ 1,046,918	$ (2,302)	$ 3,390	$ 1,048,006

Loan Origination/Risk Management

The Company selectively extends credit for the purpose of establishing long-term relationships with its customers. The Company mitigates the risks inherent in lending by focusing on businesses and individuals with demonstrated payment history, historically favorable profitability trends and stable cash flows. In addition to these primary sources of repayment, the Company looks to tangible collateral and personal guarantees as secondary sources of repayment. Lending officers are provided with detailed underwriting policies covering all lending activities in which the Company is engaged and that require all lenders to obtain appropriate approvals for the extension of credit. The Company also maintains documentation requirements and extensive credit quality assurance practices in order to identify credit portfolio weaknesses as early as possible so any exposures that are discovered may be reduced.

The Company has certain lending procedures in place that are designed to maximize loan income within an acceptable level of risk. These procedures include the approval of lending policies and underwriting guidelines by the Board of Directors of each bank, and separate policy, administrative and approval oversight by the Directors' Loan Committee of MetroBank, and by the Directors' Credit Committee of Metro United. Additionally, MetroBank's loan portfolio is reviewed by its internal loan review department, and Metro United's loan portfolio is reviewed by an external third-party company. These procedures also serve to identify changes in asset quality in a timely manner and to ensure proper recording and reporting of nonperforming assets.

Inherent in all lending is the risk of nonpayment. The types of collateral required, the terms of the loans and the underwriting practices discussed under each loan category below are all designed to minimize the risk of nonpayment. In addition, as further risk protection, the Banks rarely make loans at their respective legal lending limits. MetroBank generally does not make loans larger than $12 million to one borrower and Metro United generally does not make loans larger than $6 million to one borrower. Loans greater than the Banks' lending limits are subject to participation with other financial institutions, including with each other. Loans originated by MetroBank are approved by the Chief Credit Officer, Chief Lending Officer, Senior Credit Officer, MetroBank's Loan Committee, or the Director's Credit Committee based on the size of the loan relationship and its risk rating. Loans originated by Metro United are approved by the Director's Credit Committee except for certain consumer loans. Control systems and procedures are in place to ensure all loans are approved in accordance with credit policies. The Company also uses interest rate floors on a majority of its variable rate loans to control interest rate risk within the commercial and real estate loan portfolios.

Commercial and Industrial Loans. Generally, the Company's commercial loans are underwritten on the basis of the borrower's ability to service such debt as reflected by cash flow projections. Commercial loans are generally collateralized by business assets, which may include real estate, accounts receivable and inventory, certificates of deposit, securities, guarantees or other collateral. The Company also generally obtains personal guarantees from the principals of the business. Working capital loans are primarily collateralized by short-term assets, whereas term loans are primarily collateralized by long-term assets. As a result, commercial loans involve additional complexities, variables and risks and require more thorough underwriting and servicing than other types of loans. Indigenous to individuals in the Asian business community is the desire to own the building and land which house their businesses. Accordingly, while a loan may be principally driven and classified by the type of business operated, real estate is frequently the primary source of collateral.

Real Estate Mortgage - Commercial and Residential Mortgage Loans. The Company makes commercial mortgage loans to finance the purchase of real property, which generally consists of developed real estate. The Company's commercial mortgage loans are collateralized by first liens on real estate. For MetroBank, these loans have both variable rates and fixed rates and amortize over a 15 to 20 year period, with balloon payments due at the end of five to seven years. For Metro United, these loans have both variable and fixed rates and amortize over a 25 to 30 year period, with balloon payments due at the end of five to ten years. Payments on loans collateralized by such properties are dependent on the successful operation or management of the properties. Accordingly, repayment of these loans may be subject to adverse conditions in the real estate market or the economy to a greater extent than other types of loans. In underwriting commercial mortgage loans, consideration is given to the property's historical cash flow, current and projected occupancy, location and physical condition. The underwriting analysis also includes credit checks, appraisals, environmental impact reports and a review of the financial condition of the borrower. The Company also originates two to seven year balloon residential mortgage loans with a 15 to 30-year amortization primarily collateralized by owner occupied residential properties, which are retained in the Company's residential mortgage portfolio.

Real Estate Construction Loans. The Company makes loans to finance the construction of residential and non-residential properties. The majority of the Company's residential construction loans in Texas are for single-family dwellings that are pre-sold or are under earnest money contracts. The Company also originates loans to finance the construction of commercial properties such as multi-family, office, industrial, warehouse and retail centers. Construction loans involve additional risks attributable to the fact that loan funds are advanced upon the security of a project under construction, and the project is of uncertain value prior to its completion. Because of uncertainties inherent in estimating construction costs, the market value of the completed project and the effects of governmental regulation on real property, it can be difficult to accurately evaluate the total funds required to complete a project and the related loan to value ratio. As a result of these uncertainties, construction lending often involves the disbursement of substantial funds with repayment dependent, in part, on the success of the ultimate project rather than the ability of a borrower or guarantor to repay the loan. If the Company is forced to foreclose on a project prior to completion, there is no assurance that the Company will be able to recover the entire unpaid portion of the loan. In addition, the Company may be required to fund additional amounts to complete a project and may have to hold the property for an indeterminable period of time. While the Company has underwriting procedures designed to identify what it believes to be acceptable levels of risks in construction lending, no assurance can be given that these procedures will prevent losses from the risks described above.

Consumer Loans. The Company, through its subsidiary Metro United, offers a wide variety of loan products to retail customers through its branch network. Loans to retail customers include automobile loans, lines of credit and other personal loans. The terms of these loans typically range from 12 to 60 months depending on the nature of the collateral and the size of the loan.

Loan review process. In addition to MetroBank's loan portfolio review by its internal loan review department and Metro United's loan portfolio review by an external third-party company, other ongoing reviews are performed by loan officers and involves the grading of each loan by its respective loan officer. Depending on the grade, a loan will be aggregated with other loans of similar grade and a loss factor is applied to the total loans in each group to establish the required level of allowance for loan losses. For both Banks, grades of 1-10 are applied to each loan, with loans graded 7-10 requiring the most allowance for loan losses. Factors utilized in the grading process include but are not limited to historical performance, payment status, collateral value, and financial strength of the borrower. Oversight of the loan review process is the responsibility of the Loan Review/Compliance Officer. Differences of opinion are resolved among the Loan Officer, Loan Review Officer, and the Chief Credit Officer. See "Allowance for Loan Losses and Reserve for Unfunded Lending Commitments" for additional discussion on loan grades.

MetroBank's credit department reports credit risk grade changes on a monthly basis to its management and the Board of Directors. Concentration analyses based on industries, collateral types and business lines and performed monthly and quarterly by MetroBank and monthly by Metro United. Findings are reported to the Directors' Loan Committee of MetroBank and the Directors' Credit Committee of Metro United. Loan concentration reports based on type are prepared, monitored and reviewed quarterly and presented to the Directors' Loan Committee for MetroBank, the Directors' Credit Committee for Metro United and the Board of Directors of each respective Bank.

In addition, the Company reviews the real estate values, and when necessary, orders new appraisals on loans collateralized by real estate when loans are renewed, prior to foreclosure and at other times as necessary, particularly in problem loan situations. In instances where updated appraisals reflect reduced collateral values, an evaluation of the borrower's overall financial condition is made to determine the need, if any, for possible charge-offs or appropriate additions to the allowance for loan losses. The Company records other real estate at fair value at the time of

acquisition less estimated costs to sell.

The following table presents the recorded investment in loans by credit risk profile, and which were updated as of the date indicated (in thousands):

As of September 30, 2012	Commercial and industrial	Real estate-mortgage	Real estate - construction	Consumer and other	Total
Grade:					
1-6 - “Pass”	$ 351,931	$ 610,745	$ 2,415	$ 6,722	$ 971,813
7 - “Special Mention”/ “Watch”	3,977	14,679	—	—	18,656
8 - “Substandard”	21,401	82,697	5,492	1	109,591
9 -“Doubtful"	—	—	—	—	—
Total	$ 377,309	$ 708,121	$ 7,907	$ 6,723	$ 1,100,060

As of December 31, 2011	Commercial and industrial	Real estate-mortgage	Real estate - construction	Consumer and other	Total
Grade:					
1-6 - “Pass”	$ 310,626	$ 551,496	$ 3,078	$ 3,753	$ 868,953
7 - “Special Mention”/ “Watch”	10,735	30,491	—	—	41,226
8 - “Substandard”	24,204	106,160	7,257	1	137,622
9 -“Doubtful"	—	205	—	—	205
Total	$ 345,565	$ 688,352	$ 10,335	$ 3,754	$ 1,048,006

There can be no assurance, however, that the Company’s loan portfolio will not become subject to increasing pressures from deteriorating borrowers’ financial condition due to general economic and other factors. While future deterioration in the loan portfolio is possible, management is continuing its risk assessment and resolution program. In addition, management is focusing its attention on minimizing the Company’s credit risk through diversification.

Nonperforming Loans

The Company generally places a loan on nonaccrual status and ceases accruing interest when, in the opinion of management, full payment of loan principal or interest is in doubt. All loans past due 90 days are placed on nonaccrual status unless the loan is both well collateralized and in the process of collection. Cash payments received while a loan is classified as nonaccrual are recorded as a reduction of principal as long as significant doubt exists as to collection of the principal. Loans are restored to accrual status only when interest and principal payments are brought current and, in management’s judgment, future payments are reasonably assured. In addition to nonaccrual loans, the Company evaluates on an ongoing basis other loans which are potential problem loans as to risk exposure in determining the adequacy of the allowance for loan losses. Loans are classified as a troubled debt restructuring in cases where a borrower is experiencing financial difficulty and the Banks make concessionary modifications to contractual terms. Troubled debt restructurings can be accruing or on nonaccrual status.

A loan is considered impaired based on current information and events if it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Impairment is evaluated in total for smaller-balance loans of a similar nature and on an individual basis for other loans. The measurement of impaired loans is based on the present value of expected future cash flows discounted at the loan’s effective interest rate or the loan’s observable market price or based on the fair value of the collateral if the loan is collateral-dependent.

The Company requires that nonperforming assets be monitored by the special assets department or senior lenders for MetroBank, and the special asset team consisting of internal credit personnel with the assistance of third party consultants and attorneys for Metro United. All nonperforming assets are actively managed pursuant to the Company’s loan policy. Senior management is apprised on a weekly basis of the workout endeavors and provides assistance as necessary to determine the best strategy for problem loan resolution and maximizing repayment on nonperforming assets.

In addition to the Banks' loan review processes described in the preceding paragraphs, the Office of the Comptroller of the Currency ("OCC") periodically examines and evaluates MetroBank, while the Federal Deposit Insurance Corporation ("FDIC") and California Department of Financial Institutions ("CDFI") periodically examine and evaluate Metro United. Based upon such examinations, the regulators may revalue the assets of the institution and require that it charge-off certain assets, establish specific reserves to compensate for the difference between the regulators-determined value and the book value of such assets or take other regulatory action designed to lessen the risk in the asset portfolio.

The following table provides an analysis of the age of the recorded investment in loans by portfolio segment as of the date indicated (in thousands):

As of September 30, 2012	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Recorded Investment in Loans	Recorded Investment 90 Days Past Due and Accruing
Commercial and industrial	$ 730	$ 754	$ 7,356	$ 8,840	$ 368,469	$ 377,309	$ —
Real estate mortgage:							
Residential	5,238	—	184	5,422	35,060	40,482	—
Commercial	680	8,199	12,365	21,244	646,395	667,639	—
Real estate construction:							
Residential	—	—	2,345	2,345	1,738	4,083	—
Commercial	—	—	3,148	3,148	676	3,824	—
Consumer and other	—	25	1	26	6,697	6,723	—
Total	$ 6,648	$ 8,978	$ 25,399	$ 41,025	$ 1,059,035	$ 1,100,060	$ —

As of December 31, 2011	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Recorded Investment in Loans	Recorded Investment 90 Days Past Due and Accruing
Commercial and industrial	$ 2,018	$ 121	$ 9,433	$ 11,572	$ 333,993	$ 345,565	$ —
Real estate mortgage:							
Residential	105	—	251	356	42,440	42,796	—
Commercial	7,361	4,002	15,559	26,922	618,634	645,556	—
Real estate construction:							
Residential	—	—	—	—	7,011	7,011	—
Commercial	—	3,324	—	3,324	—	3,324	—
Consumer and other	—	5	1	6	3,748	3,754	—
Total	$ 9,484	$ 7,452	$ 25,244	$ 42,180	$ 1,005,826	$ 1,048,006	$ —

The following table presents the recorded investment in nonaccrual loans, including nonaccruing troubled debt restructurings, by portfolio segment as of the dates indicated (in thousands):

Recorded investment in nonaccrual loans	September 30, 2012	December 31, 2011
Commercial and industrial	$ 7,356	$ 10,665
Real estate mortgage:		
Residential	184	251
Commercial	23,116	30,600
Real estate construction:		
Residential	2,345	—
Commercial	3,147	3,324
Consumer and other	1	1
Total	$ 36,149	$ 44,841

Information on impaired loans, which includes nonaccrual loans and troubled debt restructurings, and the related specific allowance for loan losses on such loans at September 30, 2012 and December 31, 2011, is presented below (in thousands):

As of September 30, 2012	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
Impaired loans with no allowance				
Commercial and industrial	$ 7,333	$ 7,343	$ —	$ 5,752
Real estate mortgage:				
Residential	184	184	—	216
Commercial	22,258	22,260	—	19,859
Real estate construction:				
Residential	2,345	2,345	—	1,172
Commercial	3,147	3,147	—	3,226
Impaired loans with an allowance				
Commercial and industrial	$ 23	$ 23	$ 23	$ 3,183
Real estate mortgage:				
Commercial	4,999	4,986	953	6,836
Total:				
Commercial and industrial	$ 7,356	$ 7,366	$ 23	$ 8,935
Real estate mortgage	27,441	27,430	953	26,911
Real estate construction	5,492	5,492	—	4,398

As of December 31, 2011	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
Impaired loans with no allowance				
Commercial and industrial	$ 3,647	$ 3,652	$ —	$ 8,901
Real estate mortgage:				
Residential	251	251	—	263
Commercial	19,922	19,913	—	26,256
Real estate construction:				
Commercial	3,324	3,324	—	831
Impaired loans with an allowance				
Commercial and industrial	$ 7,018	$ 7,025	$ 224	$ 4,835
Real estate mortgage:				
Commercial	10,678	10,696	710	14,042
Total:				
Commercial and industrial	$ 10,665	$ 10,677	$ 224	$ 13,736
Real estate mortgage	30,851	30,860	710	40,561
Real estate construction	3,324	3,324	—	831

For the nine months ended September 30, 2012 and 2011, interest income of $139,000 and $118,000 was recognized on impaired loans, which consisted of nonaccrual loans that were paid in full and accruing troubled debt restructurings ("TDRs").

Troubled Debt Restructurings

Loans are classified as TDRs in cases where a borrower is experiencing financial difficulty and the Banks make concessionary modifications to contractual terms. Restructured loans typically involve a modification of terms such as a reduction of the stated interest rate and/or an extension of the maturity date(s). Generally, a nonaccrual loan that is restructured remains on nonaccrual for a minimum period of six months to demonstrate that the borrower can meet the restructured terms. Once performance has been demonstrated, the loan may be returned to performing status after the calendar year end.

The following table presents the recorded investment in TDRs that occurred for the nine months ended September 30, 2012 (dollars in thousands). There were no TDRs that occurred for the three months ended September 30, 2012.

	Nine Months Ended September 30, 2012		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings			
Real estate mortgage:			
Commercial	3	$ 6,007	$ 6,318
Real estate construction:			
Commercial	2	401	401

The following describes TDRs that occurred during the nine months ended September 30, 2012:

One commercial real estate loan relationship was restructured as a TDR. The loan relationship identified as a TDR was previously on nonaccrual status and reported as an impaired loan prior to restructuring. The borrower was under the protection of the Federal Bankruptcy Act and the court approved and imposed a reorganization plan which modified the existing payment terms. The Company had previously written the loan down to the fair market value of the property. Subsequent to the write down and prior to the reorganization, the loan was further paid down from excess cash flow from the property. The loan was restructured based on the appraised fair value of the property, which increased the post-modification recorded investment, and as a result, insignificantly increased the allowance for loan losses.

Two commercial real estate loans to the same borrower were identified and classified as TDRs. The TDRs were previously on nonaccrual status and reported as an impaired loan prior to restructuring. The borrower was under the protection of the Federal Bankruptcy Act and the court approved and imposed a reorganization plan which modified the existing payment terms. Since the loan was classified and on nonaccrual status both before and after restructuring, the modification did not impact the Company's determination of the allowance for loan losses.

Two real estate construction loans to the same borrower were restructured as TDRs. The loans, previously on accrual status and paid according to contractual terms, had matured and were renewed without a principal reduction. The loans were classified and on accrual status both before and after restructuring. Prior to restructuring, the Company's determination of the allowance for loan losses was based on FASB codification 450-20; after restructuring, the determination of the allowance for loan losses was based on FASB codification 310-10-35 and therefore insignificantly reduced the allowance for loan losses.

As of September 30, 2012, commitments to lend additional funds on loans that were modified as TDRs were insignificant. As of September 30, 2012, there have been no defaults on any loans that were modified as TDRs during the preceding twelve months.

