PACWEST BANCORP
Form 10-K
March 03, 2014

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ý **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2013

OR

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

Commission file number 00-30747

PACWEST BANCORP

(Exact Name of Registrant as Specified in Its Charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	**33-0885320** (I.R.S. Employer Identification No.)
10250 Constellation Blvd., Suite 1640 **Los Angeles, California** (Address of Principal Executive Offices)	**90067** (Zip Code)

Registrant's telephone number, including area code: **(310) 286-1144**

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered

Common stock, $.01 par value per share	The Nasdaq Stock Market, LLC

Securities registered pursuant to Section 12(g) of the Act: **None**

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

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

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 ý No o

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 ý No o

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

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

Large Accelerated filer ý	Accelerated filer o	Non-Accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Act.) Yes o No ý

As of June 30, 2013, the aggregate market value of the voting common stock held by non-affiliates of the registrant, computed by reference to the average high and low sales prices on The Nasdaq Global Select Market as of the close of business on June 28, 2013, was approximately $1.2 billion. Registrant does not have any nonvoting common equities.

As of February 24, 2014, there were 44,690,144 shares of registrant's common stock outstanding, excluding treasury shares and 1,087,436 shares of unvested restricted stock.

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Items 10, 11, 12, 13 and 14 of Part III of this Annual Report on Form 10-K will be found in the Company's definitive proxy statement for its 2014 Annual Meeting of Stockholders, to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended, and such information is incorporated herein by this reference.

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PACWEST BANCORP

2013 ANNUAL REPORT ON FORM 10-K

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PART I

ITEM 1. BUSINESS

General

PacWest Bancorp is a bank holding company registered under the Bank Holding Company Act of 1956, as amended. Our principal business is to serve as the holding company for our Los Angeles-based wholly-owned banking subsidiary, Pacific Western Bank, which we refer to as Pacific Western or the Bank. When we say "we," "our" or the "Company," we mean the Company on a consolidated basis with the Bank. When we refer to "PacWest" or to the holding company, we are referring to the parent company on a stand-alone basis.

PacWest Bancorp was formerly known as First Community Bancorp, which was organized on October 22, 1999 as a California corporation. At a special meeting of the Company's stockholders held on April 23, 2008, the stockholders approved the reincorporation of the Company in Delaware from California and the change of the Company's name to PacWest Bancorp from First Community Bancorp. The reincorporation became effective on May 14, 2008. In connection with the reincorporation and name change, the Company also changed its ticker symbol on the NASDAQ Global Select Market to "PACW."

Recent Transactions

CapitalSource Merger Announcement

On July 22, 2013, PacWest announced the signing of a definitive agreement and plan of merger (the "Agreement") whereby PacWest and CapitalSource, Inc. ("CapitalSource") will merge in a transaction valued at approximately $2.8 billion based on the closing price of PacWest common stock on February 13, 2014 of $40.11. The combined company will be called PacWest Bancorp. As part of the merger, CapitalSource Bank, a wholly-owned subsidiary of CapitalSource, will merge with and into Pacific Western, and the combined subsidiary bank will be called Pacific Western Bank. The CapitalSource national lending operation will continue to do business under the name CapitalSource as a division of Pacific Western Bank.

Under the terms of the Agreement, CapitalSource shareholders will receive $2.47 in cash and 0.2837 shares of PacWest common stock for each share of CapitalSource common stock. The total value of the CapitalSource per share merger consideration was $13.85 based on the closing price of PacWest common stock on February 13, 2014 of $40.11.

As of December 31, 2013, on a pro forma consolidated basis, the combined company would have had approximately $15.4 billion in assets with 94 branches throughout California. The combined institution would be the 6th largest publicly-owned bank headquartered in California, and the 8th largest commercial bank headquartered in California (out of more than 214 financial institutions in the state).

We currently expect to receive final regulatory approval in the first quarter of 2014 and to close the merger on April 1, 2014.

First California Financial Group Acquisition

On May 31, 2013, we completed the acquisition of First California Financial Group, Inc., or FCAL, following receipt of shareholder approval from both institutions and all required regulatory approvals. As part of the acquisition, First California Bank, or FCB, a wholly-owned subsidiary of FCAL, merged with and into Pacific Western.

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In the FCAL acquisition, each share of FCAL common stock was converted into the right to receive 0.2966 of a share of PacWest common stock. The exchange ratio was calculated based on the volume-weighted average share price of PacWest common stock for the 20 consecutive trading days ending on the second full trading day prior to the receipt of the last of the regulatory approvals required under the merger agreement. PacWest issued an aggregate of approximately 8.4 million shares of PacWest common stock to FCAL stockholders. In addition, 1,094,000 shares of FCAL common stock previously owned by PacWest at a cost of $4.1 million were cancelled in the transaction. These shares were carried in our securities available-for-sale portfolio at their estimated market value with their unrealized gain of $5.2 million included in stockholders' equity at May 31, 2013. Under acquisition accounting, this unrealized gain was recognized in earnings. Based on the closing price of PacWest's common stock on May 31, 2013 of $28.83 per share, the aggregate consideration paid to FCAL common stockholders, including the 1,094,000 shares of FCAL common stock owned by us and cancelled in the merger, was $251.6 million. The application of the acquisition method of accounting resulted in goodwill of $129.1 million. All of the recognized goodwill is expected to be non-deductible for tax purposes.

FCB was a full-service commercial bank headquartered in Westlake Village, California. FCB provided a full range of banking services, including revolving lines of credit, term loans, commercial real estate loans, construction loans, consumer loans and home equity loans to individuals, professionals, and small to mid-sized businesses. FCB operated 15 branches throughout Southern California in the Los Angeles, Orange, Riverside, San Bernardino, San Diego, Ventura, and San Luis Obispo Counties. We made this acquisition to expand our presence in Southern California. We completed the conversion and integration of the FCB branches to PWB's operating platform in June 2013 and as a result, we added seven locations to our branch network.

2012 Transactions

Sale of Branches

On September 21, 2012, Pacific Western completed the sale of 10 branches. The branches were located in Los Angeles, San Bernardino, Riverside, and San Diego Counties. The branch sale resulted in the transfer of $125.2 million of deposits; no loans were sold in this transaction. The buyer paid a blended deposit premium of 2.5% and we recognized a net gain of $297,000 on this transaction.

American Perspective Bank Acquisition

On August 1, 2012, Pacific Western completed the acquisition of American Perspective Bank, or APB, previously headquartered in San Luis Obispo, California. Pacific Western acquired all of the outstanding common stock of APB for $58.1 million in cash and APB was merged with and into Pacific Western; we refer to this transaction as the APB acquisition. APB operated two branches located in San Luis Obispo and Santa Maria, California, and a loan production office located in Paso Robles, California, which has since been converted to a full-service branch. The APB acquisition strengthened our presence in the Central Coast region.

Celtic Capital Corporation Acquisition

On April 3, 2012, Pacific Western completed the acquisition of Celtic Capital Corporation, or Celtic, an asset-based lending company based in Santa Monica, California. Pacific Western acquired all of the capital stock of Celtic for $18 million in cash and Celtic became a wholly-owned subsidiary of Pacific Western; we refer to this transaction as the Celtic acquisition. Celtic focuses on providing asset-based loans to borrowers across the United States for amounts generally up to $5 million. The Celtic acquisition diversified our loan portfolio, expanded our product lines, and deployed excess liquidity into higher yielding assets.

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Pacific Western Equipment Finance Acquisition

On January 3, 2012, Pacific Western completed the acquisition of Pacific Western Equipment Finance (formerly known as Marquette Equipment Finance, and which we refer to as EQF), an equipment leasing company based in Midvale, Utah. Pacific Western acquired all of the capital stock of EQF for $35 million in cash and EQF became a division of Pacific Western; we refer to this transaction as the EQF acquisition. EQF focuses on providing equipment and specialty leasing to customers across the United States for amounts up to $50 million. The EQF acquisition diversified our lending portfolio, expanded our product lines, and deployed excess liquidity into higher yielding assets.