Allowance for Loan Losses and Reserve for Unfunded Lending Commitments

The allowance for loan losses provides for the risk of losses inherent in the lending process and the Company allocates the allowance for loan losses according to management's assessments of risk inherent in the portfolio. The allowance for loan losses is increased by provisions charged against current earnings and is reduced by net charge-offs. Loans are charged off when they are deemed to be uncollectible in whole or in part. Recoveries are recorded when cash payments are received. In developing the assessment, the Company relies on estimates and exercises judgment regarding matters where the ultimate outcome is uncertain. Circumstances may change and future assessments of credit risk may yield materially different results, resulting in an increase or decrease in the allowance for credit losses.

The allowance for credit losses consists of the allowance for loan losses and the reserve for unfunded lending commitments and is maintained at levels that the Company believes are adequate to absorb probable losses inherent in the loan portfolio and unfunded lending commitments as of the date of the financial statements. The Company employs a systematic methodology for determining the allowance for credit losses that consists of four components: (1) a formula-based general reserve based on historical average losses by loan grade and grade migration, (2) specific reserves on larger impaired individual credits that are based on the difference between the current loan balance and the loan's collateral value, observable market price, or discounted present value, (3) a qualitative component that reflects current market conditions and other factors precedent to losses different from historical averages, and (4) a reserve for unfunded lending commitments.

In setting the qualitative reserve portion of the allowance for loan losses, the factors the Company may consider include, but are not limited to, concentrations of credit, common characteristics of known problem loans, potential problem loans and other loans that exhibit weaknesses or deterioration, the general economic environment in the Company's markets as well as the national economy, particularly the real estate markets, changes in value of the collateral securing loans, results of portfolio stress tests, and changes in lending processes, procedures and personnel. After the aforementioned assessment of the loan portfolio, the general economic environment and other relevant factors, management determines the appropriate allowance for loan loss level and makes the provision necessary to achieve that level. This methodology is consistently followed so that the level of the allowance for loan losses is reevaluated on an ongoing basis in response to changes in circumstances, economic conditions or other factors.

The Company follows a loan review program to evaluate the credit risk in the loan portfolio as discussed under "Nonperforming Assets." Through the loan review process, the Company maintains an internally classified loan list which, along with the delinquency list of loans, helps management assess the overall quality of the loan portfolio and the adequacy of the allowance for loan losses. Loans classified as "substandard" are risk-rated as grade 8, and are those loans with well-defined weaknesses such as a highly-leveraged position, unfavorable financial ratios, uncertain repayment sources or poor financial condition, which may jeopardize recoverability of the debt. Loans classified as "doubtful" are risk-rated as grade 9, and are those loans which have characteristics similar to substandard loans but with an increased risk that a loss may occur, or at least a portion of the loan may require a charge-off if liquidated at present. Although loans classified as substandard do not duplicate loans classified as doubtful, both substandard and doubtful loans include some loans that are delinquent at least 30 days or on nonaccrual status. Loans classified as "loss" are risk-rated as grade 10 and are those loans which are charged off.

In addition to the internally classified loan list and delinquency list of loans, the Company maintains a separate "watch list" for loans risk-rated as grade 7, which further aids the Company in monitoring loan portfolios. Watch list loans show potential weaknesses where the present status portrays one or more deficiencies that require attention in the short-term or where pertinent ratios of the loan account have weakened to a point where more frequent monitoring is warranted. These loans do not have all of the characteristics of a classified loan (substandard or doubtful) but do show weakened elements compared with those of a satisfactory credit. The Company reviews these loans to assist in assessing the adequacy of the allowance for loan losses.

Policies and procedures have been developed to assess the adequacy of the allowance for loan losses and the reserve for unfunded lending commitments that include the monitoring of qualitative and quantitative trends described above. Management of both banks review and approve their respective allowance for loan losses and the reserve for unfunded lending commitments monthly and perform a comprehensive analysis quarterly, which is also presented for approval by each bank's Board of Directors. The allowance for credit losses is also subject to federal and California State banking regulations. The Banks' primary regulators conduct periodic examinations of the allowance for credit losses and make assessments regarding its adequacy and the methodology used in its determination.

The Company maintains a reserve for unfunded commitments to provide for the risk of loss inherent in its unfunded lending related commitments. The process used in determining the reserve is consistent with the process used for the allowance for loan losses discussed above.

The following table presents the allowance for loan losses and recorded investment in loans by portfolio segment at the dates indicated (in thousands):

As of and for the three months ended September 30, 2012	Commercial and industrial	Real estate-mortgage	Real estate - construction	Consumer and other	Unallocated	Total
Allowance for loan losses at beginning of period	$ 9,146	$ 16,151	$ 185	$ 106	$ 1,723	$ 27,311
Provision for loan losses	922	(574)	(6)	50	(692)	(300)
Charge-offs	(1,464)	(130)	—	(31)	—	(1,625)
Recoveries	32	118	—	6	—	156
Allowance for loan losses at end of period	$ 8,636	$ 15,565	$ 179	$ 131	$ 1,031	$ 25,542
Ending allowance for loan losses balance for loans individually evaluated for impairment	$ 23	$ 953	$ —	$ —		$ 976
Ending allowance for loan losses balance for loans collectively evaluated for impairment	$ 8,613	$ 14,612	$ 179	$ 131		$ 23,535
Loans:						
Recorded investment in loans	$ 377,309	$ 708,121	$ 7,907	$ 6,723		$ 1,100,060
Recorded investment in loans individually evaluated for impairment	$ 7,357	$ 27,441	$ 5,492	$ 1		$ 40,291
Recorded investment in loans collectively evaluated for impairment	$ 369,952	$ 680,680	$ 2,415	$ 6,722		$ 1,059,769

As of and for the three months ended September 30, 2011	Commercial and industrial	Real estate-mortgage	Real estate - construction	Consumer and other	Unallocated	Total
Allowance for loan losses at beginning of period	$ 7,136	$ 20,590	$ 490	$ 152	$ 2,025	$ 30,393
Provision for loan losses	527	74	(2)	12	264	875
Charge-offs	(597)	(1,350)	—	(18)	—	(1,965)
Recoveries	260	396	5	5	—	666
Allowance for loan losses at end of period	$ 7,325	$ 19,710	$ 493	$ 151	$ 2,289	$ 29,969
Ending allowance for loan losses balance for loans individually evaluated for impairment	$ 275	$ 749	$ —	$ —		$ 1,024
Ending allowance for loan losses balance for loans collectively evaluated for impairment	$ 7,051	$ 18,961	$ 493	$ 151		$ 26,656
Loans:						
Recorded investment in loans	$ 346,254	$ 705,757	$ 6,925	$ 3,629		$ 1,062,565
Recorded investment in loans individually evaluated for impairment	$ 13,520	$ 34,749	$ —	$ 1		$ 48,270
Recorded investment in loans collectively evaluated for impairment	$ 332,734	$ 671,008	$ 6,925	$ 3,628		$ 1,014,295

As of and for the nine months ended September 30, 2012	Commercial and industrial	Real estate-mortgage	Real estate - construction	Consumer and other	Unallocated	Total
Allowance for loan losses at beginning of period	$ 7,966	$ 19,213	$ 320	$ 137	$ 685	$ 28,321
Provision for loan losses	2,531	(3,166)	523	66	346	300
Charge-offs	(2,258)	(1,415)	(683)	(92)	—	(4,448)
Recoveries	397	933	19	20	—	1,369
Allowance for loan losses at end of period	$ 8,636	$ 15,565	$ 179	$ 131	$ 1,031	$ 25,542
Ending allowance for loan losses balance for loans individually evaluated for impairment	$ 23	$ 953	$ —	$ —		$ 976
Ending allowance for loan losses balance for loans collectively evaluated for impairment	$ 8,613	$ 14,612	$ 179	$ 131		$ 23,535
Loans:						
Recorded investment in loans	$ 377,309	$ 708,121	$ 7,907	$ 6,723		$ 1,100,060
Recorded investment in loans individually evaluated for impairment	$ 7,357	$ 27,441	$ 5,492	$ 1		$ 40,291
Recorded investment in loans collectively evaluated for impairment	$ 369,952	$ 680,680	$ 2,415	$ 6,722		$ 1,059,769

As of and for the nine months ended September 30, 2011	Commercial and industrial	Real estate-mortgage	Real estate - construction	Consumer and other	Unallocated	Total
Allowance for loan losses at beginning of period	$ 8,187	$ 22,016	$ 1,993	$ 194	$ 1,367	$ 33,757
Provision for loan losses	1,865	1,907	(2,222)	(22)	922	2,450
Charge-offs	(3,222)	(4,673)	—	(49)	—	(7,944)
Recoveries	496	460	722	28	—	1,706
Allowance for loan losses at end of period	$ 7,326	$ 19,710	$ 493	$ 151	$ 2,289	$ 29,969
Ending allowance for loan losses balance for loans individually evaluated for impairment	$ 275	$ 749	$ —	$ —		$ 1,024
Ending allowance for loan losses balance for loans collectively evaluated for impairment	$ 7,051	$ 18,961	$ 493	$ 151		$ 26,656
Loans:						
Recorded investment in loans	$ 346,254	$ 705,757	$ 6,925	$ 3,629		$ 1,062,565
Recorded investment in loans individually evaluated for impairment	$ 13,520	$ 34,749	$ —	$ 1		$ 48,270
Recorded investment in loans collectively evaluated for impairment	$ 332,734	$ 671,008	$ 6,925	$ 3,628		$ 1,014,295

4. GOODWILL

Changes in the carrying amount of the Company's goodwill for the periods indicated are as follows (in thousands):

Balance as of January 1, 2011		
Goodwill	$	21,827
Accumulated impairment losses		4,500
Net goodwill		17,327
Impairment losses		3,000
Balance as of December 31, 2011		
Goodwill		21,827
Accumulated impairment losses		7,500
Net goodwill		14,327
Impairment losses		—
Balance as of September 30, 2012		
Goodwill		21,827
Accumulated impairment losses		7,500
Net goodwill	$	14,327

Goodwill is recorded on the acquisition date of each entity, and evaluated annually for possible impairment. Goodwill is required to be tested for impairment on an annual basis or as events occur or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The Company's only reporting unit with assigned goodwill is Metro United.

Annual Evaluation

The Company completed its 2012 annual impairment test based on information as of August 31, 2012. The review utilized guideline company and guideline transaction information where available, discounted cash flow analysis and the market capitalization of the Company to estimate the fair value of Metro United.

Due to the limited number of bank transaction multiples, management allocated more weight on the income approach for the step-one analysis. The Company also performed a reconciliation of the estimated fair value of the reporting unit to the stock price of the Company. This reconciliation is performed by first determining the fair value of the reporting unit from various valuation techniques (i.e., guideline transactions, discounted cash flows, and quoted market prices). The fair value is compared to the allocated value of the reporting unit based on the Company's market value using the stock price as of the valuation date. The Company allocates the total market value to both of its segments, MetroBank and Metro United. For each Bank, the allocation is based upon the following internal ratios:

Balance Sheet Ratios
- Total assets as a percentage of total assets;
- Total loans as a percentage of total loans;
- Total deposits as a percentage of total deposits; and
- Total shareholder's equity as a percentage of total shareholders' equity.

Performance Ratios
- Total nonperforming assets as a percentage of total assets;
- Last twelve months return on assets; and
- Last twelve months return on equity.

In allocating the market value between the two Banks, more weight was assigned to the Performance Ratios than the Balance Sheet Ratios in order to account for the differences in market valuation as a result of different financial performance. The allocated market value of Metro United Bank is then reconciled to the weighted average fair value derived from each valuation technique (i.e. guideline transactions, discounted cash flows, and quoted market prices) by assigning an estimated control premium of 20% to the allocated market value.

Under the discounted cash flow method, the Company used an average asset growth rate of 9.8% for the next five-year period and discounted Metro United's cash flow and terminal value using a 13.2% discount rate. The derived fair value of Metro United was lower than the carrying value of its equity; therefore Metro United failed the step-one impairment test.

The Company then performed the step-two analysis to derive the implied fair value of goodwill. The size of the implied goodwill under the step-two analysis was significantly affected by the estimated fair value of the loans pertaining to Metro United. The significant market risk adjustment, which is a consequence of the current market conditions such as the interest rate environment, risk premium requirement on performing and nonperforming loans, supply and demand of loans for sale, macroeconomic conditions and political and regulatory environment, were all substantial contributors to the valuation discounts associated with Metro United's loan portfolio. The implied fair value of goodwill at the evaluation date exceeded the carrying value; therefore the Company determined there was no impairment of goodwill as of that date.

To the extent that market liquidity returns and the fair value of the individual assets or loans of Metro United increases at a faster rate than the fair value of Metro United as a whole, that may cause the implied goodwill to be lower than the carrying value of goodwill. Future potential changes in valuation assumptions may also impact the estimated fair value of Metro United, resulting in impairment of goodwill under the step-two analysis. The stock price performance of the Company and the fair value of Metro United's loans are factors that may impact the potential future goodwill impairment.

Goodwill impairment, if any, is a noncash adjustment to the Company's financial statements. As goodwill and other intangible assets are not included in the calculation of regulatory capital, the Company's well capitalized regulatory ratios are not affected. Subsequent reversal of goodwill impairment is prohibited.

5. EARNINGS PER COMMON SHARE

Basic earnings per common share ("EPS") is computed by dividing net income (after deducting dividends on preferred stock) by the weighted-average number of common shares outstanding during the period. Diluted EPS is computed by dividing net income available to common shareholders by the weighted-average number of common shares and potentially dilutive common shares outstanding during the period. Stock options, restricted common shares and warrants can be dilutive common shares and are therefore considered in the earnings per share calculation, if dilutive. Stock options, restricted common shares and warrants that are antidilutive are excluded from earnings per share calculation. Stock options, restricted common shares and warrants are antidilutive when the exercise price is higher than the current market price of the Company's common stock. For the three months ended September 30, 2012 and 2011, there were 302,406 and 1,231,972 antidilutive stock options, respectively. For the nine months ended September 30, 2012 and 2011, there were 520,343 and 1,233,180 antidilutive stock options, respectively. The number of potentially dilutive common shares is determined using the treasury stock method.

	As of and for the Three Months Ended September 30,		As of and for the Nine Months Ended September 30,	
	2012	2011	2012	2011
	(In thousands, except per share amounts)			
Net income available to common shareholders	$ 2,712	$ 1,668	$ 7,403	$ 4,947
Weighted average common shares in basic EPS	18,307	13,145	15,666	13,141
Effect of dilutive securities	341	89	210	75
Weighted average common and potentially dilutive common shares used in diluted EPS	18,648	13,234	15,876	13,216
Earnings per common share:				
Basic	$ 0.15	$ 0.13	$ 0.47	$ 0.38
Diluted	$ 0.15	$ 0.13	$ 0.47	$ 0.37

6. COMMITMENTS AND CONTINGENCIES

The Company is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include various guarantees, commitments to extend credit and standby letters of credit. Additionally, these instruments may involve, to varying degrees, credit risk in excess of the amount recognized in the statement of financial condition. The Company's maximum exposure to credit loss under such arrangements is represented by the contractual amount of those instruments. The Company applies the same credit policies and collateralization guidelines in making commitments and conditional obligations as they do for on-balance sheet instruments. Off-balance sheet financial instruments include commitments to extend credit and guarantees under standby and other letters of credit.

The contractual amount of the Company's financial instruments with off-balance sheet risk as of September 30, 2012 and December 31, 2011 is presented below (in thousands):

	As of September 30, 2012	As of December 31, 2011
Unfunded loan commitments including unfunded lines of credit	$ 93,321	$ 105,049
Standby letters of credit	10,590	15,765
Commercial letters of credit	4,790	5,818
Operating leases	7,852	8,058
Total financial instruments with off-balance sheet risk	$ 116,553	$ 134,690

Litigation. The Company is involved in various litigation that arises from time to time in the normal course of business. In the opinion of management, after consultations with its legal counsel, such litigation is not expected to have a material adverse effect on the Company's consolidated financial position, result of operations or cash flows.

7. SHAREHOLDERS' EQUITY

New Capital Raised

On May 21, 2012, the Company closed the public offering of 5,111,750 shares of its common stock, $1.00 par value per share (the "Offering"), at a price of $9.00 per share. The shares sold in the Offering included 666,750 shares sold pursuant to the underwriter's full exercise of its option to purchase additional shares to cover over-allotments. The shares were sold in accordance with an underwriting agreement between the Company and Keefe, Bruyette & Woods, Inc., the sole underwriter.

Proceeds to the Company, after deducting the underwriting discount, commissions and Offering expenses, were approximately $42.9 million.

The Offering was made pursuant to a registration statement on Form S-3 (File No. 333-180889) of the Company, which became effective on May 7, 2012. A prospectus supplement, dated May 16, 2012, to the base prospectus, dated May 7, 2012, forming a part of the registration statement was filed on May 17, 2012 with the Securities and Exchange Commission under Rule 424(b)(2) of the Securities Act of 1933, as amended.

Repurchase of Troubled Asset Relief Program ("TARP") Preferred Stock

The Company repurchased 43,740 shares of the Company's 45,000 outstanding shares of preferred stock ("Preferred Stock") from the U.S. Department of the Treasury ("Treasury"), which were issued to the Treasury in connection with the Company's participation in the TARP Capital Purchase Program ("CPP"). The repurchase of $43.7 million in stated value of Preferred Stock at a discount of 1.883% (or an actual cost of $42.9 million) resulted in an adjustment, net of settlement costs, to capital totaling $557,000 offset by the amortization of $249,000 in the Preferred Stock discount. Although the transaction date occurred during the second quarter of 2012, actual payment for the repurchase of Preferred Stock took place on July 3, 2012. As such, the Company recorded a payable in the amount of $42.9 million listed as "Preferred Stock repurchase payable" on the Consolidated Balance Sheet as of June 30, 2012. The remaining 1,260 shares of Preferred Stock were sold by the Treasury to other investors and repurchased by the Company on August 7, 2012 in the amount of $1.26 million. The warrants to purchase common stock, with an exercise price of $8.75, associated with the TARP program are still held by the Treasury.

As a result of participation in the CPP, among other things, the Company was subject to the Treasury's standards for executive compensation and corporate governance for the period during which the Treasury held the Company's Preferred Stock, including the second

quarter of 2012. These standards were most recently set forth in the Interim Final Rule on TARP Standards for Compensation and Corporate Governance, published June 15, 2009. Because the Treasury sold all of the Preferred Stock in the auction, these executive compensation and corporate governance standards are no longer applicable to the Company on a going forward basis.

The Company paid no common dividends for the nine months ended September 30, 2012 and 2011. Preferred dividends of $1.4 million and $2.3 million were paid for the nine months ended September 30, 2012 and 2011, respectively.

8. REGULATORY MATTERS

The Banks are subject to regulations and, among others things, may be limited in their ability to pay dividends or otherwise transfer funds to the holding company. Dividends paid by the Banks to the holding company would be prohibited if the effect thereof would cause the Banks' capital to be reduced below applicable minimum capital requirements.

On August 10, 2009, MetroBank entered into a written agreement (the "Agreement") with the OCC. The Agreement is based on the findings of the OCC during the annual on-site examination of MetroBank performed in the first quarter of 2009 and is primarily focused on matters related to MetroBank's asset quality. Pursuant to the Agreement, the Board of Directors of MetroBank has appointed a compliance committee to monitor and coordinate MetroBank's performance under the Agreement. The Agreement provides for, among other things, the development and implementation of written programs to reduce MetroBank's credit risks, monitor and reduce the level of criticized assets and manage commercial real estate loan concentrations in light of current adverse commercial real estate market conditions generally and in its market areas. In addition, MetroBank may not accept, renew or roll over brokered deposits without prior approval of the OCC. During and since the completion of the examination, management of MetroBank has proactively made adjustments to policies and procedures in an effort to alleviate the effects of the credit challenge caused by the economic deterioration and market conditions generally and in its market areas.

Management, and the Boards of Directors of the Company and MetroBank, have taken steps to address the findings of the exam and are working with the OCC to comply with the requirements of the Agreement. Failure by MetroBank to meet the requirements and conditions imposed by the Agreement, could result in more severe regulatory enforcement actions such as capital directives to raise additional capital, civil money penalties, cease and desist or removal orders, injunctions, and public disclosure of such actions against MetroBank. Any such failure and resulting regulatory action could have a material adverse effect on the financial condition and results of operations of the Company and MetroBank.

The Board of Directors of Metro United was officially informed on July 20, 2012 by the FDIC and CDFI that the Consent Order entered into on July 22, 2010 had been terminated effective as of July 20, 2012.

The Company and the Banks are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. The regulations require the Company to meet specific capital adequacy guidelines that involve quantitative measures of the Company's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Banks' capital classification is also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Quantitative measures established by regulation to ensure capital adequacy require the Company and the Banks to maintain minimum amounts and ratios of total and Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets. Management believes, as of September 30, 2012, that the Company and the Banks met all capital adequacy requirements to which they were subject.

As of September 30, 2012, the most recent notifications from the OCC with respect to MetroBank, and the CDFI with respect to Metro United categorized the Banks as "well capitalized" under the regulatory framework for prompt corrective action. There are no conditions or events since the notifications that management believes have changed the Banks' level of capital adequacy.

The following table provides a comparison of the Company's and each of the Bank's leverage and risk-weighted capital ratios as of September 30, 2012 to the minimum and well-capitalized regulatory standards:

	Actual		Minimum Required For Capital Adequacy Purposes		To be Categorized as Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)					
As of September 30, 2012						
Total risk-based capital ratio						
MetroCorp Bancshares, Inc.	$ 207,884	17.69%	$ 94,029	8.00%	$ N/A	N/A%
MetroBank, N.A.	152,149	17.64	69,019	8.00	86,274	10.00
Metro United Bank	51,004	16.49	24,752	8.00	30,940	10.00
Tier 1 risk-based capital ratio						
MetroCorp Bancshares, Inc.	192,867	16.41	47,014	4.00	N/A	N/A
MetroBank, N.A.	141,082	16.35	34,510	4.00	51,764	6.00
Metro United Bank	47,093	15.22	12,376	4.00	18,564	6.00
Leverage ratio						
MetroCorp Bancshares, Inc.	192,867	12.90	59,824	4.00	N/A	N/A
MetroBank, N.A.	141,082	12.62	44,720	4.00	55,900	5.00
Metro United Bank	47,093	12.48	15,095	4.00	18,869	5.00
As of December 31, 2011						
Total risk-based capital ratio						
MetroCorp Bancshares, Inc.	$ 195,765	17.30%	$ 90,552	8.00%	$ N/A	N/A%
MetroBank, N.A.	140,510	16.82	66,831	8.00	83,539	10.00
Metro United Bank	48,778	16.48	23,674	8.00	29,593	10.00
Tier 1 risk-based capital ratio						
MetroCorp Bancshares, Inc.	181,368	16.02	45,276	4.00	N/A	N/A
MetroBank, N.A.	129,864	15.55	33,416	4.00	50,124	6.00
Metro United Bank	45,034	15.22	11,837	4.00	17,756	6.00
Leverage ratio						
MetroCorp Bancshares, Inc.	181,368	12.16	59,659	4.00	N/A	N/A
MetroBank, N.A.	129,864	11.67	44,514	4.00	55,643	5.00
Metro United Bank	45,034	11.80	15,269	4.00	19,086	5.00

9. ACCUMULATED OTHER COMPREHENSIVE INCOME

The tax effects allocated to each component of other comprehensive income were as follows (in thousands):

	Three Months Ended September 30, 2012			Three Months Ended September 30, 2011		
	Before Tax Amount	Tax Expense (Benefit)	Net of Tax Amount	Before Tax Amount	Tax Expense (Benefit)	Net of Tax Amount
Change in accumulated gain (loss) on effective cash flow derivatives	$ 12	$ 4	$ 8	$ (464)	$ (167)	$ (297)
Unrealized gain (loss) on investment securities with OTTI:						
Securities with OTTI charges during the period	(14)	(5)	(9)	(32)	(11)	(21)
Less: OTTI charges recognized in net income	(7)	(3)	(4)	(30)	(10)	(20)
Net unrealized losses on investment securities with OTTI	(7)	(2)	(5)	(2)	(1)	(1)
Unrealized gain (loss) on investment securities:						
Unrealized holding gain arising during the period	974	351	623	1,805	650	1,155
Less: reclassification adjustment for gain (loss) included in net income	24	9	15	203	73	130
Net unrealized gains on investment securities	950	342	608	1,602	577	1,025
Other comprehensive income	$ 955	$ 344	$ 611	$ 1,136	$ 409	$ 727

	Nine Months Ended September 30, 2012			Nine Months Ended September 30, 2011		
	Before Tax Amount	Tax Expense (Benefit)	Net of Tax Amount	Before Tax Amount	Tax Expense (Benefit)	Net of Tax Amount
Change in accumulated gain (loss) on effective cash flow derivatives	$ 65	$ 23	$ 42	$ (608)	$ (219)	$ (389)
Unrealized gain (loss) on investment securities with OTTI:						
Securities with OTTI charges during the period	(101)	(36)	(65)	(215)	(77)	(138)
Less: OTTI charges recognized in net income	(84)	(30)	(54)	(195)	(70)	(125)
Net unrealized losses on investment securities with OTTI	(17)	(6)	(11)	(20)	(7)	(13)
Unrealized gain on investment securities:						
Unrealized holding gain arising during the period	1,761	635	1,126	3,557	1,280	2,277
Less: reclassification adjustment for gain included in net income	108	39	69	129	46	83
Net unrealized gains on investment securities	1,653	596	1,057	3,428	1,234	2,194
Other comprehensive income	$ 1,701	$ 613	$ 1,088	$ 2,800	$ 1,008	$ 1,792

The balance of and changes in each component of accumulated other comprehensive income as of and for the nine months ended September 30, 2012 are as follows (net of taxes):

	Gains (Losses) on Effective Cash Hedging Derivatives	Net Unrealized Losses on Investments with OTTI	Net Unrealized Investment Gains	Total Accumulated Other Comprehensive Income (Loss)
Balance December 31, 2011	$ (1,275)	$ (1,000)	$ 2,110	$ (165)
Current period change	42	(11)	1,057	1,088
Balance September 30, 2012	$ (1,233)	$ (1,011)	$ 3,167	$ 923

10. DERIVATIVE FINANCIAL INSTRUMENTS

The fair value of derivative financial instruments outstanding is included in other assets and other liabilities in the accompanying consolidated balance sheets and the net change in each of these financial statement line items in the accompanying consolidated statements of cash flows.

Interest Rate Derivatives. The Company uses derivatives (interest rate swaps and caps) to mitigate exposure to interest rate risk and the objectives of such are described below.

During the third quarter of 2009, the Company entered into a forward-starting interest rate swap contract on its junior subordinated debentures with a notional amount of $17.5 million. The interest rate swap contract was designated as a hedging instrument in a cash flow hedge with the objective of protecting the quarterly interest payments on a portion of the Company's $36.1 million of junior subordinated debentures issued to the Company's unconsolidated subsidiary trust, MCBI Statutory Trust I, throughout the five-year period beginning in December 2010 and ending in December 2015 from the risk of variability of those payments resulting from changes in the three-month LIBOR interest rate. Under the swap contract, beginning December 2010, the Company pays a fixed interest rate of 5.38% and receive a variable interest rate of three-month LIBOR plus a margin of 1.55% on a total notional amount of $17.5 million, with quarterly settlements which began in March 2011.

The notional amount of the interest rate derivative contract outstanding at September 30, 2012 and December 31, 2011 was $17.5 million, and the estimated fair value at September 30, 2012 and December 31, 2011 was ($1.9 million) and ($2.0 million), respectively. The Company obtains dealer quotations to value its interest rate derivative contract designated as hedges of cash flows.

The Company applies hedge accounting to the interest rate swap above. To qualify for hedge accounting, a derivative must be highly effective at reducing the risk associated with the exposure being hedged. In addition, for a derivative to be designated as a hedge, the risk management objective and strategy must be documented. Hedge documentation must identify the derivative hedging instrument, the asset or liability and type of risk to be hedged, and how the effectiveness of the derivative will be assessed prospectively and retrospectively. To assess effectiveness, the Company compares the dollar-value of the change in the fair value of the derivative to the change in the fair value of cash flows of the hedged item. The extent to which a derivative has been, and is expected to continue to be, effective at offsetting changes in the fair value of cash flows of the hedged item must be assessed and documented at least quarterly. Any hedge ineffectiveness (i.e., the amount by which the gain or loss on the designated derivative instrument does not exactly offset the gain or loss on the hedged item attributable to the hedged risk) must be reported in current-period earnings. If it is determined that a derivative is not highly effective at hedging the designated exposure, hedge accounting is discontinued.

At the end of the second quarter of 2011, the Company entered into an interest rate cap with a notional amount of $15.0 million with the objective of mitigating the effect of potential future interest rate increases. The interest rate cap contract is not designated nor accounted for as a hedging instrument. The interest rate cap contract was effective July 1, 2011 for a five-year term. Under the interest rate cap contract, beginning October 3, 2011 and ending July 1, 2016, the Company will receive quarterly settlements for the difference between the three-month LIBOR interest rate and the cap rate of 2.0%, if the three-month LIBOR interest rate exceeds the cap rate on the settlement date.

The Company obtains dealer quotations to value its interest rate derivative contract designated as a hedge of cash flows and its non-hedging interest rate derivative. The notional amounts and estimated fair values of interest rate derivative contracts outstanding at September 30, 2012 and December 31, 2011 are presented in the following table (in thousands).

	September 30, 2012		December 31, 2011	
	Notional Amount	Estimated Fair Value	Notional Amount	Estimated Fair Value
Interest rate derivative contract designated as a hedge of cash flows	$ 17,500	$ (1,927)	$ 17,500	$ (1,992)
Interest rate derivative contract not designated as a hedge of cash flows	$ 15,000	$ 55	$ 15,000	$ 194

Gains, Losses and Derivative Cash Flows . For designated cash flow hedges, the effective portion of the gain or loss due to changes in the fair value of the derivative hedging instrument is included in other comprehensive income in the Condensed Consolidated Statement of Comprehensive Income, while the ineffective portion (indicated by the excess of the cumulative change in the fair value of the derivative over that which is necessary to offset the cumulative change in expected future cash flows on the hedge transaction) is included in other non-interest income in the Condensed Consolidated Statement of Operations. Net cash flows from the interest rate swap on junior subordinated debentures designated as a hedging instrument in an effective hedge of cash flows are included in interest expense on junior subordinated debentures in the Condensed Consolidated Statement of Operations.

For interest rate derivatives not designated as a hedging instrument, gains or losses due to changes in fair value are included in other non-interest income in the Condensed Consolidated Statement of Operations.

Amounts included in the Condensed Consolidated Statements of Operations and in the Condensed Consolidated Statement of Comprehensive Income for the period related to the interest rate derivative designated as a hedge of cash flows were as follows. There were no interest rate derivatives designated as hedges of fair value at September 30, 2012.

	Gains/(losses) recorded in income and other comprehensive income (in thousands)				
Three months ended September 30, 2012	Derivative effective portion reclassified from AOCI into income	Hedge ineffectiveness recorded directly in income	Total income statement impact	Derivative effective portion recorded in OCI	Total change in OCI for period
Interest rate derivative designated as a hedge of cash flows:					
Interest rate swap	$ —	$ —	$ —	$ 11	$ 11
Three months ended September 30, 2011					
Interest rate derivative designated as a hedge of cash flows:					
Interest rate swap	$ —	$ —	$ —	$ (464)	$ (464)

	Gains/(losses) recorded in income and other comprehensive income (in thousands)				
Nine months ended September 30, 2012	**Derivative effective portion reclassified from AOCI into income**	**Hedge ineffectiveness recorded directly in income**	**Total income statement impact**	**Derivative effective portion recorded in OCI**	**Total change in OCI for period**
Interest rate derivative designated as a hedge of cash flows:					
Interest rate swap	$ —	$ —	$ —	$ 65	$ 65
Nine months ended September 30, 2011					
Interest rate derivative designated as a hedge of cash flows:					
Interest rate swap	$ —	$ —	$ —	$ (608)	$ (608)

Amounts included in the consolidated statements of operations for the period related to non-hedging interest rate derivatives were as follows (in thousands).

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	**2011**	**2012**	**2011**
Non-hedging interest rate derivative:				
Other non-interest income	$ (31)	$ (348)	$ (139)	$ (337)

Counterparty Credit Risk. Derivative contracts involve the risk of dealing with institutional derivative counterparties and their ability to meet contractual terms. Derivative contracts are generally executed with a Credit Support Annex, ("CSA"), which is a bilateral ratings-sensitive agreement that requires collateral postings at established credit threshold levels. CSA agreements protect the interests of the Company and its counterparties, should either party suffer a credit rating deterioration. Institutional counterparties must have an investment grade credit rating. There was no CSA on the interest rate cap contract because the counterparty was the FHLB of Dallas, a government sponsored enterprise. The Company's credit exposure on interest rate swaps is limited to the net favorable value and interest payments of all swaps by each counterparty. The Company's credit exposure on the interest rate cap is the value of the expected interest payments that would be collected over the life of the cap contract. Credit exposure may be reduced by the amount of collateral pledged by the counterparty. There are no credit-risk-related contingent features associated with any of the Company's derivative contracts. The Company had no credit exposure relating to the interest rate swap at September 30, 2012. The amount of cash collateral posted by the Company related to derivative contracts was $2.3 million at both September 30, 2012 and December 31, 2011.

11. OPERATING SEGMENT INFORMATION

The Company operates two community banks in distinct geographical areas, and manages its operations and prepares management reports and other information with a primary focus on these geographical areas. Performance assessment and resource allocation are based upon this geographical structure. The operating segment identified as "Other" includes the parent company and eliminations of transactions between segments. The accounting policies of the individual operating segments are the same as those of the Company as described in Note 1. Transactions between operating segments are primarily conducted at fair value, resulting in profits that are eliminated for reporting consolidated results of operations. Operating segments pay for centrally provided services based upon estimated or actual usage of those services.