See " Strategic Evolution and Acquisition Strategy," "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Overview," and Note 4, *Acquisitions*, and Note 5, *Goodwill and Other Intangible Assets*, of the Notes to Consolidated Financial Statements contained in "Item 8. Financial Statements and Supplementary Data" for further information regarding recent transactions.

Banking Business

Pacific Western is a full-service commercial bank offering a broad range of banking products and services including: accepting demand, money market, and time deposits; originating loans, including commercial, real estate construction, SBA guaranteed and consumer loans; originating equipment finance leases; and providing other business-oriented products. Our operations are primarily located in Southern California extending from San Diego County to California's Central Coast; we also operate three banking offices in the San Francisco Bay area, a leasing operation based in Utah, and asset-based lending operations based in Arizona as well as San Jose and Santa Monica, California. The Bank focuses on conducting business with small to medium-sized businesses in our marketplace and the owners and employees of those businesses. The majority of our loans are secured by the real estate collateral of such businesses. Our asset-based lending function operates in Arizona, California, Texas, Colorado, Minnesota, and the Pacific Northwest. Our equipment leasing function has lease receivables in 45 states.

Special services, including international banking services, multi-state deposit services and investment services, and requests for services beyond our current service area or product offerings are arranged through correspondent banks. The Bank also offers remote deposit capture services and issues ATM and debit cards. The Bank has a network of branded ATMs and offers access to ATM networks through other major service providers. We provide access to customer accounts via a 24-hour seven day a week toll-free automated telephone customer service and secure online banking services.

We are committed to providing premier, relationship-based community banking in the California markets we serve, meeting the credit needs of established businesses in our marketplace, as well as extending credit to growing businesses that may not yet meet the credit standards of the Bank through tightly controlled asset-based lending and factoring of accounts receivable. We compete actively for deposits, and emphasize solicitation of noninterest-bearing deposits. In managing the top line of our business, we focus on making quality loans and gathering low-cost deposits to maximize our net interest margin. The strategy for serving our target markets is the delivery of a finely-focused set of value-added products and services that satisfy the primary needs of our customers, emphasizing superior service and relationships over transaction volume or low pricing.

We generate our revenue primarily from interest received on loans and leases and, to a lesser extent, from interest received on investment securities, and fees received in connection with deposit services, extending credit, and other services offered, including foreign exchange services. Our major operating expenses are the interest paid by the Bank on deposits and borrowings, compensation and general operating expenses. The Bank relies on a foundation of locally generated and relationship-

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based deposits. The Bank has a relatively low cost of funds due to a high percentage of noninterest-bearing and low cost deposits.

Our operations, similar to other financial institutions with operations predominantly focused in Southern California, are significantly influenced by economic conditions in Southern California, including the strength of the real estate market, the fiscal and regulatory policies of the federal and state governments and the regulatory authorities that govern financial institutions. See "Supervision and Regulation." Through our offices located in Northern California, our asset-based lending operations with production and marketing offices located in Arizona, Northern California, Texas, Colorado, Minnesota and the Pacific Northwest, and our equipment leasing operations based in Utah, we are also subject to the economic conditions affecting these markets.

Lending Activities

Through the Bank, the Company concentrates its lending activities in five principal areas:

(1) ***Real Estate Loans.*** Real estate loans are comprised of construction loans, miniperm loans collateralized by first or junior deeds of trust on specific commercial properties and equity lines of credit. The properties collateralizing real estate loans are principally located in our primary market areas of Los Angeles, Orange, San Bernardino, Riverside, San Diego, Ventura, Santa Barbara and San Luis Obispo counties in California and the neighboring communities. Construction loans are comprised of loans on commercial, residential and income producing properties that generally have terms of less than two years and typically bear an interest rate that floats with the Bank's base rate or another established index. Miniperm loans finance the purchase and/or ownership of commercial properties, including owner-occupied and income producing properties. Miniperm loans are generally made with an amortization schedule ranging from 15 to 25 years with a lump sum balloon payment due in one to ten years. Equity lines of credit are revolving lines of credit collateralized by junior deeds of trust on residential real estate properties. They generally bear a rate of interest that floats with the Bank's base rate or the prime rate and have maturities of ten years. From time to time, we purchase participation interests in loans originated by other financial institutions. These loans are subject generally to the same underwriting criteria and approval process as loans originated directly by us.

The Bank's real estate portfolio is subject to certain risks, including, but not limited to: (i) the effects of economic downturns in the Southern California economy and in general; (ii) interest rate increases; (iii) reduction in real estate values in Southern California and in general; (iv) increased competition in pricing and loan structure; (v) the borrower's ability to refinance or payoff the balloon or line of credit at maturity; and (vi) environmental risks, including natural disasters. In addition to the foregoing, construction loans are also subject to project specific risks including, but not limited to: (a) construction costs being more than anticipated; (b) construction taking longer than anticipated; (c) failure by developers and contractors to meet project specifications; (d) disagreement between contractors, subcontractors and developers; (e) demand for completed projects being less than anticipated; (f) buyers being unable to secure financing; and (g) loss through foreclosure.

When underwriting loans, we strive to reduce the exposure to such risks by (i) reviewing each loan request and renewal individually, (ii) using a dual signature approval system for the approval of each loan request for loans over a certain dollar amount, (iii) adhering to written loan policies, including, among other factors, minimum collateral requirements, maximum loan-to-value ratio requirements, cash flow requirements and personal guarantees, (iv) obtaining independent third party appraisals which are reviewed by the Bank's appraisal department, (v) obtaining external independent credit reviews, (vi) evaluating concentrations as a percentage of capital and loans, and (vii) conducting environmental reviews, where appropriate. With respect to construction loans, in addition to the foregoing, we attempt to mitigate project specific risks by: (a) implementing a controlled disbursement process for loan proceeds in accordance with an agreed upon schedule; (b) conducting project site visits; and

(c) adhering to release-price schedules to ensure the prices for which newly-built units to be sold are sufficient to repay the Bank. The risks related to buyer inability to secure financing and loss through foreclosure are not controllable. We review each loan request on the basis of our ability to recover both principal and interest in view of the inherent risks.

(2) ***Commercial Loans.*** Commercial loans, both domestic and foreign, are made to finance operations, to provide working capital, or for specific purposes such as to finance the purchase of assets, equipment or inventory. Since a borrower's cash flow from operations is generally the primary source of repayment, our policies provide specific guidelines regarding required debt coverage and other important financial ratios. Commercial loans include lines of credit and commercial term loans. Lines of credit are extended to businesses or individuals based on the financial strength and integrity of the borrower and guarantor(s) and generally (with some exceptions) are collateralized by short-term assets such as accounts receivable, inventory, equipment or real estate and have a maturity of one year or less. Such lines of credit generally bear an interest rate that floats with the Bank's base rate. Commercial term loans are typically made to finance the acquisition of fixed assets, refinance short-term debt originally used to purchase fixed assets or, in rare cases, to finance the purchase of businesses. Commercial term loans generally have terms of one to five years. They may be collateralized by the asset being acquired or other available assets and bear interest rates which either float with the Bank's base rate, LIBOR or another established index or remain fixed for the term of the loan.

The Bank's portfolio of commercial loans is subject to certain risks, including, but not limited to: (i) the effects of economic downturns in the Southern California economy; (ii) interest rate increases; (iii) deterioration of the value of the underlying collateral; (iv) increased competition in pricing and loan structure; (v) the deterioration of a borrower's or guarantor's financial capabilities: and (vi) environmental risks, including natural disasters, which can negatively affect a borrower's business. We strive to reduce the exposure to such risks through: (a) reviewing each loan request and renewal individually; (b) using a dual signature approval system; (c) adhering to written loan policies; and (d) obtaining external independent credit reviews. In addition, loans based on short-term asset values and factoring arrangements are monitored on a daily, weekly, monthly or quarterly basis and may include lockbox or control account arrangements. In general, the Bank receives and reviews financial statements and other documents of borrowing customers on an ongoing basis during the term of the relationship and responds to any deterioration noted.