The following is a summary of selected operating segment information as of and for the three and nine months ended September 30, 2012 and 2011:

	For the Three Months Ended September 30, 2012				For the Three Months Ended September 30, 2011			
	MetroBank	Metro United	Other	Consolidated Company	MetroBank	Metro United	Other	Consolidated Company
	(In thousands)							
Total interest income	$ 11,926	$ 4,096	$ 7	$ 16,029	$ 12,680	$ 4,081	$ 7	$ 16,768
Total interest expense	1,483	548	350	2,381	2,147	757	339	3,243
Net interest income	$ 10,443	$ 3,548	$ (343)	$ 13,648	10,533	$ 3,324	$ (332)	$ 13,525
Provision for loan losses	(300)	—	—	(300)	550	325	—	875
Net interest income after provision for loan losses	10,743	3,458	(343)	13,948	9,983	2,999	(332)	12,650
Noninterest income	2,126	84	(338)	1,872	2,092	55	(331)	1,816
Noninterest expenses	8,281	2,870	378	11,529	8,539	2,850	46	11,435
Income (loss) before income tax provision	4,588	762	(1,059)	4,291	3,536	204	(709)	3,031
Provision (benefit) for income taxes	1,449	321	(360)	1,410	915	83	(236)	762
Net income (loss)	$ 3,139	$ 441	$ (699)	$ 2,881	$ 2,621	$ 121	$ (473)	$ 2,269

	For the Nine Months Ended September 30, 2012				For the Nine Months Ended September 30, 2011			
	MetroBank	Metro United	Other	Consolidated Company	MetroBank	Metro United	Other	Consolidated Company
	(In thousands)							
Total interest income	$ 36,483	$ 12,104	$ 21	$ 48,608	$ 38,370	$ 12,567	$ 19	$ 50,956
Total interest expense	4,834	1,793	1,044	7,671	7,075	2,395	1,013	10,483
Net interest income	$ 31,649	$ 10,311	$ (1,02 3)	$ 40,937	$ 31,295	$ 10,172	$ (994)	$ 40,473
Provision for loan losses	300	—	—	300	2,050	400	—	2,450
Net interest income after provision for loan losses	31,349	10,311	(1,023)	40,637	29,245	9,772	(994)	38,023
Noninterest income	6,188	260	(1,013)	5,435	5,841	198	(993)	5,046
Noninterest expenses	25,143	8,043	588	33,774	25,037	8,095	89	33,221
Income before income tax provision	12,394	2,528	(2,624)	12,298	10,049	1,875	(2,076)	9,848
Provision (benefit) for income taxes	3,921	995	(893)	4,023	3,008	776	(694)	3,090
Net income (loss)	$ 8,473	$ 1,533	$ (1,731)	$ 8,275	$ 7,041	$ 1,099	$ (1,382)	$ 6,758

	As of September 30, 2012				As of September 30, 2011			
	MetroBank	Metro United	Other	Consolidated Company	MetroBank	Metro United	Other	Consolidated Company
	(In thousands)							
Net loans	$ 759,904	$ 311,409	$ —	$ 1,071,313	$ 737,313	$ 291,883	$ —	$ 1,029,196
Total assets	1,128,652	396,019	1,417	1,526,088	1,110,963	388,897	(2,080)	1,497,780
Deposits	946,206	325,646	(6,795)	1,265,057	939,206	315,577	(13,291)	1,241,492

12. FAIR VALUE

Fair value is the price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is reported based on a hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs that may be used to measure fair value are:

- Level 1 – Quoted prices in active markets for identical assets or liabilities.
- Level 2 – Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Financial assets measured at fair value on a recurring basis are as follows:

Securities. Where quoted prices are available in an active market, securities are reported at fair value utilizing Level 1 inputs. Level 1 securities are comprised of bond funds. If quoted market prices are not available, the Company obtains fair values from an independent pricing service. The fair value measurements consider data that may include proprietary pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities are comprised of highly liquid government bonds, and collateralized mortgage and debt obligations. Market values provided by the pricing service are compared to prices from other sources for reasonableness. The Company has not adjusted the values from the pricing service.

Interest Rate Derivatives . The Company's derivative position is classified within Level 2 in the fair value hierarchy and is valued using models generally accepted in the financial services industry that use actively quoted or observable market input values from external market data providers and/or non-binding broker-dealer quotations. The fair value of the derivative is determined using discounted cash flow models. These models' key assumptions include the contractual terms of the respective contract, along with significant observable inputs, including interest rates, yield curves, non-performance risk and volatility. Derivative contracts are executed with a Credit Support Annex, which is a bilateral ratings-sensitive agreement that requires collateral postings at established credit threshold levels. These agreements protect the interests of the Company and its counterparties, should either party suffer a credit rating deterioration.

The following table presents the financial instruments carried at fair value on a recurring basis by caption on the consolidated balance sheets and by valuation hierarchy (as described above) at September 30, 2012 and December 31, 2011:

September 30, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Fair Value Measurements
Securities available-for-sale			
U.S. Treasury and other U.S. government corporations and agencies	$ –	$ 75,913	$ 75,913
Obligations of state and political subdivisions	–	13,401	13,401
Corporate		6,352	6,352
Mortgage-backed securities and collateralized mortgage obligations:			
Government issued or guaranteed	–	67,432	67,432
Privately issued residential	–	677	677
Asset backed securities	–	143	143
Investment in CRA funds	14,364	–	14,364
Total available-for-sale securities	14,364	163,918	178,282
Derivative assets			
Interest rate cap	–	55	55
Total assets measured at fair value on a recurring basis	$ 14,364	$ 163,973	$ 178,337
Derivative liabilities			
Interest rate swap	$ –	$ 1,927	$ 1,927
December 31, 2011			
Securities available-for-sale			
U.S. Treasury and other U.S. government corporations and agencies	$ —	$ 92,199	$ 92,199
Obligations of state and political subdivisions	—	5,706	5,706
Corporate	—	6,141	6,141
Mortgage-backed securities and collateralized mortgage obligations:			
Government issued or guaranteed	—	53,739	53,739
Privately issued residential	—	667	667
Asset backed securities	—	102	102
Investment in CRA funds	13,835	—	13,835
Total available-for-sale securities	13,835	158,554	172,389
Derivative assets			
Interest rate cap	—	194	194
Total assets measured at fair value on a recurring basis	$ 13,835	$ 158,748	$ 172,583
Derivative liabilities			
Interest rate swap	$ —	$ 1,992	$ 1,992

There were no transfers between Level 1 and Level 2 financial instruments carried at fair value on a recurring basis.

Certain non-financial assets measured at fair value on a recurring basis include reporting units measured at fair value in the first step of a goodwill impairment test. Certain non-financial assets measured at fair value on a non-recurring basis include non-financial assets and non-financial liabilities measured at fair value in the second step of a goodwill impairment test, and intangible assets measured at fair value for impairment assessment, as well as foreclosed assets. Certain financial assets are measured at fair value on a non-recurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment).

Non-financial and financial assets measured at fair value on a non-recurring basis include the following:

Goodwill. Goodwill is measured at fair value on a non-recurring basis using Level 3 inputs. In the first step of a goodwill impairment test, the Company primarily uses a review of the valuation of recent guideline bank acquisitions, if available, pricing of publicly traded comparables, as well as discounted cash flow analysis and the market capitalization of the Company. If the second step of a goodwill impairment test is required, the implied fair value of goodwill is determined in the same manner as goodwill is recognized in a business combination. See Note 4 " *Goodwill"* for additional information.

Foreclosed Assets . Foreclosed assets are carried at fair value less costs to sell. The fair value measurements of foreclosed assets can include Level 2 measurement inputs such as real estate appraisals and comparable real estate sales information, in conjunction with Level 3 measurement inputs such as cash flow projections, qualitative adjustments, sales cost estimates, etc. As a result, the categorization of foreclosed assets is Level 3 of the fair value hierarchy. In connection with the measurement and initial recognition of certain foreclosed assets, the Company may recognize charge-offs through the allowance for loan losses, and subsequent to initial recognition based on updated appraisals or other factors, may remeasure foreclosed assets to fair value through a write-down included in other non-interest expense.

Impaired Loans. Certain impaired loans with a valuation reserve are measured for impairment using the practical expedient, whereby fair value of the loan is based on the fair value of the loan's collateral, provided the loan is collateral dependent. The fair value measurements of loan collateral can include real estate appraisals, comparable real estate sales information, cash flow projections, realization estimates, etc., all of which can include observable and unobservable inputs. As a result, the categorization of impaired loans can be either Level 2 or Level 3 of the fair value hierarchy, depending on the nature of the inputs used for measuring the related collateral's fair value. As of September 30, 2012 and December 31, 2011, certain impaired loans were remeasured and reported at fair value through a specific valuation allowance allocation of the allowance for loan losses based upon the fair value of the underlying collateral.

The following presents assets carried at fair value on a nonrecurring basis by caption on the condensed consolidated balance sheets and by valuation hierarchy (as described above) as of September 30, 2012 and December 31, 2011 (in thousands):

	As of September 30, 2012		As of December 31, 2011	
	Level 2	Level 3	Level 2	Level 3
Assets				
Goodwill	$ —	$ 14,327	$ —	$ 14,327
Foreclosed assets	—	7,915	—	19,018
Impaired loans (1)	9,704	—	15,696	—

(1) Impaired loans represent collateral dependent impaired loans with a specific valuation reserve.

The following presents losses related to fair value adjustments that are included in the Consolidated Statements of Operations for the three months ended September 30, 2012 and 2011 related to assets held at those dates (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Losses related to:				
Goodwill	$ —	$ —	$ —	$ —
Foreclosed assets (1)	598	948	1,520	1,591
Impaired loans (2)	—	369	451	3,905

(1) Losses represent related losses on foreclosed properties that were written down subsequent to their initial classification as foreclosed properties.
(2) Losses on impaired loans represent charge-offs which are netted against the allowance for loan losses.

Fair Value of Financial Instruments

FASB ASC Topic 825 requires disclosure of the fair value of financial assets and liabilities, including those financial assets and financial liabilities that are not measured and reported at fair value on a recurring basis or non-recurring basis.

The estimated fair values of financial instruments that are reported at amortized cost in the Company's consolidated balance sheets, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value, were as follows:

	As of September 30, 2012		As of December 31, 2011	
	Carrying or Contract Amount	Estimated Fair Value	Carrying or Contract Amount	Estimated Fair Value
	(In thousands)			
Financial Assets				
Level 2 inputs:				
Cash and cash equivalents	$ 174,911	$ 174,911	$ 193,609	$ 193,609
Investment securities held-to-maturity	4,046	4,772	4,046	4,536
Other investments	5,774	5,774	6,484	6,484
Loans held-for-sale	—	—	1,200	1,498
Cash value of bank owned life insurance	32,456	32,456	31,427	31,427
Accrued interest receivable	3,938	3,938	4,327	4,327
Level 3 inputs:				
Loans held-for-investment, net	1,071,313	1,051,039	1,015,095	968,434
Financial Liabilities				
Level 2 inputs:				
Deposit transaction accounts	811,781	811,781	744,833	744,833
Junior subordinated debentures	36,083	36,083	36,083	36,083
Accrued interest payable	258	258	310	310
Level 3 inputs:				
Time deposits	453,277	453,277	506,742	511,050
Other borrowings	26,000	25,991	26,315	26,206
Off-balance sheet financial instruments				
Unfunded loan commitments, including unfunded lines of credit	—	173	—	236
Standby letters of credit	—	45	—	69

The following methodologies and assumptions were used to estimate the fair value of the Company's financial instruments as disclosed in the table:

Assets for Which Fair Value Approximates Carrying Value **.** The fair values of certain financial assets and liabilities carried at cost, including cash and due from banks, deposits with banks, federal funds sold, cash value of bank owned life insurance, certificates of deposit with banks denominated in a foreign currency, due from customers on acceptances and accrued interest receivable, are considered to approximate their respective carrying values due to their short-term nature and/or negligible credit risks.

Investment Securities. Fair values are based primarily upon quoted market prices obtained from an independent pricing service.

Loans. The fair value of loans originated by the Banks is estimated by discounting the expected future cash flows using the current interest rates at which similar loans with similar terms would be made. The presence of floors on a large portion of the variable rate loans has supported the yields above current market levels and is the key factor causing the fair value of the variable rate loans with floors to exceed the book value. The fair value of the remainder of the variable rate loans approximates the carrying value while fixed rate loans are generally above the carrying values. Using these results, valuation adjustments are made for specific credit risks as well as general portfolio credit and market risks to arrive at the fair value.

Loans held-for-sale. The fair value of loans held-for-sale is based on contractual sales prices.

Liabilities for Which Fair Value Approximates Carrying Value. The estimated fair value for transactional deposit liabilities with no stated maturity (i.e., demand, savings, and money market deposits) approximates the carrying value. The estimated fair value of deposits does not take into account the value of the Company's long-term relationships with depositors, commonly known as core deposit intangibles, which are separate intangible assets, and not considered financial instruments. Nonetheless, the company would likely realize a core deposit premium if its deposit portfolio were sold in the principal market for such deposits.

The fair value of acceptances outstanding, accounts payable and accrued liabilities are considered to approximate their respective carrying values due to their short-term nature.

Time Deposits. Fair values for fixed-rate time deposits are estimated using a discounted cash flow calculation that applies interest rates currently being offered on time deposits to a schedule of aggregated expected monthly maturities on time deposits.

Other Borrowings. The carrying amounts of federal funds purchased, borrowings under repurchase agreements, and other borrowings maturing within fourteen days approximate their fair values. Fair values of other borrowings are estimated using discounted cash flow analyses based on the Company's current incremental borrowing rates for similar types of borrowing arrangements.

Junior Subordinated Debentures. The fair value of the junior subordinated debentures approximates the carrying value as the debentures reprice quarterly.

Commitments to Extend Credit and Letters of Credit. The fair value of such instruments is estimated using the unamortized portion of fees collected for execution of such credit facility.

13. INCOME TAXES

Income tax expense for the three months ended September 30, 2012 was $1.4 million, compared with $762,000 for the same period in 2011. The Company's effective tax rate was 32.9% for the three months ended September 30, 2012 compared with 25.1% for the three months ended September 30, 2011. The increase in the effective income tax rate in 2012 as compared to 2011 was primarily the result of an increase in state income taxes. The Texas state tax is based on the Company's gross margin with limited deductions. Because the Texas state tax allows only limited deductions, the tax may not correlate from year to year with pre-tax income. The California tax is based on the unitary income of the consolidated group which can vary disproportionately from pre-tax income depending on the apportionment of income among members of the unitary group. Income tax expense for the nine months ended September 30, 2012 was $4.0 million, compared with $3.1 million for the same period in 2011. The Company's effective tax rate was 32.7% for the nine months ended September 30, 2012 compared with 31.4% for the nine months ended September 30, 2011.

As of September 30, 2012, the Company had approximately $13.9 million in net deferred tax assets. Deferred tax assets are subject to an evaluation of whether it is more likely than not that they will be realized. The Company has not provided a valuation allowance for the net deferred tax assets at September 30, 2012 and December 31, 2011 due primarily to its ability to offset reversals of net deductible temporary differences against income taxes paid in previous years and expected to be paid in future years. In making such judgments, significant weight is given to evidence that can be objectively verified. Because of historical losses that were recorded by the Company for the years ended December 31, 2010 and 2009, and if the Company is unable to generate sufficient taxable income in the future, then the Company may not be able to conclude it is more likely than not that the benefits of the deferred tax assets will be fully realized and may be required to recognize a valuation allowance and a corresponding income tax expense equal to the portion of the deferred tax asset that may not be realized.

The Company forecasts sufficient taxable income, exclusive of tax planning strategies, to fully realize its deferred tax assets. The Company has projected its pretax earnings based upon business that the Company anticipates conducting in the future, which is supported by the Company's return to an income position, rather than the loss position the Company experienced during 2010 and 2009. During 2010 and 2009, earnings were negatively affected by the large increase in the provisions for loan losses during the sharp economic downturn. The Company reduced its cost structure, and taking this into account, the Company projects that it will generate sufficient pretax earnings within a five-year period.

The U.S. Federal and California State net operating loss carryforward period of 20 years provides enough time to utilize the deferred tax assets pertaining to the existing net operating loss carryforwards and any net operating losses that would be created by the reversal of the future net deductions which have not yet been taken on a tax return.

14. NEW AUTHORITATIVE ACCOUNTING GUIDANCE

Accounting Standards Update ("ASU") ASU No. 2012-06 – "Business Combinations (Topic 805) - Subsequent Accounting for an Indemnification Asset Recognized at the Acquisition Date as a Result of a Government-Assisted Acquisition of a Financial Institution". ASU No. 2012-06 states that when a reporting entity recognizes an indemnification asset (in accordance with Subtopic 805-20) as a result of a government-assisted acquisition of a financial institution and subsequently a change in the cash flows expected to be collected on the indemnification asset occurs, the reporting entity should subsequently account for the change in the measurement of the indemnification asset on the same basis as the change in the assets subject to indemnification. Any amortization of changes in value should be limited to the contractual term of the indemnification agreement (that is, the lesser of the term of the indemnification agreement and the remaining life of the indemnified assets). ASU 2012-06 will be effective for the Company for annual and interim periods beginning on January 1, 2013 and is not expected to have a material impact on the Company's financial condition, results of operations or cash flows.

ASU No. 2012-04 – "Technical Corrections and Improvements". The amendments in ASU No. 2012-04 represent changes to clarify the FASB Accounting Standards Codification ("Codification"), correct unintended application of guidance, or make minor improvements to the Codification that are not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities. The amendments are categorized as (1) source literature amendments (2) guidance clarification and reference corrections and (3) relocated guidance. Additionally, the amendments are intended to make the Codification easier to understand and the fair value measurement guidance easier to apply by eliminating inconsistencies and providing needed clarifications. The amendments in ASU No. 2012-04 that do not have transition guidance were effective October 1, 2012. The amendments that are subject to the transition guidance will be effective for fiscal periods beginning on January 1, 2013. ASU No. 2012-04 did not have and is not expected to have a material impact on the Company's financial condition, results of operations or cash flows.