(3) ***SBA Loans.*** SBA loans are made through programs designed by the federal government to assist the small business community in obtaining financing from financial institutions that are given government guarantees as an incentive to make the loans. Our SBA loans fall into two categories, loans originated under the SBA's 7(a) Program ("7(a) Loans") and loans originated under the SBA's 504 Program ("504 Loans"). SBA 7(a) Loans are commercial business loans generally made for the purpose of purchasing real estate to be occupied by the business owner, providing working capital, and/or purchasing equipment, accounts receivable or inventory. SBA 504 Loans are collateralized by commercial real estate and are generally made to business owners for the purpose of purchasing or improving real estate or equipment for use in their business.

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

The Bank's portfolio of SBA loans is subject to certain risks, including, but not limited to: (i) the effects of economic downturns on the Southern California economy; (ii) interest rate increases; (iii) deterioration of the value of the underlying collateral; and (iv) deterioration of a borrower's or guarantor's financial capabilities. We strive to reduce the exposure of such risks through: (a) reviewing each loan request and renewal individually; (b) using a dual signature approval system; (c) adhering to written loan policies; (d) adhering to SBA written policies and regulations; (e) obtaining independent third party appraisals which are reviewed by the Bank's appraisal department; and (f) obtaining external independent credit reviews. In addition, SBA loans normally require monthly installment payments of principal and interest and therefore are continually monitored for past due conditions. In general, the Bank receives and reviews financial statements and other documents of borrowing customers on an ongoing basis during the term of the relationship and responds to any deterioration noted.

(4) ***Consumer Loans.*** Consumer loans include personal loans, auto loans, boat loans, home improvement loans, revolving lines of credit, other loans typically made by banks to individual borrowers, and purchased 95% participation interests in student loans originated and serviced by a third-party lender. The Bank does not currently originate first trust deed home mortgage loans. The student loans that we purchase are not guaranteed by any program of the U.S. Government, and are made to refinance the outstanding student loan debt of borrowers who meet certain underwriting criteria, and having terms that fully amortize the debt over five, ten or fifteen years. The Bank's consumer loan portfolio is subject to certain risks, including: (i) amount of credit offered to consumers in the market; (ii) interest rate increases; and (iii) (with the exception of the purchased student loan portfolio), consumer bankruptcy laws which allow consumers to discharge certain debts. The Bank's student loan participation interests are also subject to further risks, including (i) the ability of the originator and sub-servicer to originate and service the loans in accordance with the terms of the loan purchase agreement; and (ii) compliance with consumer lending regulations and oversight by the Consumer Financial Protection Bureau. We strive to reduce the exposure to such risks through the direct approval of all internally originated consumer loans by: (a) reviewing each loan request and renewal individually; (b) using a dual signature approval system; (c) adhering to written credit policies; and (d) obtaining external independent credit reviews, and for all purchased consumer loan participation interests through the monitoring of the performance of the originator and sub-servicer and the enforcement of our rights under the loan purchase agreement.

(5) ***Leases.*** Leases include leases and lease financing transactions. Leases are originated by our in-house sales force and purchased through a network of brokers. The types of equipment leased include; (i) technology; (ii) manufacturing; (iii) software; (iv) transportation; and (v) mining. The main industries served with our lease portfolio are; (i) finance and insurance; (ii) health care; (iii) manufacturing; and (iv) transportation. Leases are fixed-rate contracts with a one to six year term and any back-end exposure being secured with documented options controlled by the Bank. No residual risk is taken on the future value of the leased equipment. Lease transactions are done with lessees that meet our credit criteria based on their cash flow and ability to make their lease payments.

The Bank's lease portfolio is subject to certain risks, including but not limited to: (i) the effects of economic downturns in the national economy; (ii) interest rate increases; and, (iii) the deterioration of lessees' financial capabilities. When underwriting leases, we strive to reduce the exposure to such risks by: (i) reviewing each lease request individually; (ii) using a dual signature approval system; (iii) following the guidelines of our credit policies, with special attention to cash flow and profitability; and (iv) diversifying our exposure between industries, equipment types, and geographic locations in the United States.

Business Concentrations

One of the ways that we present our loans and leases is by "covered" and "non-covered" loan categories. Covered loans represent loans covered by loss sharing agreements with the Federal Deposit Insurance Corporation ("FDIC") for which we will be reimbursed for a substantial portion of any future losses under the terms of the agreements. Non-covered loans and leases represent loans and leases not covered by FDIC loss sharing agreements.

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The following tables present the composition of our loan portfolio by segment and class, showing the non-covered and covered components, as of the dates indicated:

	December 31, 2013					
	Non-Covered Loans and Leases		Covered Loans		Total Loans and Leases	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
	(Dollars in thousands)					
Real estate mortgage:						
Hospitality	$ 179,340	5%	$ 2,395	1%	$ 181,735	4%
SBA 504	45,166	1%			45,166	1%
Other	2,153,519	56%	415,578	92%	2,569,097	60%
Total real estate mortgage	2,378,025	62%	417,973	93%	2,795,998	65%
Real estate construction:						
Residential	58,881	1%	17		58,898	1%
Commercial	142,842	4%	17,777	4%	160,619	4%
Total real estate construction	201,723	5%	17,794	4%	219,517	5%
Total real estate loans	2,579,748	67%	435,767	97%	3,015,515	70%
Commercial:						
Collateralized	581,097	15%	6,934	1%	588,031	13%
Unsecured	150,985	4%	2,895	1%	153,880	4%
Asset-based	202,428	5%			202,428	5%
SBA 7(a)	28,642	1%			28,642	1%
Total commercial	963,152	25%	9,829	2%	972,981	23%
Leases	269,769	7%			269,769	6%
Consumer	52,248	1%	2,822	1%	55,070	1%
Total gross loans and leases	$ 3,864,917	100%	$ 448,418	100%	$ 4,313,335	100%

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	December 31, 2012					
	Non-Covered Loans and Leases		Covered Loans		Total Loans and Leases	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
	(Dollars in thousands)					
Real estate mortgage:						
Hospitality	$ 181,144	6%	$ 2,644	1%	$ 183,788	5%
SBA 504	54,158	2%			54,158	1%
Other	1,684,008	55%	502,256	92%	2,186,264	61%
Total real estate mortgage	1,919,310	63%	504,900	93%	2,424,210	67%
Real estate construction:						
Residential	48,629	1%	5,973	1%	54,602	1%
Commercial	81,330	3%	18,672	4%	100,002	3%
Total real estate construction	129,959	4%	24,645	5%	154,604	4%
Total real estate loans	2,049,269	67%	529,545	98%	2,578,814	71%
Commercial:						
Collateralized	458,206	15%	12,655	2%	470,861	13%
Unsecured	80,381	2%	529		80,910	2%
Asset-based	239,430	8%			239,430	7%
SBA 7(a)	25,325	1%			25,325	1%
Total commercial	803,342	26%	13,184	2%	816,526	23%
Leases	174,373	6%			174,373	5%
Consumer	22,521	1%	598		23,119	1%
Total gross loans and leases	$ 3,049,505	100%	$ 543,327	100%	$ 3,592,832	100%

No individual or single group of related accounts is considered material in relation to our total assets or deposits of the Bank, or in relation to the overall business of the Company. However, approximately 70% of our total loan and lease portfolio at December 31, 2013 consisted of real estate loans, including miniperm loans, SBA 504 loans, and construction loans. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Financial Condition Non-Covered Loans," and also "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Financial Condition Covered Loans." Since our business activities are currently focused primarily in Southern California, with the majority of our business concentrated in Los Angeles, Orange, Riverside, San Bernardino, San Diego, Ventura, Santa Barbara and San Luis Obispo Counties, our results of operations and financial condition are dependent upon the general trends in the Southern California economies and, in particular, the residential and commercial real estate markets. The concentration of our operations in Southern California exposes us to greater risk than other banking companies with a wider geographic base in the event of catastrophes, such as earthquakes, fires and floods in this region.

Strategic Evolution and Acquisition Strategy

The Company was organized on October 22, 1999 as a California corporation for the purpose of becoming a bank holding company and to acquire all the outstanding capital stock of Rancho Santa Fe National Bank. Since that time, we have grown through a series of business acquisitions.