ASU 2012-02 "Intangibles – Goodwill and Other (Topic 350) – Testing Indefinite-Lived Intangible Assets for Impairment." ASU 2012-02 gives entities the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that an indefinite-lived intangible asset is impaired. If, after assessing the totality of events or circumstances, an entity determines it is more likely than not that an indefinite-lived intangible asset is impaired, then the entity must perform the quantitative impairment test. If, under the quantitative impairment test, the carrying amount of the intangible asset exceeds its fair value, an entity should recognize an impairment loss in the amount of that excess. Permitting an entity to assess qualitative factors when testing indefinite-lived intangible assets for impairment results in guidance that is similar to the goodwill impairment testing guidance in ASU 2011-08. ASU 2012-02 will be effective for the Company beginning January 1, 2013, with early adoption permitted, and is not expected to have a significant impact on the Company's financial condition, results of operations or cash flows.

ASU No. 2011-12 "Comprehensive Income (Topic 220) - Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05." ASU 2011-12 defers changes in ASU No. 2011-05 that relate to the presentation of reclassification adjustments to allow the FASB time to redeliberate whether to require presentation of such adjustments on the face of the financial statements to show the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income. ASU 2011-12 allows entities to continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect before ASU No. 2011-05. All other requirements in ASU No. 2011-05 are not affected by ASU No. 2011-12. ASU 2011-12 was effective for the Company for annual and interim periods beginning on January 1, 2012 and did not have a material impact on the Company's financial condition, results of operations or cash flows.

ASU No. 2011-11, "Balance Sheet (Topic 210) - "Disclosures about Offsetting Assets and Liabilities." ASU 2011-11 amends Topic 210, "Balance Sheet," to require an entity to disclose both gross and net information about financial instruments, such as sales and repurchase agreements and reverse sale and repurchase agreements and securities borrowing/lending arrangements, and derivative instruments that are eligible for offset in the statement of financial position and/or subject to a master netting arrangement or similar agreement. ASU 2011-11 will be effective for the Company for annual and interim periods beginning on January 1, 2013, and is not expected to have a material impact on the Company's financial condition, results of operations or cash flows.

ASU No. 2011-08, "Intangibles – Goodwill and Other (Topic 350) – Testing Goodwill for Impairment" amends Topic 350 to allow an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Under these amendments, an entity would not be required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessments, that it is more likely than not that its fair value is less than its carrying amount. The amendments include a number of events and circumstances for an entity to consider in conducting the qualitative assessment. The new authoritative accounting guidance under ASU 2011-08 was effective for the Company on January 1, 2012 and did not have a material impact on the Company's financial condition, results of operations or cash flows.

ASU No. 2011-05, "Comprehensive Income (Topic 220) – Presentation of Comprehensive Income" amends Topic 220, "Comprehensive Income," to require that all nonowner changes in shareholders' equity be presented in either a single continuous statement of comprehensive income or in two separate but consecutive statements. Additionally, ASU 2011-05 requires entities to present, on the face of the financial statements, reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement or statements where the components of net income and the components of other comprehensive income are presented. The option to present components of other comprehensive income as part of the statement of changes in shareholders' equity was eliminated. The new authoritative accounting guidance under ASU 2011-05 was effective for the Company on January 1, 2012 and did not have a material impact on the Company's financial condition, results of operations or cash flows.

ASU No. 2011-04, "Fair Value Measurement (Topic 820) - Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs" amends Topic 820, "Fair Value Measurements and Disclosures," to converge the fair value measurement guidance in U.S. generally accepted accounting principles and International Financial Reporting Standards. ASU 2011-04 clarifies the application of existing fair value measurement requirements, changes certain principles in Topic 820 and requires additional fair value disclosures. The new authoritative accounting guidance under ASU 2011-04 was effective for the Company on January 1, 2012 and did not have a material impact on the Company's financial condition, results of operations or cash flows.

ASU No. 2011-03, "Transfers and Servicing (Topic 860) - Reconsideration of Effective Control for Repurchase Agreements." ASU 2011-03 removes from the assessment of effective control (1) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, and (2) the collateral maintenance implementation guidance related to that criterion. The new authoritative accounting guidance under ASU 2011-03 was effective for the Company on January 1, 2012 and did not have a material impact on the Company's financial condition, results of operations or cash flows.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Special Cautionary Notice Regarding Forward-looking Statements

Statements and financial discussion and analysis contained in this Quarterly Report on Form 10-Q that are not historical facts are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. The Company intends such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 and is including this statement for purposes of invoking these safe harbor provisions. These forward-looking statements include information about possible or assumed future results of the Company's operations or performance. Words such as "believe", "expect", "anticipate", "estimate", "continue", "intend", "may", "will", "should", or similar expressions, identifies these forward-looking statements. Many possible factors or events could affect the future financial results and performance of the Company and could cause those financial results or performance to differ materially from those expressed in the forward-looking statement. These possible events or factors include, without limitation:

- changes in the strength of the United States economy in general and the strength of the local economies in which the Company conducts operations resulting in, among other things, a deterioration in credit quality or a reduced demand for credit, including the resultant effect on the Company's loan portfolio and allowance for loan losses;

- changes in interest rates and market prices, which could reduce the Company's net interest margins, asset valuations and expense expectations;

- changes in the levels of loan prepayments and the resulting effects on the value of the Company's loan portfolio;

- changes in local economic and business conditions which adversely affect the ability of the Company's customers to transact profitable business with the Company, including the ability of borrowers to repay their loans according to their terms or a change in the value of the related collateral;

- increased competition for deposits and loans adversely affecting rates and terms;

- the concentration of the Company's loan portfolio in loans collateralized by real estate;

- the Company's ability to raise additional capital;

- the effect of MetroBank's compliance, or failure to comply within stated deadlines, of the provisions of the formal agreement with the OCC;

- the timing, impact and other uncertainties of the Company's ability to enter new markets successfully and capitalize on growth opportunities;

- increased credit risk in the Company's assets and increased operating risk caused by a material change in commercial, consumer and/or real estate loans as a percentage of the total loan portfolio;

- incorrect assumptions underlying the establishment of and provisions made to the allowance for loan losses;

- increases in the level of nonperforming assets;

- the incurrence and possible impairment of goodwill associated with an acquisition, and possible adverse short-term effects on the results of operations;

- changes in the availability of funds resulting in increased costs or reduced liquidity;

- an inability to fully realize the Company's net deferred tax asset;

- a deterioration or downgrade in the credit quality and credit agency ratings of the securities in the Company's securities portfolio;

- increased asset levels and changes in the composition of assets and the resulting impact on the Company's capital levels and regulatory capital ratios;

- potential environmental risk and associated cost on the Company's foreclosed real estate assets;
- the Company’s ability to acquire, operate and maintain cost effective and efficient systems without incurring unexpectedly difficult or expensive but necessary technological changes;
- increases in FDIC deposit insurance assessments;
- government intervention in the U.S. financial system;
- the loss of senior management or operating personnel and the potential inability to hire qualified personnel at reasonable compensation levels;
- changes in statutes and government regulations or their interpretations applicable to bank holding companies and the Company’s present and future banking and other subsidiaries, including changes in tax requirements and tax rates;
- the potential payment of interest on commercial demand deposit accounts in order to effectively complete for clients;
- adverse conditions in Asia;
- potential interruptions or breaches in security of the Company’s information systems; and
- possible noncompliance and enforcement action with the Bank Secrecy Act and other anti-money laundering statues and regulations.

All written or oral forward-looking statements attributable to the Company are expressly qualified in their entirety by these cautionary statements. The Company undertakes no obligation to publicly update or otherwise revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company analyzes the major elements of the Company's balance sheets and statements of income. This section should be read in conjunction with the Company's Condensed Consolidated Financial Statements and accompanying notes and other detailed information appearing elsewhere in this document.

Overview

The Company recorded net income of $2.9 million for the three months ended September 30, 2012, an increase of $612,000 compared with the same quarter in 2011. The Company's diluted earnings per common share for the three months ended September 30, 2012 was $0.15, an increase of $0.02 per diluted common share compared with $0.13 for the same quarter in 2011. For the three months ended September 30, 2012, weighted average diluted common shares outstanding were 18.6 million shares, compared with 13.2 million shares, an increase of 5.4 million shares due to new common shares issued as a result of capital raised in May 2012. Diluted earnings per common share is computed by dividing net income (after deducting dividends and accretion of discount on preferred stock) by the weighted-average number of common shares and potentially dilutive common shares outstanding during the period. Preferred stock dividends accrued and discount accreted, including the adjustment for the repurchase of preferred stock, were $169,000 or less than $0.01 per diluted share, and $601,000 or $0.05 per diluted share for the three months ended September 30, 2012 and 2011, respectively. The Company recorded net income of $8.3 million for the nine months ended September 30, 2012, an increase of $1.5 million compared with $6.8 million for the same period in 2011. The Company's diluted earnings per common share for the nine months ended September 30, 2012 was $0.47, an increase of $0.10 per diluted share compared with $0.37 for the same period in 2011. For the nine months ended September 30, 2012, weighted average diluted common shares outstanding were 15.9 million shares, compared with 13.2 million shares, an increase of 2.7 million shares due to new common shares issued as a result of capital raised in May 2012. Preferred stock dividends accrued and discount accreted, including the one-time adjustment for the repurchase of preferred stock, were $872,000 or $0.05 per diluted share and $1.8 million or $0.14 per diluted share for the nine months ended September 30, 2012 and 2011, respectively. Details of the changes in the various components of net income are further discussed below.

Total assets were $1.53 billion at September 30, 2012, an increase of $31.6 million or 2.1% from $1.49 billion at December 31, 2011. Available-for-sale investment securities at September 30, 2012 were $178.3 million, an increase of $5.9 million or 3.4% from $172.4 million at December 31, 2011. Net loans at September 30, 2012 were $1.07 billion, an increase of $55.0 million or 5.4% from $1.02 billion at December 31, 2011. Total deposits at September 30, 2012 were $1.27 billion, an increase of $13.5 million or 1.1% from $1.25 billion at December 31, 2011. Other borrowings at September 30, 2012 were $26.0 million, a decrease of $315,000 or 1.2% from $26.3 million at December 31, 2011. The Company's return on average assets ("ROAA") for the three months ended September 30, 2012 and 2011 was 0.76% and 0.60%, respectively. The Company's return on average equity ("ROAE") for the three months ended September 30, 2012 and 2011 was 6.61% and 5.44%, respectively. The Company's ROAA for the nine months ended September 30, 2012 and 2011 was 0.73% and 0.60%, respectively. The Company's ROAE for the nine months ended September 30, 2012 and 2011 was 6.28% and 5.55%, respectively. Shareholders' equity at September 30, 2012 was $174.6 million compared with $165.2 million at December 31, 2011, an increase of $9.4 million or 5.7%. Details of the changes in the various balance sheet items are further discussed below.

Results of Operations

Net Interest Income and Net Interest Margin. For the three months ended September 30, 2012, net interest income, before the provision for loan losses, was $13.6 million, an increase of $123,000 or 0.9% compared with $13.5 million for the same period in 2011, primarily due to lower cost and volume of deposits, partially offset by a decline in the yield on average total loans. Average interest-earning assets for the three months ended September 30, 2012 were $1.41 billion, an increase of $9.9 million or 0.7% compared with $1.40 billion for the same period in 2011, primarily due to growth in securities and loans, partially offset by a decrease in federal funds sold and other short-term investments. The weighted average yield on interest-earning assets for the second quarter of 2012 was 4.51%, a decrease of 23 basis points compared with 4.74% for the same quarter in 2011. Average interest-bearing liabilities for the three months ended September 30, 2012 were $1.04 billion, a decrease of $40.8 million or 3.8% compared with $1.08 billion for the same period in 2011, primarily due to a decline in time deposits and other borrowings, partially offset by an increase in savings and money market accounts. The weighted average interest rate paid on interest-bearing liabilities for the second quarter 2012 was 0.91%, a decrease of 28 basis points compared with 1.19% for the same quarter in 2011.

For the nine months ended September 30, 2012, net interest income, before the provision for loan losses, was $40.9 million, an increase of $464,000 or 1.1% compared with $40.5 million for the same period in 2011, due primarily to lower cost and volume of deposits, partially offset by a decline in the yield and volume on average total loans. Average interest-earning assets for the nine months ended September 30, 2012 were $1.41 billion, a decrease of $5.0 million or 0.4% compared with $1.42 billion for the same period in 2011, primarily due to lower loan volume, partially offset by growth in federal funds sold and interest-bearing deposits. The weighted average yield on interest-earning assets for the nine months ended September 30, 2012 was 4.59%, down 21 basis points compared with 4.80% for the same period in 2011. Average interest-bearing liabilities for the nine months ended September 30, 2012 were $1.06 billion, a decrease of $51.1 million or 4.6% compared with $1.11 billion for the same period in 2011, primarily due to a decline in time deposits and other borrowings, partially offset by an increase in savings and money market accounts. The weighted average rate paid on interest-bearing liabilities for the nine months ended September 30, 2012 was 0.97%, down 30 basis points compared with 1.27% for the same period in 2011.

The net interest margin for the three months ended September 30, 2012 was 3.84%, an increase of one basis point compared with 3.83% for the same period in 2011. The yield on average earning assets decreased 23 basis points, and the cost of average earning assets decreased 24 basis points for the same periods. For the three months ended September 30, 2012, the decrease in yield on earning assets was due primarily to a decline in the yield on average total loans, while the decline in cost of earning assets was primarily due to lower cost and volume of deposits. The net interest margin for the nine months ended September 30, 2012 was 3.87%, an increase of six basis points compared with 3.81% for the same period in 2011. The yield on average earning assets decreased 21 basis points, and the cost of average earning assets decreased 27 basis points for the same periods. For the nine months ended September 30, 2012, the decrease in yield on earning assets was due primarily to a decline in average total loans and yields, while the decline in the cost of earning assets was primarily due to lower volume and cost of deposits.

Total Interest Income. Total interest income for the three months ended September 30, 2012 was $16.0 million, a decrease of $739,000 or 4.4% compared with $16.8 million for the same period in 2011. The decrease for the three months ended September 30, 2012 was primarily due to lower loan yield and lower yield on securities, partially offset by an increase in the volume of tax exempt securities and loans. Total interest income for the nine months ended September 30, 2012 was $48.6 million, a decrease of $2.4 million or 4.6% compared with $51.0 million for the same period in 2011. The decrease for the nine months ended September 30, 2012 was primarily due to lower loan volume and yield and lower yield on securities, partially offset by an increase in the yield and volume of federal funds sold and other short-term investments.

Interest Income from Loans. Interest income from loans for the three months ended September 30, 2012 was $14.6 million, a decrease of $771,000 or 5.0% compared with $15.4 million for the same quarter in 2011. The decrease for the three months ended September 30, 2012 was the result of lower loan yields. Average total loans for the three months ended September 30, 2012 were $1.07 billion compared with $1.06 billion for the same period in 2011, an increase of $4.1 million or 0.4%. For the third quarter of 2012, the average yield on loans was 5.44%, a decrease of 30 basis points compared with 5.74% for the same quarter in 2011. Interest income from loans for the nine months ended September 30, 2012 was $44.3 million, a decrease of $2.4 million or 5.0% compared with $46.7 million for the same period in 2011. The decrease for the nine months ended September 30, 2012 was the result of lower loan volume and yields. Average total loans for the nine months ended September 30, 2012 were $1.06 billion, a decrease of $28.1 million or 2.6% compared with average total loans for the same period in 2011 of $1.09 billion. For the nine months ended September 30, 2012, the yield on average total loans was 5.59%, a decrease of 15 basis points compared with 5.74% for the same period in 2011.

At September 30, 2012, approximately $783.0 million or 71.2% of the total loan portfolio are variable rate loans that periodically reprice and are sensitive to changes in market interest rates. To lessen interest rate sensitivity in the event of a falling interest rate environment, the Company originates variable rate loans with interest rate floors. For the nine months ended September 30, 2012, the average yield on total loans was approximately 219 basis points above the prime rate primarily because of interest rate floors and credit spreads. At September 30, 2012, approximately $627.1 million in loans or 57.0% of the total loan portfolio were variable rate loans with interest rate floors that carried a weighted average interest rate of 5.79%. At September 30, 2011, variable rate loans with interest rate floors comprised 59.8% of the total loan portfolio and carried a weighted average interest rate of 6.08%.

Interest Income from Investments. Interest income from investments (which includes investment securities, Federal funds sold, and other investments) for the three months ended September 30, 2012 and 2011 was $1.4 million. Average total investments for the three months ended September 30, 2012 were $346.4 million compared with average total investments for the same period in 2011 of $340.5 million, an increase of $5.8 million or 1.7%. The increase in average total investments was primarily the result of an increase in tax-exempt securities and taxable securities, partially offset by a decrease in federal funds sold and interest-bearing deposits. For the third quarter 2012, the average yield on total investments was 1.65% compared with 1.64% for the same quarter in 2011, a decrease of one basis point.

Interest income from investments for the nine months ended September 30, 2012 and 2011 was $4.3 million. Average total investments for the nine months ended September 30, 2012 were $355.9 million compared with average total investments for the same quarter in 2011 of $332.8 million, an increase of $23.1 million or 6.9%. The increase was primarily the result of an increase in federal funds sold and interest-bearing deposits primarily due to the new capital raised. For the nine months ended September 30, 2012, the average yield on investments was 1.60% compared with 1.71% for the same quarter in 2011, a decrease of 11 basis points.

Total Interest Expense. Total interest expense for the three months ended September 30, 2012 was $2.4 million, a decrease of $862,000 or 26.6% compared with $3.2 million for the same period in 2011. Total interest expense for the nine months ended September 30, 2012 was $7.7 million, a decrease of $2.8 million or 26.8% compared with $10.5 million for the same period in 2011. Interest expense decreased for both the three and nine months ended September 30, 2012 primarily due to lower deposit cost and lower time deposit volume.

Interest Expense on Deposits. Interest expense on interest-bearing deposits for the three months ended September 30, 2012 was $1.8 million, a decrease of $861,000 or 32.4% compared with $2.7 million for the same period in 2011. Average interest-bearing deposits for the three months ended September 30, 2012 were $977.8 million compared with $1.01 billion for the same period in 2011, a decrease of $30.4 million or 3.0%. The average interest rate paid on interest-bearing deposits for the third quarter of 2012 was 0.73% compared with 1.05% for the same quarter in 2011, a decrease of 32 basis points. The decline in interest expense and the average interest rate paid on interest-bearing deposits was primarily due to lower deposit volume and declining interest rates in the deposit market.

Interest expense on interest-bearing deposits for the nine months ended September 30, 2012 was $5.9 million, a decrease of $2.8 million or 32.0% compared with $8.7 million for the same period in 2011. Average interest-bearing deposits for the nine months ended September 30, 2012 were $994.0 million compared with the same period in 2011 of $1.03 billion, a decrease of $32.1 million or 3.1%. The average interest rate incurred on interest-bearing deposits for the nine months ended September 30, 2012 was 0.80% compared with 1.13% for the same period in 2011, a decrease of 33 basis points. The decline in interest expense and the average interest rate paid on interest-bearing deposits was primarily due to lower deposit volume and declining interest rates in the deposit market.

Interest Expense on Junior Subordinated Debentures. Interest expense on junior subordinated debentures for the three months ended September 30, 2012 was $338,000, an increase of $11,000 or 3.4% from $327,000 at September 30, 2011. Interest expense on junior subordinated debentures for the nine months ended September 30, 2012 was $1.0 million, an increase of $31,000 or 3.2% from $976,000 at September 30, 2011. Average junior subordinated debentures for the three and nine months ended September 30, 2012 and 2011 were $36.1 million. The average interest rate incurred on junior subordinated debentures for the three months ended September 30, 2012 and 2011 was 3.67% and 3.55%, respectively. The average interest rate incurred on junior subordinated debentures for the nine months ended September 30, 2012 and 2011 was 3.67% and 3.57%, respectively.

The junior subordinated debentures accrue interest at a floating rate equal to the 3-month LIBOR plus 1.55%. Related to these debentures, the Company entered into a forward-starting interest rate swap contract. Under the swap, beginning December 15, 2010, the Company began paying a fixed interest rate of 5.38% and receiving a variable interest rate of three-month LIBOR plus a margin of 1.55% on a total notional amount of $17.5 million, with quarterly settlements that began in March 2011. The interest rate swap contract was entered into with the objective of protecting a portion of the quarterly interest payments from the risk of variability resulting from changes in the three-month LIBOR interest rate. See Note 10, " *Derivative Financial Instruments,* " to the Condensed Consolidated Financial Statements for additional information related to this interest rate swap.

Interest Expense on Other Borrowings. Interest expense on other borrowings for the three months ended September 30, 2012 was $247,000, a decrease of $12,000 compared with $259,000 for the same period in 2011. Average borrowed funds, consisting primarily of security repurchase agreements and unsecured debentures, for the three months ended September 30, 2012 were $26.0 million a decrease of $10.4 million compared with $36.4 million for the same period in 2011. Other borrowings decreased primarily due to repayment of FHLB San Francisco advances in the fourth quarter of 2011. The average interest rate paid on borrowed funds for the third quarter of 2012 was 3.78% compared with 2.82% for the same quarter in 2011. The cost increased due primarily to the repayment of the lower cost short-term borrowings.

Interest expense on other borrowed funds for the nine months ended September 30, 2012 was $741,000, a decrease of $62,000 compared with $803,000 for the same period in 2011. Average borrowed funds for the nine months ended September 30, 2012 were $26.0 million, a decrease of $19.0 million compared with $45.0 million for the same period in 2011, due to repayment of FHLB San Francisco advances in the second and fourth quarters of 2011. The average interest rate paid on borrowed funds for the nine months ended September 30, 2012 was 3.81% compared with 2.39% for the same period in 2011. The cost increased due primarily to the repayment of the lower cost short-term borrowings.

The following table presents, for each major category of interest-earning assets and interest-bearing liabilities, the total dollar amount of interest income from average interest-earning assets and the resultant yields, as well as the interest expense on average interest-bearing liabilities, expressed both in dollars and rates for the periods indicated. No tax-equivalent adjustments were made and all average balances are daily average balances. Nonaccruing loans have been included in the table as loans having a zero yield, with income, if any, recognized at the end of the loan term.

	For The Three Months Ended September 30,					
	2012			2011		
	Average Outstanding Balance	Interest Earned/ Paid	Average Yield/ Rate(1)	Average Outstanding Balance	Interest Earned/ Paid	Average Yield/ Rate(1)
	(Dollars in thousands)					
Assets						
Interest-earning assets:						
Loans	$ 1,066,352	$ 14,593	5.44%	$ 1,062,275	$ 15,364	5.74%
Taxable securities	156,216	1,020	2.60	154,764	1,025	2.63
Tax-exempt securities	16,523	145	3.49	8,310	99	4.73
Other investments (2)	5,825	42	2.87	6,650	41	2.45
Federal funds sold and other short-term investments	167,811	229	0.54	170,823	239	0.56
Total interest-earning assets	1,412,727	16,029	4.51	1,402,822	16,768	4.74
Allowance for loan losses	(27,214)			(30,718)		
Total interest-earning assets, net of allowance for loan losses	1,385,513			1,372,104		
Noninterest-earning assets	125,064			132,789		
Total assets	$ 1,510,577			$ 1,504,893		
Liabilities and shareholders' equity						
Interest-bearing liabilities:						
Interest-bearing demand deposits	$ 67,545	$ 20	0.12%	$ 65,145	$ 36	0.22%
Savings and money market accounts	446,282	488	0.44	419,541	764	0.72
Time deposits	463,947	1,288	1.10	523,484	1,857	1.41
Junior subordinated debentures	36,083	338	3.67	36,083	327	3.55
Other borrowings	26,000	247	3.78	36,385	259	2.82
Total interest-bearing liabilities	1,039,857	2,381	0.91	1,080,638	3,243	1.19
Noninterest-bearing liabilities:						
Noninterest-bearing demand deposits	277,707			241,394		
Other liabilities	19,643			17,466		
Total liabilities	1,337,207			1,339,498		
Shareholders' equity	173,370			165,395		
Total liabilities and shareholders' equity	$ 1,510,577			$ 1,504,893		
Net interest income		$ 13,648			$ 13,525	
Net interest spread			3.60%			3.55%
Net interest margin			3.84%			3.83%

(1) Annualized.

(2) Other investments include Federal Reserve Bank stock, Federal Home Loan Bank stock and investment in subsidiary trust.

	For The Nine Months Ended September 30,					
	2012			2011		
	Average Outstanding Balance	Interest Earned/ Paid	Average Yield/ Rate(1)	Average Outstanding Balance	Interest Earned/ Paid	Average Yield/ Rate(1)
	(Dollars in thousands)					
Assets						
Interest-earning assets:						
Loans	$ 1,058,782	$ 44,346	5.59%	$ 1,086,860	$ 46,696	5.74%
Taxable securities	165,422	3,051	2.46	164,262	3,413	2.78
Tax-exempt securities	14,695	407	3.70	8,369	296	4.73
Other investments (2)	6,113	129	2.82	6,775	125	2.47
Federal funds sold and other short-term investments	169,698	675	0.53	153,431	426	0.37
Total interest-earning assets	1,414,710	48,608	4.59	1,419,697	50,956	4.80
Allowance for loan losses	(27,948)			(32,514)		
Total interest-earning assets, net of allowance for loan losses	1,386,762			1,387,183		
Noninterest-earning assets	125,905			130,714		
Total assets	$ 1,512,667			$ 1,517,897		
Liabilities and shareholders' equity						
Interest-bearing liabilities:						
Interest-bearing demand deposits	$ 65,950	$ 62	0.13%	$ 61,791	$ 163	0.35%
Savings and money market accounts	449,043	1,667	0.50	413,618	2,484	0.80
Time deposits	478,957	4,194	1.17	550,591	6,057	1.47
Junior subordinated debentures	36,083	1,007	3.67	36,083	976	3.57
Other borrowings	26,002	741	3.81	45,008	803	2.39
Total interest-bearing liabilities	1,056,035	7,671	0.97	1,107,091	10,483	1.27
Noninterest-bearing liabilities:						
Noninterest-bearing demand deposits	262,439			231,937		
Other liabilities	18,050			16,129		
Total liabilities	1,336,524			1,355,157		
Shareholders' equity	176,143			162,740		
Total liabilities and shareholders' equity	$ 1,512,667			$ 1,517,897		
Net interest income		$ 40,937			$ 40,473	
Net interest spread			3.62%			3.53%
Net interest margin			3.87%			3.81%

(1) Annualized.
(2) Other investments include Federal Reserve Bank stock, Federal Home Loan Bank stock and investment in subsidiary trust.

The following table presents the dollar amount of changes in interest income and interest expense for the major components of interest-earning assets and interest-bearing liabilities and distinguishes between changes in outstanding balances and changes in interest rates for the three and nine months ended September 30, 2012 compared with the three and nine months ended September 30, 2011. For purposes of this table, changes attributable to both rate and volume have been allocated to each accordingly.

	Three Months Ended September 30, 2012 vs 2011			Nine Months Ended September 30, 2012 vs 2011		
	Increase (Decrease Due to)			Increase (Decrease) Due to		
	Volume	Rate	Total	Volume	Rate	Total
	(In thousands)					
Interest-earning assets:						
Loans	$ 17	$ (788)	$ (771)	$ (1,164)	$ (1,186)	$ (2,350)
Taxable securities	7	(12)	(5)	27	(389)	(362)
Tax-exempt securities	97	(51)	46	224	(113)	111
Other investments	(5)	6	1	(12)	16	4
Federal funds sold and other short-term investments	(5)	(5)	(10)	46	203	249
Total decrease in interest income	111	(850)	(739)	(879)	(1,469)	(2,348)
Interest-bearing liabilities:						
Interest-bearing demand deposits	1	(17)	(16)	11	(112)	(101)
Savings and money market accounts	46	(322)	(276)	215	(1,032)	(817)
Time deposits	(216)	(353)	(569)	(783)	(1,080)	(1,863)
Junior subordinated debentures	-	11	11	4	27	31
Other borrowings	(74)	62	(12)	(339)	277	(62)
Total decrease in interest expense	(243)	(619)	(862)	(892)	(1,920)	(2,812)
Increase (decrease) in net interest income	$ 354	$ (231)	$ 123	$ 13	$ 451	$ 464

Provision for Loan Losses. Provisions for loan losses are charged to income to bring the Company's allowance for loan losses to a level which management considers adequate to absorb probable losses inherent in the loan portfolio. For the three months ended September 30, 2012, the provision for loan losses had a reversal of ($300,000), which represented a decrease of $1.2 million or 134.3% compared with provision for loan losses of $875,000 for the same period in 2011. The provision for loan losses for the nine months ended September 30, 2012 was $300,000, a decrease of $2.2 million or 87.8% compared with $2.5 million for the same period in 2011. Management uses a systematic methodology in determining the allowance for loan losses and following the September 30, 2012 assessment of the allowance for loan losses, management determined that a reduction in the allowance was necessary as a result of year-to-date improvement in asset quality and a $21.8 million year-to-date reduction of classified loans. The allowance for loan losses as a percent of total loans was 2.33% at September 30, 2012, 2.71% at December 31, 2011, and 2.83% at September 30, 2011.

Noninterest Income. Noninterest income for the three months ended September 30, 2012 was $1.9 million, an increase of $56,000 or 3.1% compared with $1.8 million for the same period in 2011. The increase for the three months ended September 30, 2012 was primarily due to increases in other noninterest income, letters of credit commissions and other loan-related fees, partially offset by a decrease in gains on securities transactions. Other noninterest income increased primarily due to a reduction in losses related to the fair value adjustments on an interest rate derivative, partially offset by a decline in earnings on foreign exchange transactions and ORE rental income. Noninterest income for the nine months ended September 30, 2012 was $5.4 million, an increase of $389,000 or 7.7% compared with $5.0 million for the same period in 2011. The increase for the nine months ended September 30, 2012 was primarily due to increases in service fees, a decline in impairment on securities, and a reduction in losses related to the fair value adjustments on an interest rate derivative.

Noninterest Expense. Noninterest expense for the three months ended September 30, 2012 was $11.5 million, an increase of $94,000 or 0.8% compared with $11.4 million for the same period in 2011. Noninterest expense for the nine months ended September 30, 2012 was $33.8 million, an increase of $553,000 or 1.7% compared with $33.2 million for the same period in 2011. The increase for the three and nine months ended September 30, 2012 was mainly due to increases in other noninterest expense and salaries and employee benefits, partially offset by decreases in expenses related to ORE, the FDIC assessment and occupancy expenses. Other noninterest expense increased primarily due to an increase in other operational losses.

Salaries and employee benefits expense for the three months ended September 30, 2012 was $6.0 million, an increase of $802,000 or 15.4% compared with $5.2 million for the same period in 2011. The increase was primarily due to increases in salary expense, bonus accruals and stock based compensation costs. Salaries and employee benefits expense for the nine months ended September 30, 2012 was $17.9 million, an increase of $2.2 million or 14.2% compared with $15.7 million for the same period in 2011. The increase was primarily due to increases in salary expense, bonus accruals and employee healthcare costs.

Foreclosed assets expense for the three months ended September 30, 2012 was $552,000, a decrease of $670,000 or 54.8% compared with $1.2 million for the same period in 2011, primarily due to a reduction in writedowns of property values and property taxes paid. Foreclosed assets expense for the nine months ended September 30, 2012 was $1.9 million, a decrease of $826,000 or 30.1% compared with $2.7 million for the same period in 2011, due to a reduction in all segments of foreclosed assets expense but primarily the result of reductions in the losses on sales of foreclosed assets.

The FDIC assessment for the three months ended September 30, 2012 was $480,000, a decrease of $152,000 or 24.1% compared with $632,000 for the same period in 2011. The FDIC assessment for the nine months ended September 30, 2012 was $1.4 million, a decrease of $654,000 or 32.4% compared with $2.0 million for the same period in 2011. The decrease for both periods resulted from a reduction in the FDIC assessment rate.

Other noninterest expense for the three months ended September 30, 2012 was $2.7 million, an increase of $218,000 or 8.8% compared with the same quarter in 2011. Other noninterest expense for the nine months ended September 30, 2012 was $7.3 million an increase of $122,000 or 1.7% compared with the same period in 2011. The increase for both the three and nine months ended September 30, 2012 was primarily due to an increase in other operational losses.

The Company's efficiency ratio is calculated by dividing total noninterest expense, excluding loan loss provisions, goodwill impairment, provisions for unfunded commitments, writedowns on foreclosed assets and gains and losses on sales of foreclosed assets by net interest income plus noninterest income, excluding impairment on securities and gains and losses on securities transactions. The efficiency ratio for the three months ended September 30, 2012 was 71.66%, a decrease from 74.39% for the same quarter in 2011. The Company's efficiency ratio for the nine months ended September 30, 2012 was 70.95%, compared with 72.88% for the same period in 2011. The decrease for the three and nine months ending September 30, 2012 was primarily due to the increase in net interest income and other noninterest income.

Income Taxes. Income tax expense for the three months ended September 30, 2012 was $1.4 million, compared with $762,000 for the same period in 2011. The Company's effective tax rate was 32.9% for the three months ended September 30, 2012 compared with 25.1% for the three months ended September 30, 2011. The increase in the effective income tax rate in 2012 as compared to 2011 was primarily the result of an increase in state income taxes. The Texas state tax is based on the Company's gross margin with limited deductions. Because the Texas state tax allows only limited deductions, the tax may not correlate from year to year with pre-tax income. The California tax is based on the unitary income of the consolidated group which can vary disproportionately from pre-tax income depending on the apportionment of income among members of the unitary group. Income tax expense for the nine months ended September 30, 2012 was $4.0 million, compared with $3.1 million for the same period in 2011. The Company's effective tax rate was 32.7% for the nine months ended September 30, 2012 compared with 31.4% for the nine months ended September 30, 2011.

As of September 30, 2012, the Company had approximately $13.9 million in net deferred tax assets. Deferred tax assets are subject to an evaluation of whether it is more likely than not that they will be realized. The Company has not provided a valuation allowance for the net deferred tax assets at September 30, 2012 and December 31, 2011 due primarily to its ability to offset reversals of net deductible temporary differences against income taxes paid in previous years and expected to be paid in future years. In making such judgments, significant weight is given to evidence that can be objectively verified. Because of historical losses that were recorded by the Company for the years ended December 31, 2010 and 2009, and if the Company is unable to generate sufficient taxable income in the future, then the Company may not be able to conclude it is more likely than not that the benefits of the deferred tax assets will be fully realized and may be required to recognize a valuation allowance and a corresponding income tax expense equal to the portion of the deferred tax asset that may not be realized.

The Company forecasts sufficient taxable income, exclusive of tax planning strategies, to fully realize its deferred tax assets. The Company has projected its pretax earnings based upon business that the Company anticipates conducting in the future, which is supported by the Company's return to an income position, rather than the loss position the Company experienced during 2010 and 2009. During 2010 and 2009, earnings were negatively affected by the large increase in the provisions for loan losses during the sharp economic downturn. The Company

reduced its cost structure, and taking this into account, the Company projects that it will generate sufficient pretax earnings within a five-year period.