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The following chart summarizes the acquisitions completed since our inception, some of which are described in more detail below. See also Note 4, *Acquisitions*, of the Notes to Consolidated Financial Statements contained in "Item 8. Financial Statements and Supplementary Data" for further details regarding recent acquisitions.

	Date	Institution/Company Acquired
(1)	May 2000	Rancho Santa Fe National Bank
(2)	May 2000	First Community Bank of the Desert
(3)	January 2001	Professional Bancorp, Inc.
(4)	October 2001	First Charter Bank
(5)	January 2002	Pacific Western National Bank
(6)	March 2002	W.H.E.C., Inc.
(7)	August 2002	Upland Bank
(8)	August 2002	Marathon Bancorp
(9)	September 2002	First National Bank
(10)	January 2003	Bank of Coronado
(11)	August 2003	Verdugo Banking Company
(12)	March 2004	First Community Financial Corporation
(13)	April 2004	Harbor National Bank
(14)	August 2005	First American Bank
(15)	October 2005	Pacific Liberty Bank
(16)	January 2006	Cedars Bank
(17)	May 2006	Foothill Independent Bancorp
(18)	October 2006	Community Bancorp Inc.
(19)	June 2007	Business Finance Capital Corporation
(20)	November 2008	Security Pacific Bank (deposits only)[(1)]
(21)	August 2009	Affinity Bank[(1)]
(22)	August 2010	Los Padres Bank[(1)]
(23)	January 2012	Pacific Western Equipment Finance (formerly Marquette Equipment Finance)
(24)	April 2012	Celtic Capital Corporation
(25)	August 2012	American Perspective Bank
(26)	May 2013	First California Financial Group, Inc.[(2)]

(1) FDIC assisted.

(2) Includes assets covered by two FDIC loss sharing agreements.

Our acquisitions focused generally on increasing our banking presence in California and increasing earning assets. In addition to the acquisitions mentioned previously under " Recent Transactions," we made two FDIC-assisted banking acquisitions, Affinity Bank ("Affinity") and Los Padres Bank ("Los Padres'), which expanded our operations and branch banking network in California. For information regarding the Affinity and Los Padres acquisitions, see "Item 8. Management's Discussion and Analysis of Financial Condition and Results of Operations Overview FDIC-Assisted Acquisitions."

Competition

The banking business in California, and specifically in the Bank's primary service areas, is highly competitive with respect to originating loans, acquiring deposits and providing other banking services. The market is dominated by commercial banks in Southern California with assets between $500 million and $25 billion, including ourselves, and a few banking giants with a large number of offices and full-service operations over a wide geographic area. In recent years, competition has increased from institutions not subject to the same regulatory restrictions as domestic banks and bank holding companies. Those competitors include savings and loan associations, brokerage houses, insurance companies, mortgage companies, credit unions, credit card companies, and other financial and non-financial institutions and entities.

Economic factors, along with legislative and technological changes, will have an ongoing impact on the competitive environment within the financial services industry. We work to anticipate and adapt to dynamic competitive conditions whether it is by developing and marketing innovative products and services, adopting or developing new technologies that differentiate our products and services, cross marketing, or providing highly personalized banking services. We strive to distinguish ourselves from other community banks and financial services providers in our marketplace by providing an extremely high level of service to enhance customer loyalty and to attract and retain business. However, we can provide no assurance as to the effectiveness of these efforts on our future business or results of operations, as to our continued ability to anticipate and adapt to changing conditions, and as to sufficiently improving our services and/or banking products in order to successfully compete in our primary service areas.

Employees

As of January 31, 2014, we had 1,110 full time equivalent employees.

Financial and Statistical Disclosure

Certain of our statistical information are presented within "Item 6. Selected Financial Data," "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," and "Item 7A. Qualitative and Quantitative Disclosure About Market Risk." This information should be read in conjunction with the consolidated financial statements contained in "Item 8. Financial Statements and Supplementary Data."

Supervision and Regulation

General

The banking and financial services businesses in which we engage are highly regulated. Such regulation is intended, among other things, to protect the interests of customers, including depositors, and the federal deposit insurance fund, as well as to minimize risk to the banking system as a whole. These regulations are not, however, generally charged with protecting the interests of our stockholders or creditors. Described below are the material elements of selected laws and regulations applicable to our Company. The descriptions are not intended to be complete and are qualified in their entirety by reference to the full text of the statutes and regulations described. Changes in applicable law or regulations, and in their application by regulatory agencies, cannot be predicted, but they may have a material effect on the business and results of our Company.

The commercial banking business is also influenced by the monetary and fiscal policies of the federal government and the policies of the Board of Governors of the Federal Reserve System, or FRB. The FRB implements national monetary policies (with the dual mandate of price stability and maximum employment) by its open-market operations in United States Government securities, by adjusting the required level of and paying interest on reserves for financial intermediaries subject to its reserve requirements and by varying the discount rates applicable to borrowings by depository institutions. The actions of the FRB in these areas influence the growth of bank loans, investments and deposits and also affect interest rates charged on loans and paid on deposits. Indirectly, such actions may also impact the ability of non-bank financial institutions to compete with the Bank. The nature and impact of any future changes in monetary policies cannot be predicted.

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The events of the past few years have led to numerous new laws in the United States and internationally for financial institutions. The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act" or "Dodd-Frank"), which was enacted in July 2010, significantly restructured the financial regulatory regime in the United States, including the creation of a new systemic risk oversight body, the Financial Stability Oversight Council (the "FSOC"). The FSOC oversees and coordinates the efforts of the primary U.S. financial regulatory agencies (including the FRB, the Securities and Exchange Commission ("SEC"), the Commodity Futures Trading Commission and the FDIC) in establishing regulations to address financial stability concerns. In addition to the systemic risk oversight framework implemented through the FSOC, the Dodd-Frank Act broadly affected the financial services industry by creating a resolution authority, mandating higher capital and liquidity requirements, requiring banks to pay increased fees to regulatory agencies, and establishing numerous other provisions aimed at strengthening the sound operation of the financial services sector. As discussed further throughout this section, many aspects of Dodd-Frank continue to be subject to rulemaking and will take effect over several additional years, making it difficult to anticipate the overall financial impact on PacWest or across the industry.

Bank Holding Company Regulation

As a bank holding company, PacWest is registered with and subject to regulation by the FRB under the Bank Holding Company Act of 1956, as amended, or the BHCA. FRB policy historically has required bank holding companies to act as a source of financial strength to their bank subsidiaries and to commit capital and financial resources to support those subsidiaries in circumstances where it might not otherwise do so. The Dodd-Frank Act codified this policy as a statutory requirement. Under this requirement, the Company is expected to commit resources to support the Bank, including at times when we may not be in a financial position to do so. Similarly, under the cross-guarantee provisions of the Federal Deposit Insurance Act, the FDIC can hold any FDIC-insured depository institution liable for any loss suffered or anticipated by the FDIC in connection with (i) the default of a commonly controlled FDIC-insured depository institution or (ii) any assistance provided by the FDIC to such a commonly controlled institution. Under the BHCA, we are subject to periodic examination by the FRB. We are also required to file with the FRB periodic reports of our operations and such additional information regarding the Company and its subsidiaries as the FRB may require. Pursuant to the BHCA, we are required to obtain the prior approval of the FRB before we acquire all or substantially all of the assets of any bank or ownership or control of voting shares of any bank if, after giving effect to such acquisition, we would own or control, directly or indirectly, more than 5 percent of such bank.

Under the BHCA, we may not engage in any business other than managing or controlling banks or furnishing services to our subsidiaries and such other activities that the FRB deems to be so closely related to banking as "to be a proper incident thereto." We are also prohibited, with certain exceptions, from acquiring direct or indirect ownership or control of more than 5 percent of the voting shares of any company unless the company is engaged in banking activities or the FRB determines that the activity is so closely related to banking as to be a proper incident to banking. The FRB's approval must be obtained before the shares of any such company can be acquired and, in certain cases, before any approved company can open new offices.

The BHCA and regulations of the FRB also impose certain constraints on the redemption or purchase by a bank holding company of its own shares of stock.