The U.S. Federal and California State net operating loss carryforward period of 20 years provides enough time to utilize the deferred tax assets pertaining to the existing net operating loss carryforwards and any net operating losses that would be created by the reversal of the future net deductions which have not yet been taken on a tax return.

Financial Condition

Loan Portfolio. Total loans at September 30, 2012 were $1.10 billion, an increase of $52.2 million or 5.0% compared with $1.04 billion at December 31, 2011, primarily as a result of strategic growth initiatives. At September 30, 2012, commercial and industrial loans and real estate mortgage loans increased $31.8 million and $20.1 million, respectively while real estate construction loans decreased $2.4 million, compared with their respective levels at December 31, 2011. At September 30, 2012 and December 31, 2011, the ratio of total loans to total deposits was 86.70%, and 83.46%, respectively. Total loans represented 71.87% and 69.90% of total assets at September 30, 2012 and December 31, 2011, respectively.

The following table summarizes the loan portfolio by type of loan at the dates indicated:

	As of September 30, 2012		As of December 31, 2011	
	Amount	Percent	Amount	Percent
	(Dollars in thousands)			
Commercial and industrial	$ 377,054	34.30%	$ 345,265	32.98%
Real estate mortgage:				
Residential	40,391	3.67	42,682	4.08
Commercial	667,162	60.68	644,727	61.58
	707,553	64.35	687,409	65.66
Real estate construction:				
Residential	4,087	0.37	6,984	0.67
Commercial	3,824	0.35	3,324	0.32
	7,911	0.72	10,308	0.99
Consumer and other	6,955	0.63	3,936	0.37
Gross loans	1,099,473	100.00%	1,046,918	100.00%
Unearned discounts, interest and deferred fees	(2,618)		(2,302)	
Total loans	1,096,855		1,044,616	
Allowance for loan losses	(25,542)		(28,321)	
Loans, net	$ 1,071,313		$ 1,016,295	

Nonperforming Assets. At September 30, 2012, total nonperforming assets consisted of $31.5 million in nonaccrual loans, $4.1 million of accruing troubled debt restructurings, $4.7 million of nonaccruing troubled debt restructurings and $7.9 million in other real estate ("ORE"). Total nonperforming assets decreased $15.7 million to $48.2 million at September 30, 2012 from $63.9 million at December 31, 2011, which consisted of reductions of $8.1 million in Texas and $7.6 million in California.

On a linked-quarter basis, total nonperforming assets decreased by $379,000, which consisted of a $905,000 decrease in California, partially offset by an increase of $526,000 in Texas. The decline in California consisted primarily of decreases of $842,000 in ORE and $54,000 in nonaccrual loans. The increase in nonperforming assets in Texas was primarily the result of an increase of $6.8 million in nonaccrual loans, partially offset by decreases of $5.7 million in ORE and $599,000 in Troubled Debt Restructurings ("TDRs"). Nonaccrual loans in Texas increased primarily due to the reclassification of $7.6 million of two classified loans to nonaccrual status, partially offset by $360,000 in paydowns and payoffs and $250,000 in a note sale. Nonaccrual TDRs decreased primarily due to $386,000 in charge-offs and $171,000 in principal payments and payoffs. The decrease in nonperforming assets in California primarily consisted of $54,000 in paydowns on nonaccrual loans and an $842,000 reduction in ORE as a result of sales and writedowns.

On a linked-quarter basis, ORE at September 30, 2012 decreased $6.5 million compared with June 30, 2012, which included a decrease of $5.7 million in Texas and $842,000 in California. The decrease in Texas was primarily the result of $5.4 million in the sale of six properties and writedowns of $247,000 on five properties. The decrease in California was primarily the result of $351,000 in writedowns on two properties and $491,000 in the sale of two ORE properties.

The Company is occasionally involved in the sale of certain federally guaranteed loans into the secondary market with servicing

retained. Under the terms of the Small Business Administration ("SBA") program, the Company at its option may repurchase any loan that may become classified as nonperforming. Any repurchased loans may increase the Company's nonperforming loans until the time at which the loan repurchased is either restored to an accrual status or the Company files a claim with the SBA for the guaranteed portion of the loan. There were no sales of SBA loans for the nine months ended September 30, 2012 or 2011.

The following table presents information regarding nonperforming assets as of the dates indicated:

	As of September 30, 2012	As of December 31, 2011
	(Dollars in thousands)	
Nonaccrual loans (1)	$ 31,454	$ 31,099
Accruing loans 90 days or more past due (1)	—	—
Troubled debt restructurings – accruing (1)	4,126	—
Troubled debt restructurings – nonaccruing (1)	4,707	13,763
Other real estate ("ORE")	7,915	19,018
Total nonperforming assets	$ 48,202	$ 63,880
Total nonperforming assets to total assets	3.16%	4.27%
Total nonperforming assets to total loans and ORE	4.36%	6.01%

(1) Represents the unpaid principal balance.

A loan is considered impaired, based on current information and events, if management believes that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. All amounts due according to the contractual terms means that both the contractual interest payments and the contractual principal payments of a loan will be collected as scheduled in the loan agreement. An insignificant delay or insignificant shortfall in the amount of payment does not require a loan to be considered impaired. If the measure of the impaired loan is less than the recorded investment in the loan, a specific reserve is established for the shortfall as a component of the Company's allowance for loan loss methodology. The Company considers all nonaccrual loans to be impaired.

The following is a summary of loans considered to be impaired as of the dates indicated:

As of September 30, 2012	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
Impaired loans with no allowance				
Commercial and industrial	$ 7,334	$ 7,343	$ —	$ 5,752
Real estate mortgage:				
Residential	184	184	—	216
Commercial	22,260	22,260	—	19,859
Real estate construction:				
Residential	2,345	2,345	—	1,172
Commercial	3,147	3,147	—	3,226
Impaired loans with an allowance				
Commercial and industrial	$ 23	$ 23	$ 23	$ 3,183
Real estate mortgage:				
Commercial	4,999	4,986	953	6,836
Total:				
Commercial and industrial	$ 7,357	$ 7,366	$ 23	$ 8,935
Real estate mortgage	27,443	27,430	953	26,911
Real estate construction	5,492	5,492	—	4,398

As of December 31, 2011	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
Impaired loans with no allowance				
Commercial and industrial	$ 3,647	$ 3,652	$ —	$ 8,901
Real estate mortgage:				
Residential	251	251	—	263
Commercial	19,922	19,913	—	26,256
Real estate construction:				
Commercial	3,324	3,324	—	831
Impaired loans with an allowance				
Commercial and industrial	7,018	7,025	224	4,835
Real estate mortgage:				
Commercial	10,678	10,696	710	14,042
Total:				
Commercial and industrial	$ 10,665	$ 10,677	$ 224	$ 13,736
Real estate mortgage	30,851	30,860	710	40,561
Real estate construction	3,324	3,324	—	831

For the nine months ended September 30, 2012 and 2011, interest income of $139,000 and $118,000 was recognized on impaired loans, which consisted of nonaccrual loans that were paid in full and accruing TDRs.

Allowance for Loan Losses and Reserve for Unfunded Lending Commitments. At September 30, 2012 and 2011, the allowance for loan losses was $25.5 million and $30.0 million, respectively, or 2.33% and 2.83% of total loans, respectively. At December 31, 2011, the allowance for loan losses was $28.3 million, or 2.71% of total loans. Net charge-offs for the three months ended September 30, 2012 were $1.5 million or 0.13% of total loans compared with net charge-offs of $1.3 million or 0.12% of total loans for the three months ended September 30, 2011. The net charge-offs for the third quarter of 2012 primarily consisted of $1.5 million of net charge-offs from Texas and $74,000 of net recoveries from California. Net charge-offs for the nine months ended September 30, 2012 were $3.1 million or 0.28% of total loans compared with net charge-offs of $6.2 million or 0.59% of total loans for the nine months ended September 30, 2011. The net charge-offs for the nine months ended September 30, 2012 primarily consisted of $3.2 million of net charge-offs from Texas and $76,000 of net recoveries from California.

The allowance for loan losses provides for the risk of losses inherent in the lending process and the Company allocates the allowance for loan losses according to management's assessments of risk inherent in the loan portfolio. The allowance for loan losses is increased by provisions charged against current earnings and is reduced by net charge-offs. Loans are charged off when they are deemed to be uncollectible in whole or in part. Recoveries are recorded when cash payments are received. In developing the assessment, the Company relies on estimates and exercises judgment regarding matters where the ultimate outcome is uncertain. Circumstances may change and future assessments of credit risk may yield materially different results, resulting in an increase or decrease in the allowance for loan losses.

The allowance for credit losses consists of the allowance for loan losses and the reserve for unfunded lending commitments and is maintained at levels that the Company believes are adequate to absorb probable losses inherent in the loan portfolio and unfunded lending commitments as of the date of the financial statements. The Company employs a systematic methodology for determining the allowance for loan losses that consists of four components: (1) a formula-based general reserve based on historical average losses by loan grade and grade migration, (2) specific reserves on larger individual credits that are based on the difference between the current loan balance and the loan's collateral value, observable market price, or discounted present value, (3) a qualitative component that reflects current market conditions and other factors precedent to losses different from historical averages, and (4) a reserve for unfunded lending commitments.

In setting the qualitative reserve portion of the allowance for loan losses, the factors the Company may consider include, but are not limited to, concentrations of credit, common characteristics of known problem loans, potential problem loans, and other loans that exhibit weaknesses or deterioration, the general economic environment in the Company's markets as well as the national economy, particularly the real estate markets, changes in value of the collateral securing loans, results of portfolio stress tests, trends and delinquencies, nonperforming loans and changes in lending processes, procedures and personnel. After the aforementioned assessment of the loan portfolio, the general economic environment and other relevant factors, management determines the appropriate allowance for loan loss level and makes the provision necessary to achieve that level. This methodology is consistently followed so that the level of the allowance for loan losses is reevaluated in response to changes in circumstances, economic conditions or other factors on an ongoing basis.

The Company maintains a reserve for unfunded commitments to provide for the risk of loss inherent in its unfunded lending related commitments. The process used in determining the reserve is consistent with the process used for the allowance for loan losses discussed above.

The following tables present an analysis of the allowance for credit losses and other related data for the periods indicated:

	As of and for the Three Months Ended September 30,	
	2012	2011
	(Dollars in thousands)	
Average total loans outstanding for the period	$ 1,066,352	$ 1,062,275
Total loans outstanding at end of period	$ 1,096,855	$ 1,059,165
Allowance for loan losses at beginning of period	$ 27,311	$ 30,393
Provision for loan losses	(300)	875
Charge-offs:		
Commercial and industrial	(1,464)	(597)
Real estate mortgage	(130)	(1,350)
Real estate construction	—	—
Consumer and other	(31)	(18)
Total charge-offs	(1,625)	(1,965)
Recoveries:		
Commercial and industrial	32	261
Real estate mortgage	118	395
Real estate construction	—	6
Consumer and other	6	4
Total recoveries	156	666
Net charge-offs	(1,469)	(1,299)
Allowance for loan losses at end of period	25,542	29,969
Reserve for unfunded lending commitments at beginning of period	957	1,093
Provision for unfunded lending commitments	—	81
Reserve for unfunded lending commitments at end of period	957	1,174
Allowance for credit losses at end of period	$ 26,499	$ 31,143
Ratio of net charge-offs to end of period total loans	(0.13)%	(0.12)%

	As of and for the Nine Months Ended September 30,	
	2012	2011
	(Dollars in thousands)	
Average total loans outstanding for the period	$ 1,058,782	$ 1,086,860
Total loans outstanding at end of period	$ 1,096,855	$ 1,059,165
Allowance for loan losses at beginning of period	$ 28,321	$ 33,757
Provision for loan losses	300	2,450
Charge-offs:		
Commercial and industrial	(2,258)	(3,222)
Real estate mortgage	(1,415)	(4,673)
Real estate construction	(683)	—
Consumer and other	(92)	(49)
Total charge-offs	(4,448)	(7,944)
Recoveries:		
Commercial and industrial	397	496
Real estate mortgage	933	460
Real estate construction	19	722
Consumer and other	20	28
Total recoveries	1,369	1,706
Net charge-offs	(3,079)	(6,238)
Allowance for loan losses at end of period	25,542	29,969
Reserve for unfunded lending commitments at beginning of period	1,012	602
Provision for unfunded lending commitments	(55)	572
Reserve for unfunded lending commitments at end of period	957	1,174
Allowance for credit losses at end of period	$ 26,499	$ 31,143
Ratio of allowance for loan losses to end of period total loans	2.33%	2.83%
Ratio of net charge-offs to end of period total loans	(0.13)%	(0.59)%
Ratio of allowance for loan losses to end of period total nonperforming loans (1)	63.40%	61.98%

(1) Total nonperforming loans are nonaccrual loans, loans 90 days or more past due and troubled debt restructurings.

Securities. At September 30, 2012, the available-for-sale securities portfolio was $178.3 million, an increase of $5.9 million or 3.4% compared with $172.4 million at December 31, 2011. The increase was primarily due to purchases of government issued or guaranteed mortgage-backed and agency securities and obligations of state and political subdivision securities partially offset by calls of U.S. government corporations and agencies securities. At September 30, 2012 and December 31, 2011, the held-to-maturity portfolio remained at $4.0 million. The securities portfolio is primarily comprised of obligations of U.S. government corporations and agencies, mortgage-backed securities, collateralized mortgage obligations, corporate securities and municipal securities. The securities portfolio has been funded primarily by the liquidity created from deposit growth and loan repayments in excess of loan funding requirements. Other investments, which include Federal Reserve Bank (“FRB”) and FHLB stock and the investment in subsidiary trust were $5.8 million at September 30, 2012, a decrease of $710,000 or 11.0% compared with $6.5 million at December 31, 2011.

Deposits . At September 30, 2012, total deposits were $1.27 billion, an increase of $13.5 million or 1.1% compared with $1.25 billion at December 31, 2011. The Company's ratio of noninterest-bearing demand deposits to total deposits at September 30, 2012 and December 31, 2011 was 22.9% and 20.7%, respectively. Interest-bearing deposits at September 30, 2012 were $975.1 million, a decrease of $17.1 million or 1.7% compared with $992.2 million at December 31, 2011.

The Company relies primarily on its deposit base to fund its lending and investment activities. Historically, the Company has from time to time used brokered deposits when they represented a cost-effective funding alternative. However, as a result of the Agreement between MetroBank and the OCC, MetroBank may not acquire, accept, renew or roll over brokered deposits without the prior approval of the OCC. Additionally, prior to the termination of the Order on July 20, 2012, Metro United could not accept, renew or roll over brokered deposits without prior approval of the FDIC and CDFI.

At September 30, 2012, brokered deposits were 1.2% of the Company's total deposits having an average maturity date of 19 months.

Junior Subordinated Debentures. Junior subordinated debentures at September 30, 2012 and December 31, 2011 were $36.1 million. The debentures mature on December 15, 2035, but are redeemable at the Company's option at par plus accrued and unpaid interest. The debentures, issued to the Company's unconsolidated subsidiary trust MCBI Statutory Trust I, were used to fund the Company's acquisition of Metro United. The junior subordinated debentures accrued interest at a fixed rate of 5.76% until December 15, 2011, at which time the debentures began accruing interest at a floating rate equal to the 3-month LIBOR plus 1.55%. Related to these debentures, the Company entered into a forward-starting interest rate swap contract during the third quarter of 2009. Under the swap, the Company pays a fixed interest rate of 5.38% and receives a variable interest rate of three-month LIBOR plus a margin of 1.55% on a total notional amount of $17.5 million, with quarterly settlements which began in March 2011. See Note 10, *"Derivative Financial Instruments,"* to the Condensed Consolidated Financial Statements for additional information related to this interest rate swap.

Other Borrowings. Other borrowings at September 30, 2012 were $26.0 million, a decrease of $315,000 or 1.2% compared to other borrowings of $26.3 million at December 31, 2011. Other borrowings at September 30, 2012 primarily include $25.0 million in security repurchase agreements and $1.0 million in unsecured debentures. The security repurchase agreements bear an average rate of 3.71% and mature on December 31, 2014. Securities sold under securities repurchase agreements are currently puttable by the counterparty at a fixed repurchase price at the end of each calendar quarter. In addition, securities under one repurchase agreement are puttable by either the counterparty or the Company at the replacement cost of the repurchase transaction at the end of each calendar year.

In February 2010, the Company issued an unsecured debenture to each of the Company's Chairman of the Board and an affiliate of one of the Company's 5.0% or more shareholders. Each debenture was issued for a principal amount of $500,000. The debentures, as amended, mature February 10, 2013 and bear interest on the principal amount at a fixed rate per annum equal to 5.0% due quarterly and began March 31, 2010. The proceeds from issuance of the debentures were used for general corporate purposes.