Additionally, bank holding companies that meet certain eligibility requirements prescribed by the BHCA and elect to operate as financial holding companies may engage in, or own shares in companies engaged in, a wider range of nonbanking activities, including securities and insurance activities and any other activity that the FRB, in consultation with the Secretary of the Treasury, determines by regulation or order is financial in nature, incidental to any such financial activity or complementary to any such financial activity and does not pose a substantial risk to the safety or soundness of depository institutions or the financial system generally. As of the date of this filing, we do not operate as a financial holding company.

Our earnings and activities are affected by legislation, by regulations and by local legislative and administrative bodies and by decisions of courts in the jurisdictions in which we and the Bank conduct business. For example, these activities include limitations on the ability of the Bank to pay dividends to us and our ability to pay dividends to our stockholders. It is the policy of the FRB that bank holding companies should pay cash dividends on common stock only out of income available over the past year and only if prospective earnings retention is consistent with the organization's expected future needs and financial condition. The policy provides that bank holding companies should not maintain a level of cash dividends that undermines the bank holding company's ability to serve as a source of strength to its banking subsidiaries. Various federal and state statutory provisions limit the amount of dividends that our subsidiary Bank can pay to us without regulatory approval.

In addition to these explicit limitations, the federal regulatory agencies have general authority to prohibit a banking subsidiary or bank holding company from engaging in an unsafe or unsound banking practice. Depending upon the circumstances, the agencies could take the position that paying a dividend would constitute an unsafe or unsound banking practice. Further, as discussed below under " Capital Requirements", a bank holding company, such as the Company, is required to maintain minimum ratios of Tier 1 capital and total capital to total risk-weighted assets, and a minimum ratio of Tier 1 capital to total adjusted quarterly average assets as defined in such regulations. The level of our capital ratios may affect our ability to pay dividends. See "Item 5. Market for Registrant's Common Equity and Related Stockholder Matters Dividends" and Note 20, *Dividend Availability and Regulatory Matters*, of the Notes to Consolidated Financial Statements contained in "Item 8. Financial Statements and Supplementary Data."

Banking subsidiaries of bank holding companies are also subject to certain restrictions imposed by federal law in dealings with their holding companies and other affiliates. Subject to certain exceptions set forth in the Federal Reserve Act, a bank can make a loan or extend credit to an affiliate, purchase or invest in the securities of an affiliate, purchase assets from an affiliate, accept securities of an affiliate as collateral for a loan or extension of credit to any person or company, issue a guarantee or accept letters of credit on behalf of an affiliate only if the aggregate amount of the above transactions of such subsidiary does not exceed 10 percent of such subsidiary's capital stock and surplus on an individual basis or 20 percent of such subsidiary's capital stock and surplus on an aggregate basis. Such transactions must be on terms and conditions that are consistent with safe and sound banking practices. A bank holding company and its subsidiaries generally may not purchase a "low-quality asset," as that term is defined in the Federal Reserve Act, from an affiliate. Such restrictions also prevent a holding company and its other affiliates from borrowing from a banking subsidiary of the holding company unless the loans are secured by collateral. The Dodd-Frank Act significantly expanded the coverage and scope of the limitations on affiliate transactions within a banking organization.

The FRB has cease and desist powers over parent bank holding companies and non-banking subsidiaries where the action of a parent bank holding company or its non-financial institutions represents an unsafe or unsound practice or violation of law. The FRB has the authority to regulate debt obligations, other than commercial paper, issued by bank holding companies by imposing interest ceilings and reserve requirements on such debt obligations.

The Dodd-Frank Act requires the federal financial regulatory agencies to adopt rules that prohibit banks and their affiliates from engaging in proprietary trading and investing in and sponsoring certain unregistered investment companies (defined as hedge funds and private equity funds). The statutory provision is commonly called the "Volcker Rule". On December 10, 2013, the federal financial regulatory agencies adopted final rules implementing the Volcker Rule and granted a blanket one-year extension of the Volcker Rule conformance period so that banking organizations have until July 21,

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2015 to fully comply with most requirements of the Volcker Rule. The final rules are highly complex, and many aspects of their application remain uncertain. We do not currently anticipate that the Volcker Rule will have a material effect on our operations since we do not engage in the businesses prohibited by the Volcker Rule. We may incur costs if we are required to adopt additional policies and systems to ensure compliance with the Volcker Rule, but any such costs are not expected to be material. Because many of the effects of the Volcker Rule may become apparent only over several years as the federal financial regulatory agencies apply the rule in practice, the precise financial impact of the rule on the Company, its customers or the financial industry more generally cannot currently be determined.

Capital Requirements

General Risk Based Capital Rules. The Company is subject to consolidated regulatory capital requirements administered by the FRB, and the Bank is subject to similar capital requirements administered by the FDIC. The Dodd-Frank Act applies the same leverage and risk-based capital requirements that apply to insured depository institutions to bank holding companies, such as the Company. The guidelines of the FRB and FDIC are intended to ensure that banking organizations have adequate capital given the risk levels of assets and off-balance sheet financial instruments. Under the guidelines, banking organizations are required to maintain minimum ratios of Tier 1 capital and total capital to total risk-weighted assets (including certain off-balance sheet items, such as letters of credit). For purposes of calculating the ratios, a banking organization's assets and some of its specified off-balance sheet commitments and obligations are assigned to various risk categories.

A depository institution's or holding company's capital, in turn, is classified in one of three tiers, depending on type:

Core Capital (Tier 1). Tier 1 capital includes common equity, retained earnings, qualifying non-cumulative perpetual preferred stock, a limited amount of qualifying cumulative perpetual stock at the holding company level, minority interests in equity accounts of consolidated subsidiaries, and qualifying trust preferred securities (subject to phase-out as described under " Basel III Capital Rules" below) less goodwill, most intangible assets and certain other assets.

Supplementary Capital (Tier 2). Tier 2 capital includes, among other things, perpetual preferred stock and trust preferred securities not meeting the Tier 1 definition, qualifying mandatory convertible debt securities, qualifying subordinated debt, and allowances for possible credit losses, subject to limitations.

Market Risk Capital (Tier 3). Tier 3 capital includes qualifying unsecured subordinated debt.

As a bank holding company, the Company currently is required to maintain Tier 1 capital and total capital equal to at least 4.0% and 8.0%, respectively, of its total risk-weighted assets (including various off-balance sheet items, such as letters of credit). The Bank is required to maintain equivalent capital levels under capital adequacy guidelines. In addition, as a depository institution, the Bank is subject to minimum capital ratios under the regulatory framework for prompt corrective action discussed under " Prompt Corrective Action."

Bank holding companies and banks are also required to comply with minimum leverage ratio requirements. The leverage ratio is the ratio of a banking organization's Tier 1 capital to its total adjusted quarterly average assets (as defined for regulatory purposes). Bank holding companies and FDIC-supervised banks, such as the Company and the Bank, respectively, are required to maintain a minimum leverage ratio of 4.0%, unless a different minimum is specified by an appropriate regulatory authority. In addition, for a depository institution to be considered "well capitalized" under the regulatory framework for prompt corrective action, its leverage ratio must be at least 5.0%.

Regulatory capital requirements limit the amount of deferred tax assets that may be included when determining the amount of regulatory capital. Deferred tax asset amounts in excess of the calculated limit are deducted from regulatory capital. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Capital Resources Capital" for further information on regulatory capital requirements, capital ratios, and deferred tax asset limits as of December 31, 2013 for Pacific Western and the Company.

The Company issued subordinated debentures to trusts that were established by us or entities we have acquired, which, in turn, issued trust preferred securities, which totaled $131.0 million at December 31, 2013. The Company includes in Tier 1 capital an amount of trust preferred securities equal to no more than 25% of the sum of all core capital elements, which is generally defined as shareholders' equity less goodwill, net of any related deferred income tax liability. At December 31, 2013, the amount of trust preferred securities included in Tier 1 capital was $131.0 million. While our existing trust preferred securities are currently grandfathered as Tier 1 capital under the Dodd-Frank Act, recently approved regulatory capital rules discussed further below under " Basel III Capital Rules" would phase them out of Tier 1 capital assuming the completion of the CapitalSource merger or any subsequent acquisition and that, upon the completion of any such transaction, the Company exceeds $15 billion in consolidated total assets. However, under such rules, trust preferred securities no longer included in Tier 1 capital may be included in Tier 2 capital on a permanent basis. If trust preferred securities are excluded from regulatory capital, we remain "well capitalized" at December 31, 2013.

The FDIC and FRB risk-based capital guidelines currently applicable to us are based upon the 1988 Capital Accord ("Basel I") of the Basel Committee on Banking Supervision (the "Basel Committee"). The Basel Committee is a committee of central banks and bank supervisors/regulators from the major industrialized countries that develops broad policy guidelines that each country's supervisors can use to determine the supervisory policies they apply. After working on revisions for a number of years, in June 2004, the Basel Committee released the final version of a proposed new capital framework, with an update in November 2005 ("Basel II"). Basel II proposes two approaches for setting capital standards for credit risk an internal ratings-based approach tailored to individual institutions' circumstances (which for many asset classes is itself broken into a "foundation" approach and an "advanced" or "A-IRB" approach, the availability of which is subject to additional restrictions) and a standardized approach that bases risk weightings on external credit assessments to a much greater extent than permitted in existing risk-based capital guidelines. Basel II also would set capital requirements for operational risk and refine the existing capital requirements for market risk exposures.

A definitive final rule for implementing the advanced approaches of Basel II in the United States, which applies only to internationally active banking organizations defined as those with consolidated total assets of $250 billion or more or consolidated on-balance sheet foreign exposures of $10 billion or more became effective on April 1, 2008. Other U.S. banking organizations may elect to adopt the requirements of this rule, subject to their meeting applicable qualification requirements.

The Company is not required to comply with Basel II and we have not adopted the Basel II approach.

Basel III Capital Rules. In July 2013, the Company's primary federal regulator, the FRB, and the Bank's primary federal regulator, the FDIC, approved final rules (the "New Capital Rules") establishing a new comprehensive capital framework for U.S. banking organizations. The New Capital Rules generally implement the Basel Committee on Banking Supervision's (the "Basel Committee") December 2010 final capital framework referred to as "Basel III" for strengthening international capital standards. The New Capital Rules substantially revise the risk-based capital requirements applicable to bank holding companies and their depository institution subsidiaries, including the Company and the Bank, as compared to the current U.S. general risk-based capital rules. The New Capital Rules revise the definitions and the components of regulatory capital, as well as address other issues affecting the numerator in banking institutions' regulatory capital ratios. The New Capital Rules

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also address asset risk weights and other matters affecting the denominator in banking institutions' regulatory capital ratios and replace the existing general risk-weighting approach, which was derived from the Basel Committee's 1988 "Basel I" capital accords, with a more risk-sensitive approach based, in part, on the "standardized approach" in the Basel Committee's 2004 "Basel II" capital accords. In addition, the New Capital Rules implement certain provisions of the Dodd-Frank Act, including the requirements of Section 939A to remove references to credit ratings from the federal agencies' rules. The New Capital Rules are effective for the Company and the Bank on January 1, 2015, subject to phase-in periods for certain of their components and other provisions.

Among other matters, the New Capital Rules: (i) introduce a new capital measure called "Common Equity Tier 1" ("CET1") and related regulatory capital ratio of CET1 to risk-weighted assets; (ii) specify that Tier 1 capital consists of CET1 and "Additional Tier 1 capital" instruments meeting certain revised requirements; (iii) mandate that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital; and (iv) expand the scope of the deductions from and adjustments to capital as compared to existing regulations. Under the New Capital Rules, for most banking organizations the most common form of Additional Tier 1 capital is non-cumulative perpetual preferred stock and the most common form of Tier 2 capital is subordinated notes and a portion of the allowance for loan and lease losses, in each case, subject to the New Capital Rules' specific requirements.

Pursuant to the New Capital Rules, the minimum capital ratios as of January 1, 2015 will be as follows:

- 4.5% CET1 to risk-weighted assets;
- 6.0% Tier 1 capital (that is, CET1 *plus* Additional Tier 1 capital) to risk-weighted assets;
- 8.0% Total capital (that is, Tier 1 capital *plus* Tier 2 capital) to risk-weighted assets; and
- 4% Tier 1 capital to average consolidated assets as reported on consolidated financial statements (known as the "leverage ratio").

The New Capital Rules also introduce a new "capital conservation buffer", composed entirely of CET1, on top of these minimum risk-weighted asset ratios. The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of CET1 to risk-weighted assets above the minimum but below the capital conservation buffer will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall. Thus, when fully phased-in on January 1, 2019, the Company and the Bank will be required to maintain such additional capital conservation buffer of 2.5%, effectively resulting in minimum ratios of (i) CET1 to risk-weighted assets of at least 7%, (ii) Tier 1 capital to risk-weighted assets of at least 8.5%, and (iii) Total capital to risk-weighted assets of at least 10.5%.

The New Capital Rules provide for a number of deductions from and adjustments to CET1. These include, for example, the requirement that mortgage servicing rights, deferred tax assets arising from temporary differences that could not be realized through net operating loss carrybacks and significant investments in non-consolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such items, in the aggregate, exceed 15% of CET1.

In addition, under the current general risk-based capital rules, the effects of accumulated other comprehensive income or loss ("AOCI") items included in shareholders' equity (for example, unrealized gains and losses of securities held in the available for sale portfolio) under U.S. GAAP are reversed for the purposes of determining regulatory capital ratios. Pursuant to the New Capital Rules, the effects of certain AOCI items are not excluded; however, non-advanced approaches banking organizations, including the Company and the Bank, may make a one-time permanent election to continue to exclude these items. This election must be made concurrently with the first filing of certain of the Company's

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and the Bank's periodic regulatory reports in the beginning of 2015. The Company and the Bank expect to make this election in order to avoid significant variations in the level of capital depending upon the impact of interest rate fluctuations on the fair value of our securities portfolio.

The New Capital Rules also preclude certain hybrid securities, such as trust preferred securities, from inclusion in bank holding companies' Tier 1 capital, subject to phase-out in the case of bank holding companies that had $15 billion or more in total consolidated assets as of December 31, 2009. While our existing trust preferred securities are currently grandfathered as Tier 1 capital, the New Capital Rules would phase them out of Tier 1 capital assuming the completion of the CapitalSource merger or any subsequent acquisition and that, upon the completion of any such transaction, the Company exceeds $15 billion in consolidated total assets. If the Company completes the CapitalSource merger or any subsequent acquisition such that, upon completion of such transaction, the Company exceeds $15 billion in consolidated total assets, beginning in 2015, only 25% of the Company's $131.0 million of trust preferred securities currently outstanding and expected to be outstanding on the effective date of the New Capital Rules (which is the date of publication in the Federal Register) will be included in Tier 1 capital, and in 2016, none of the Company's trust preferred securities will be included in Tier 1 capital. Trust preferred securities no longer included in the Company's Tier 1 capital may nonetheless be included as a component of our Tier 2 capital on a permanent basis without phase-out and irrespective of whether such securities otherwise meet the revised definition of Tier 2 capital set forth in the New Capital Rules.

Implementation of the deductions and other adjustments to CET1 will begin on January 1, 2015 and will be phased-in over a 4-year period (beginning at 40% on January 1, 2015 and an additional 20% per year thereafter). The implementation of the capital conservation buffer will begin on January 1, 2016 at a 0.625% level and increase by 0.625% on each subsequent January 1, until it reaches 2.5% on January 1, 2019.

With respect to the Bank, the New Capital Rules revise the prompt corrective action regulations as described below under " Prompt Corrective Action".

The New Capital Rules prescribe a new standardized approach for risk weightings that expand the risk-weighting categories from the current four Basel I-derived categories (0%, 20%, 50% and 100%) to a larger and more risk-sensitive number of categories, depending on the nature of the assets, generally ranging from 0% for U.S. government and agency securities, to 600% for certain equity exposures, and resulting in higher risk weights for a variety of asset classes.

We are currently evaluating the impact of the New Capital Rules, including the capital conservation buffer, on our capital ratios and related calculations.