The following table provides an analysis of the Company's other borrowings as of the dates and for the periods indicated:

	As of and for the Nine Months Ended September 30, 2012	As of and for the Year Ended December 31, 2011
	(Dollars in thousands)	
FHLB Notes and Advances:		
at end of period	$ —	$ —
average during the period	—	14,548
maximum month-end balance during the period	—	30,000
Interest rate at end of period	—%	—%
Interest rate during the period	—	0.44
Security Repurchase Agreements:		
at end of period	$ 25,000	$ 25,000
average during the period	25,000	25,000
maximum month-end balance during the period	25,000	25,000
Interest rate at end of period	3.71%	3.71%
Interest rate during the period	3.71	3.71
Unsecured debentures:		
at end of period	$ 1,000	$ 1,000
average during the period	1,000	1,000
maximum month-end balance during the period	1,000	1,000
Interest rate at end of period	5.00%	5.00%
Interest rate during the period	5.00	5.00
Federal Reserve TT&L:		
at end of period	$ —	$ 315
average during the period	2	467
maximum month-end balance during the period	—	742

Other Liabilities. Other liabilities at September 30, 2012 were $18.1 million, an increase of $8.2 million or 82.4% compared to $9.9 million at December 31, 2012, primarily due to loans that were executed on the last business day in September but funded on October 1, 2012.

Liquidity. The Company's loan to deposit ratio at September 30, 2012 and 2011 was 86.70% and 85.31%, respectively. As of September 30, 2012, the Company had commitments to fund loans in the amount of $93.3 million. At this same date, the Company had stand-by letters of credit of $10.6 million. Available sources to fund these commitments and other cash demands of the Company come from cash and cash equivalents, sales and maturities of securities available-for-sale, loan and investment repayments, deposit inflows, and lines of credit from the FHLBs of Dallas and San Francisco, other correspondent banks as well as the FRB discount window. With its current level of collateral, the Company has the ability to borrow an additional $441.2 million from the FHLBs, $10.3 million from the FRB discount window and $5.0 million from other correspondent banks.

Capital Resources. Shareholders' equity at September 30, 2012 was $174.6 million compared to $165.2 million at December 31, 2011, an increase of $9.4 million. The increase was primarily the result of net income and other comprehensive income for the nine months ending September 30, 2012, partially offset by dividends paid on preferred stock.

The Company paid no dividends on common stock for the nine months ended September 30, 2012 and 2011. Preferred dividends of $1.4 million and $2.3 million were paid for the nine months ended September 30, 2012 and 2011, respectively. The reduction in preferred dividends was the result of the July 2012 repurchase of the Preferred Stock. (See Note 7 " *Shareholders' Equity*" for more information.)

The following table provides a comparison of the Company's and each of the Bank's leverage and risk-weighted capital ratios as of September 30, 2012 to the minimum and well-capitalized regulatory standards:

	Minimum Required For Capital Adequacy Purposes	To Be Categorized as Well Capitalized Under Prompt Corrective Action Provisions	Actual Ratio At September 30, 2012
The Company			
Leverage ratio	4.00%	N/A%	12.90%
Tier 1 risk-based capital ratio	4.00	N/A	16.41
Risk-based capital ratio	8.00	N/A	17.69
MetroBank			
Leverage ratio	4.00%	5.00%	12.62%
Tier 1 risk-based capital ratio	4.00	6.00	16.35
Risk-based capital ratio	8.00	10.00	17.64
Metro United			
Leverage ratio	4.00%	5.00%	12.48%
Tier 1 risk-based capital ratio	4.00	6.00	15.22
Risk-based capital ratio	8.00	10.00	16.49

Critical Accounting Estimates

The Company has established various accounting estimates which govern the application of U.S. generally accepted accounting principles in the preparation of the Company's consolidated financial statements. Certain accounting estimates involve significant judgments and assumptions by management which have a material impact on the carrying value of certain assets and liabilities; management considers such accounting estimates to be critical accounting estimates. The judgments and assumptions used by management are based on historical experience and other factors, which are believed to be reasonable under the circumstances. Because of the nature of the judgments and assumptions made by management, actual results could differ from these judgments and estimates which could have a material impact on the carrying values of assets and liabilities and the results of operations of the Company.

Allowance for loan losses. The Company believes the allowance for loan losses is a critical accounting estimate that requires the most significant judgments and estimates used in the preparation of its consolidated financial statements. In estimating the allowance for loan losses, management reviews the effect of changes in the local real estate market on collateral values, the effect of current economic indicators on the loan portfolio and their probable impact on borrowers and increases or decreases in nonperforming and impaired loans. Changes in these factors may cause management's estimate of the allowance to increase or decrease and result in adjustments to the Company's provision for loan losses. See — "Financial Condition — Allowance for Loan Losses and the Reserve for Unfunded Lending Commitments".

Impairment of goodwill. The Company believes impairment of goodwill is a critical accounting estimate that requires significant judgment and estimates to be used in the preparation of its consolidated financial statements. The Company reviews goodwill for impairment on an annual basis, or more often, if events or circumstances indicate that it is more likely than not that the fair value of Metro United, the Company's only reporting unit with assigned goodwill, is below the carrying value of its equity. The Company's annual evaluation is performed as of August 31 of each year.

In determining the fair value of Metro United, the Company uses a review of the valuation of recent guideline bank acquisitions, if available, pricing of publicly traded comparables, as well as a discounted cash flow analysis and the market capitalization of the Company. The guideline bank transactions are selected from a similar geographic footprint as Metro United or having a similar market focus, based on publicly available information. Valuation multiples such as price-to-book, price-to-tangible book, price-to-deposits and price-to-earnings from the guideline transactions are compared with Metro United's operating results to derive its estimated fair value as of the valuation date. For discounted cash flow analyses, financial forecasts are developed by projecting operations for the next five years and discounting the cash flows and the terminal values. The financial forecasts consider several key business drivers such as anticipated loan and deposit growth, forward interest rates, historical performance, and industry and economic trends, among other considerations. In addition, as a third method of determining fair value, quoted stock prices as of the valuation date for the Company and its peer guideline banks are used. The fair values of the

reporting unit separately derived from each valuation technique (i.e., guideline transactions, discounted cash flows, and quoted market prices) are used to assess whether there is any goodwill impairment.

The Company also considers the fair value of Metro United in relationship to the Company's stock price by performing a reconciliation to the Company's market value. This reconciliation is performed by first determining the fair value of the reporting unit from the valuation technique mentioned previously (i.e. guideline transactions, discounted cash flows and quoted market prices). The fair value is compared to the allocated value of the reporting unit based on the Company's market value using the stock price as of the valuation date. The Company allocates the total market value to both of its segments, MetroBank and Metro United. For each Bank, the allocation is based upon the following internal ratios:

Balance Sheet Ratios
- Total assets as a percentage of total assets;
- Total loans as a percentage of total loans;
- Total deposits as a percentage of total deposits; and
- Total shareholder's equity as a percentage of total shareholders' equity.

Performance Ratios
- Total nonperforming assets as a percentage of total assets;
- Last twelve months return on assets; and
- Last twelve months return on equity.

In allocating the market value between the two Banks, more weight was assigned to the Performance Ratios than the Balance Sheet Ratios in order to account for the differences in market valuation as a result of different financial performance. The allocated market value of Metro United Bank is then reconciled to the weighted average fair value derived from each valuation technique (i.e. guideline transactions, discounted cash flows and quoted market prices) by assigning an estimated control premium of 20% to the allocated market value.

The derived fair value of Metro United is then compared with the carrying value of its equity. If the carrying value of its equity exceeds the fair value at the evaluation date, then the step-one impairment test would have failed, and the Company would perform the step-two analysis to derive the implied fair value of goodwill.

Under the step-two analysis, the implied fair value of goodwill is determined in the same manner as goodwill is recognized in a business combination. The fair value of Metro United's assets and liabilities, including previously unrecognized intangible assets, is individually determined. The excess between the fair value of Metro United over the fair value of its net assets is the implied goodwill.

Impairment of investment securities. Investments classified as available-for-sale are carried at fair value and the impact of changes in fair value are recorded on the consolidated balance sheet as an unrealized gain or loss in accumulated other comprehensive income (loss), a separate component of shareholders' equity. Securities classified as available-for-sale or held-to-maturity are subject to review to identify when a decline in value is other-than-temporary. Factors considered in determining whether a decline in value is other-than-temporary include: the extent and the duration of the decline; the reasons for the decline in value (credit event, and interest-rate related including general credit spread widening); the financial condition of and near-term prospects of the issuer, and the Company's intent to sell and whether or not it is more likely than not that the Company would be required to sell the security before the anticipated recovery of its amortized cost basis. When it is determined that an other-than-temporary impairment exists and the Company does not intend to sell the security or if it is not more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis, the impairment is separated into the amount that is credit-related and the amount due to all other factors. The credit-related impairment is recognized in earnings.

For debt securities, determining credit-related impairment is driven principally by assumptions regarding the amount and timing of projected cash flows. For mortgage-backed and asset-backed securities, cash flow estimates are determined based on prepayment assumptions, default rates and loss severity rates derived from widely accepted third-party data sources. The Company has developed these estimates using information based on historical experience as well as using market observable data, such as industry analyst reports and forecasts, sector credit ratings and other data relevant to the collectability of a security. See Note 2 *"Securities"* to the Condensed Consolidated Financial Statements for additional discussion on other-than-temporary impairment.

Stock-based compensation. The Company believes stock-based compensation is a critical accounting estimate that requires significant judgment and estimates used in the preparation of its consolidated financial statements. The Company accounts for stock-based compensation in accordance with the fair value recognition provisions of FASB accounting guidance. The Company uses the Black-Scholes option-pricing model which requires the input of highly subjective assumptions. These assumptions include estimating the length of time employees will retain their vested stock options before exercising them ("expected term"), the estimated volatility of the Company's common stock price over the expected term and the number of options that will ultimately not complete their vesting requirements ("forfeitures"). Changes in the subjective assumptions can materially affect the estimate of fair value of stock-based compensation and, consequently, the related amount recognized on the consolidated statements of income.

Fair Value. The Company believes that the determination of fair value is a critical accounting estimate that requires significant judgment used in the preparation of its consolidated financial statements. Certain portions of the Company's assets are reported on a fair value basis. Fair value is used on a recurring basis for certain assets in which fair value is the primary basis of accounting. An example of this recurring use of fair value includes available-for-sale securities. Additionally, fair value is used on a non-recurring basis to evaluate assets for impairment or for disclosure purposes. Examples of these non-recurring uses of fair value include goodwill and intangible assets. Depending on the nature of the asset various valuation techniques and assumptions are used when estimating fair value.

Fair value is the price that could be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Fair value determination in accordance with ASC Topic 820-10 requires that a number of significant judgments are made. First, where prices for identical assets and liabilities are not available, application of the three-level hierarchy would require that similar assets are identified. If observable market prices are unavailable or impracticable to obtain, then fair value is estimated using modeling techniques such as discounted cash flow analyses. These modeling techniques incorporate the Company's assessments regarding assumptions that market participants would use in pricing the asset or the liability, including assumptions about the risks inherent in a particular valuation technique, the effect of a restriction on the sale or use of an asset, and the risk of nonperformance. Assessments with respect to assumptions that market participants would make are inherently difficult to determine and use of different assumptions could result in material changes to these fair value measurements. The use of significant, unobservable inputs would be described in Note 12, *"Fair Value,"* to the Condensed Consolidated Financial Statements.

In estimating the fair values for investment securities the Company believes that independent, third-party market prices are the best evidence of exit price and where available, estimates are based on such prices. If such third-party market prices are not available on the exact securities owned, fair values are based on the market prices of similar instruments, independent pricing service estimates or are estimated using industry-standard or proprietary models whose inputs may be unobservable. When market observable data is not available, the valuation of financial instruments becomes more subjective and involves substantial judgment. The need to use unobservable inputs generally results from the lack of market liquidity for certain types of loans and securities, which results in diminished observability of both actual trades and assumptions that would otherwise be available to value these instruments.

Income Taxes. The Company must make estimates and judgments in determining income tax expense for financial statement purposes. The estimates and judgments occur in the calculation of tax credits, benefits, and deductions, in the calculation of certain tax assets and liabilities that arise from differences in the timing of recognition of revenue and expense for tax and financial statement purposes. Significant changes in these estimates may result in an increase or decrease to the Company's tax provision in a subsequent period.

The Company must assess the likelihood that it will be able to recover its deferred tax assets. If recovery is not likely, it must increase the provision for taxes by recording a valuation allowance against the deferred tax assets that it estimates will not ultimately be recoverable. The Company believes that it will ultimately recover the deferred tax assets recorded in its consolidated balance sheets. However, should there be a change in the Company's ability to recover its deferred tax assets, the tax provision would increase in the period in which it has determined that the recovery was not likely.

Item 3. ***Quantitative and Qualitative Disclosures about Market Risk.***

There have been no material changes in the market risk information previously disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2011. See Form 10-K, Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations — Financial Condition — Interest Rate Sensitivity and Liquidity."

Item 4. ***Controls and Procedures.***

Evaluation of Disclosure Controls and Procedures. As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of its management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")) were effective as of the end of the period covered by this report.

Changes in Internal Control over Financial Reporting. There were no changes in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II

OTHER INFORMATION

Item 1. ***Legal Proceedings.***

The Company is involved in various litigation that arises from time to time in the normal course of business. In the opinion of management, after consultation with its legal counsel, such litigation is not expected to have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

Item 1A. ***Risk Factors.***

There have been no material changes in the risk factors previously described under "Item 1A. Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2011 filed with the Securities and Exchange Commission on March 19, 2012, as updated by the risk factors previously disclosed under "Item 1A. Risk Factors" in the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012 filed with the Securities and Exchange Commission on May 15, 2012.

Item 2. ***Unregistered Sales of Equity Securities and Use of Proceeds.***

The following table provides information with respect to purchases made by or on behalf of the Company or any "affiliated purchaser" (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934), of the Company's common stock during the three months ended September 30, 2012:

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan (2)	Maximum Number of Shares That May Yet Be Purchased Under the Plan (2)
July 1, 2012 to July 31, 2012	1,997	$ 10.56	N/A	N/A
Total	1,997	$ 10.56	N/A	N/A

(1) All shares of common stock reported in the table above were repurchased by the Company at the fair market value of the Company's common stock in connection with the satisfaction of tax withholding obligations under restricted stock agreements between the Company and certain key employees and directors.

(2) The Company has no publicly announced plans or programs.

Item 3. ***Defaults Upon Senior Securities.***

Not applicable

Item 4. ***Mine Safety Disclosures.***

Not applicable

Item 5. ***Other Information.***

Not applicable

Item 6. ***Exhibits.***

Exhibit Number	Identification of Exhibit
3.1	Amended and Restated Articles of Incorporation of the Company (incorporated herein by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-1 (Registration No. 333-62667) (the "Registration Statement")).
3.2	Articles of Amendment to Amended and Restated Articles of Incorporation of the Company (incorporated herein by reference to Exhibit 3.2 to the Company’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2008).
3.3	Statement of Designations establishing the terms of the Series A Preferred Stock of the Company (incorporated herein by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on January 21, 2009).
3.4	Amended and Restated Bylaws of the Company (incorporated herein by reference to Exhibit 3.1 to the Company’s Current Report on Form 8-K filed on November 19, 2007).
4.1	Specimen form of certificate evidencing the Common Stock (incorporated herein by reference to Exhibit 4 to the Registration Statement).
4.2	Warrant, dated January 16, 2009, to purchase 771,429 shares of the Company's Common Stock (incorporated herein by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on January 21, 2009).
11	Computation of Earnings Per Common Share, included as Note 5 to the unaudited Condensed Consolidated Financial Statements of this Form 10-Q.
31.1*	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
31.2*	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
32.1**	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101*	Interactive Data File.

* Filed herewith.
** Furnished herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

METROCORP BANCSHARES, INC.

Date: November 9, 2012

By: /s/ George M. Lee
George M. Lee
Executive Vice Chairman, President and
Chief Executive Officer (principal executive officer)

Date: November 9, 2012

By: /s/ David C. Choi
David C. Choi
Chief Financial Officer (principal financial officer/
principal accounting officer)

EXHIBIT INDEX

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3.2	Articles of Amendment to Amended and Restated Articles of Incorporation of the Company (incorporated herein by reference to Exhibit 3.2 to the Company’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2008).
3.3	Statement of Designations establishing the terms of the Series A Preferred Stock of the Company (incorporated herein by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on January 21, 2009).
3.4	Amended and Restated Bylaws of the Company (incorporated herein by reference to Exhibit 3.1 to the Company’s Current Report on Form 8-K filed on November 19, 2007).
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31.1*	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
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101*	Interactive Data File.

* Filed herewith.
** Furnished herewith.

Exhibit 31.1

Certification Pursuant to Rule 13a – 14(a) of the Securities Exchange Act of 1934, as amended

I, George M. Lee, certify that:

1. I have reviewed this quarterly report on Form 10-Q of MetroCorp Bancshares, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2012

/s/ George M. Lee

George M. Lee
Executive Vice Chairman, President
and Chief Executive Officer

Exhibit 31.2

Certification Pursuant to Rule 13a – 14(a) of the Securities Exchange Act of 1934, as amended

I, David C. Choi, certify that:

1. I have reviewed this quarterly report on Form 10-Q of MetroCorp Bancshares, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2012

/s/ David C. Choi

David C. Choi
Chief Financial Officer

Exhibit 32.1

Certification of the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the quarterly report of MetroCorp Bancshares, Inc. (the "Company") on Form 10-Q for the period ending September 30, 2012 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, George M. Lee, Executive Vice Chairman, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and operating results of the Company.

/s/ George M. Lee

George M. Lee
Executive Vice Chairman, President
and Chief Executive Officer
November 9, 2012

Exhibit 32.2

Certification of the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the quarterly report of MetroCorp Bancshares, Inc. (the "Company") on Form 10-Q for the period ending September 30, 2012 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David C. Choi, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and operating results of the Company.

/s/ David C. Choi

David C. Choi
Chief Financial Officer
November 9, 2012