Liquidity Requirements. Historically, regulation and monitoring of bank and bank holding company liquidity has been addressed as a supervisory matter, both in the U.S. and internationally, without required formulaic measures. The Basel III framework requires banks and bank holding companies to measure their liquidity against specific liquidity tests that, although similar in some respects to liquidity measures historically applied by banks and regulators for management and supervisory purposes, going forward will be required by regulation. One test, referred to as the liquidity coverage ratio ("LCR"), is designed to ensure that the banking entity maintains an adequate level of unencumbered high-quality liquid assets equal to the entity's expected net cash outflow for a 30-day time horizon (or, if greater, 25% of its expected total cash outflow) under an acute liquidity stress scenario. In January 2013, the Group of Governors and Heads of Supervision, the oversight body of the Basel Committee, approved amendments to the LCR to expand the range of eligible assets and refine assumed inflow and outflow rates to reflect actual experience in times of stress. The other test, referred to as the net stable funding ratio ("NSFR"), is designed to promote more medium- and long-term funding of the assets and activities of banking entities over a one-year time horizon. These requirements will incentivize banking entities to increase their holdings of U.S. Treasury securities and

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other sovereign debt as a component of assets and increase the use of long-term debt as a funding source.

In October 2013, the federal banking agencies proposed rules implementing the LCR for advanced approaches banks and a modified version of the LCR for bank holding companies with at least $50 billion in total consolidated assets that are not advanced approach banks, neither of which would apply to the Company. The Federal banking agencies have not yet proposed rules to implement the NSFR.

Prompt Corrective Action

The Federal Deposit Insurance Corporation Improvement Act, or FDICIA, requires each federal banking agency to take prompt corrective action to resolve the problems of insured depository institutions, including but not limited to those that fall below one or more prescribed minimum capital ratios. Pursuant to FDICIA, the FDIC promulgated regulations defining the following five categories in which an insured depository institution will be placed, based on the level of its capital ratios: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. Under the prompt corrective action provisions of FDICIA ("PCA"), an insured depository institution generally will be classified as undercapitalized if its total risk-based capital is less than 8% or its Tier 1 risk-based capital or leverage ratio is less than 4%. The New Capital Rules revise the PCA regulations by: (i) introducing a CET1 ratio requirement at each PCA category (other than critically undercapitalized), with the required CET1 ratio being 6.5% for well capitalized status; (ii) increasing the minimum Tier 1 capital ratio requirement for each category, with the minimum Tier 1 capital ratio for well capitalized status being 8% (as compared to the current 6%); and (iii) eliminating the current provision that provides that a bank with a composite supervisory rating of 1 may have a 3% leverage ratio and still be adequately capitalized. The New Capital Rules do not change the total risk-based capital requirement for any PCA category. See " Prompt Corrective Action" for more information on these topics. An institution that, based upon its capital levels, is classified as "well capitalized", "adequately capitalized" or "undercapitalized" may be treated as though it were in the next lower capital category if the appropriate federal banking agency, after notice and opportunity for hearing, determines that an unsafe or unsound condition or an unsafe or unsound practice warrants such treatment. At each successive lower capital category, an insured depository institution is subject to more restrictions and prohibitions, including restrictions on growth, restrictions on interest rates paid on deposits, prohibitions on payment of dividends and restrictions on the acceptance of brokered deposits. Furthermore, if a bank is classified in one of the undercapitalized categories, it is required to submit a capital restoration plan to the federal bank regulator, and the holding company must guarantee the performance of that plan.

In addition to measures taken under the prompt corrective action provisions, commercial banking organizations may be subject to potential enforcement actions by the federal or state banking agencies for unsafe or unsound practices in conducting their businesses or for violations of any law, rule, regulation or any condition imposed in writing by the agency or any written agreement with the agency. Enforcement actions may include the imposition of a conservator or receiver, the issuance of a cease-and-desist order that can be judicially enforced, the termination of insurance for deposits (in the case of a depository institution), the imposition of civil money penalties, the issuance of directives to increase capital, the issuance of formal and informal agreements, the issuance of removal and prohibition orders against institution-affiliated parties. The enforcement of such actions through injunctions or restraining orders may be based upon a judicial determination that the agency would be harmed if such equitable relief was not granted.

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Deposit Insurance

Pacific Western is a state-chartered, "non-member" bank and therefore is regulated by the California Department of Business Oversight, Division of Financial Institutions, or DBO, and the FDIC. Pacific Western accepts deposits, and those deposits have the benefit of FDIC insurance up to the applicable limits. The applicable limit for FDIC insurance for most types of accounts is $250,000.

The Bank, as is the case with all FDIC insured banks, is subject to deposit insurance assessments as determined by the FDIC. Historically, the FDIC imposed insurance premiums based on the amount of deposits held and a risk matrix took into account, among other factors, a bank's capital level and supervisory rating. Pursuant to the Dodd-Frank Act, the FDIC amended its regulations to determine insurance assessments based on the average consolidated assets less the average tangible equity of the insured depository institution during the assessment period. In addition, in October 2010, the FDIC adopted a new Deposit Insurance Fund restoration plan to ensure that the fund reserve ratio reaches 1.35% by September 30, 2020. At least semi-annually, the FDIC will update its loss and income projections for the fund and, if needed, will increase or decrease assessment rates, following notice-and-comment rulemaking if required.

Incentive Compensation

The Dodd-Frank Act requires the federal bank regulatory agencies and the SEC to establish joint regulations or guidelines prohibiting incentive-based payment arrangements at specified regulated entities, such as the Company and the Bank, having at least $1 billion in total assets that encourage inappropriate risks by providing an executive officer, employee, director or principal stockholder with excessive compensation, fees, or benefits that could lead to material financial loss to the entity. In addition, these regulators must establish regulations or guidelines requiring enhanced disclosure of incentive-based compensation arrangements to regulators. The agencies proposed such regulations in April 2011, but these regulations have not yet been finalized. If the regulations are adopted in the form initially proposed, they will impose limitations on the manner in which we may structure compensation for our executives.

In June 2010, the FRB and the FDIC issued comprehensive final guidance on incentive compensation policies intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking. The guidance, which covers all employees that have the ability to materially affect the risk profile of an organization, either individually or as part of a group, is based upon the key principles that a banking organization's incentive compensation arrangements should (i) provide incentives that do not encourage risk-taking beyond the organization's ability to effectively identify and manage risks, (ii) be compatible with effective internal controls and risk management, and (iii) be supported by strong corporate governance, including active and effective oversight by the organization's board of directors. These three principles are incorporated into the proposed joint compensation regulations under Dodd-Frank, discussed above. The FRB will review, as part of its regular, risk-focused examination process, the incentive compensation arrangements of banking organizations, such as the Company, that are not "large, complex banking organizations." These reviews will be tailored to each organization based on the scope and complexity of the organization's activities and the prevalence of incentive compensation arrangements. The findings of the supervisory initiatives will be included in reports of examination. Deficiencies will be incorporated into the organization's supervisory ratings, which can affect the organization's ability to make acquisitions and take other actions. Enforcement actions may be taken against a banking organization if its incentive compensation arrangements, or related risk-management control or governance processes, pose a risk to the organization's safety and soundness and the organization is not taking prompt and effective measures to correct the deficiency.

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Consumer Regulation

The Dodd-Frank Act established the Consumer Financial Protection Bureau ("CFPB") with broad powers to supervise and enforce consumer protection laws. The CFPB has broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions, including the authority to prohibit "unfair, deceptive or abusive" acts and practices. While the CFPB's examination and enforcement authority only extends to banking organizations with more than $10 billion in assets, banks with less than $10 billion in assets, such as the Bank, will be examined for compliance with the CFPB's rules and regulations by their primary federal banking agency. If the merger with CapitalSource Bank is completed, the Bank will be subject to direct oversight and examination by the CFPB. Given the recent establishment of the CFPB, there is still uncertainty surrounding the expected impact of this bureau on us and other banks. The Dodd-Frank Act also weakens the federal preemption rules that have been applicable for national banks and gives state attorneys general the ability to enforce federal consumer protection laws.

Depositor Preference

The Federal Deposit Insurance Act provides that, in the event of the "liquidation or other resolution" of an insured depository institution, the claims of depositors of the institution, including the claims of the FDIC as subrogee of insured depositors, and certain claims for administrative expenses of the FDIC as a receiver, will have priority over other general unsecured claims against the institution. If an insured depository institution fails, insured and uninsured depositors, along with the FDIC, will have priority in payment ahead of unsecured, non-deposit creditors, including the parent bank holding company, with respect to any extensions of credit they have made to such insured depository institution.

USA PATRIOT Act

The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, or the PATRIOT Act, designed to deny terrorists and others the ability to obtain access to the United States financial system, has significant implications for depository institutions, brokers, dealers and other businesses involved in the transfer of money. The PATRIOT Act, as implemented by various federal regulatory agencies, requires financial institutions, including the Company, to establish and implement policies and procedures with respect to, among other matters, anti-money laundering, compliance, suspicious activity and currency transaction reporting and due diligence on customers. The PATRIOT Act and its underlying regulations permit information sharing for counter-terrorist purposes between federal law enforcement agencies and financial institutions, as well as among financial institutions, subject to certain conditions, and require the FRB, the FDIC and other federal banking agencies to evaluate the effectiveness of an applicant in combating money laundering activities when considering applications filed under Section 3 of the BHCA or the Bank Merger Act.

We regularly evaluate and continue to augment our systems and procedures to continue to comply with the PATRIOT Act and other anti-money laundering initiatives. We believe that the ongoing cost of compliance with the PATRIOT Act is not likely to be material to the Company. Failure of a financial institution to maintain and implement adequate programs to combat money laundering and terrorist financing, or to comply with all of the relevant laws or regulations, could have serious legal, strategic, and reputational consequences for the institution.

Office of Foreign Assets Control Regulation

The United States has imposed economic sanctions that affect transactions with designated foreign countries, designated nationals and others. These are typically known as the "OFAC" rules based on their administration by the U.S. Treasury Department Office of Foreign Assets Control ("OFAC"). The OFAC-administered sanctions targeting countries take many different forms. Generally, however, they contain one or more of the following elements: (i) restrictions on trade with or investment in a sanctioned country, including prohibitions against direct or indirect imports from and exports to a sanctioned country and prohibitions on "U.S. persons" engaging in financial transactions relating to making investments in, or providing investment-related advice or assistance to, a sanctioned country; and (ii) a blocking of assets in which the government or specially designated nationals of the sanctioned country have an interest, by prohibiting transfers of property subject to U.S. jurisdiction (including property in the possession or control of U.S. persons). Blocked assets (e.g., property and bank deposits) cannot be paid out, withdrawn, set off or transferred in any manner without a license from OFAC. Failure to comply with these sanctions could have serious legal, strategic, and reputational consequences, and result in civil money penalties on the Bank.

Community Reinvestment Act

The Community Reinvestment Act of 1977, or the CRA, generally requires insured depository institutions to identify the communities they serve and to make loans and investments, offer products, make donations in, and provide services designed to meet the credit needs of these communities. The CRA also requires banks to maintain comprehensive records of its CRA activities to demonstrate how it is meeting the credit needs of their communities; these documents are subject to periodic examination by the FDIC. During these examinations, the FDIC rates such institutions' compliance with CRA as "Outstanding," "Satisfactory," "Needs to Improve" or "Substantial Noncompliance." The CRA requires the FDIC to take into account the record of a bank in meeting the credit needs of all of the communities served, including low- and moderate-income neighborhoods, in determining such rating. Failure of an institution to receive at least a "Satisfactory" rating could inhibit such institution or its holding company from undertaking certain activities, including acquisitions. The Bank received a CRA rating of "Satisfactory" as of its most recent examination.

Customer Information Security

The FRB and other bank regulatory agencies have adopted guidelines for safeguarding confidential, personal, non-public customer information. These guidelines require each financial institution, under the supervision and ongoing oversight of its board of directors or an appropriate committee thereof, to create, implement and maintain a comprehensive written information security program designed to ensure the security and confidentiality of customer information, protect against any anticipated threats or hazard to the security or integrity of such information and protect against unauthorized access to or use of such information that could result in substantial harm or inconvenience to any customer. We have adopted a customer information security program to comply with such requirements.

Privacy

The Gramm-Leach-Bliley Act of 1999 and the California Financial Information Privacy Act require financial institutions to implement policies and procedures regarding the disclosure of nonpublic personal information about consumers to non-affiliated third parties. In general, the statutes require explanations to consumers on policies and procedures regarding the disclosure of such nonpublic personal information and, except as otherwise required by law, prohibit disclosing such information except as provided in the Bank's policies and procedures. Pacific Western has implemented privacy policies addressing these restrictions, which are distributed regularly to all existing and new customers of the Bank.

Legislative and Regulatory Initiatives

From time to time, various legislative and regulatory initiatives are introduced in the U.S. Congress and state legislatures, as well as by regulatory agencies. Such initiatives may include proposals to expand or contract the powers of bank holding companies and depository institutions or proposals to substantially change the financial institution regulatory system. Such legislation could change banking statutes and our operating environment in substantial and unpredictable ways. If enacted, such legislation could increase or decrease the cost of doing business, limit or expand permissible activities or affect the competitive balance among banks, savings associations, credit unions, and other financial institutions. We cannot predict whether any such legislation will be enacted, and, if enacted, the effect that it, or any implementing regulations, would have on our financial condition, results of operations or cash flows. A change in statutes, regulations or regulatory policies applicable to the Company or any of its subsidiaries could have a material effect on our business.

Hazardous Waste Clean-Up and Climate-Related Risk

Our primary exposure to environmental laws is through our lending activities and through properties or businesses we may own, lease or acquire, or which are collateral for our loans, since we are not involved in any business that manufactures, uses or transports chemicals, waste, pollutants or toxins that might have a material adverse effect on the environment. Based on a general survey of the Bank's loan portfolio, conversations with local appraisers and the type of lending currently and historically done by the Bank, we are not presently aware of any actual liability for hazardous waste contamination that would be reasonably likely to have a material adverse effect on the Company as of February 21, 2014. The Bank is aware of environmental contamination which affects a Bank-owned property acquired in the FCAL acquisition. However, a remediation plan has been in place for a number of years and the expense associated with the remediation is presently being borne by the adjacent property owner from whence the contamination originates. Finally, we are not aware of any physical or regulatory consequence resulting from climate change that would have a material adverse effect upon the Company.

Available Information

We maintain an Internet website at *www.pacwestbancorp.com*, and a website for Pacific Western at *www.pacificwesternbank.com*. At *www.pacwestbancorp.com* and via the "Investor Relations" link at the Bank's website, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to such reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act are available, free of charge, as soon as reasonably practicable after such forms are electronically filed with, or furnished to, the SEC. The public may read and copy any materials we file with the SEC at the SEC's Public Reference Room, located at 100 F Street, NE, Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet website at *http://www.sec.gov* that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. You may obtain copies of the Company's filings on the SEC site. These documents may also be obtained in print upon request by our stockholders to our Investor Relations Department.

We have adopted a written code of ethics that applies to all directors, officers and employees of the Company, including our principal executive officer and senior financial officers, in accordance with Section 406 of the Sarbanes-Oxley Act of 2002 and the rules of the Securities and Exchange Commission promulgated thereunder. The code of ethics, which we call our Code of Business Conduct and Ethics, is available on our corporate website, *www.pacwestbancorp.com* in the section entitled "Corporate Governance." In the event that we make changes in, or provide waivers from, the provisions of this code of ethics that the SEC requires us to disclose, we intend to disclose these events on our corporate website in such section. In the Corporate Governance section of our corporate website, we have also posted the charters for our Audit Committee and our Compensation, Nominating and Governance Committee, as well as our Corporate Governance Guidelines. In addition, information concerning purchases and sales of our equity securities by our executive officers and directors is posted on our website.

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Our Investor Relations Department can be contacted at PacWest Bancorp, 275 N. Brea Blvd., Brea, CA 92821, Attention: Investor Relations, telephone (714) 671-6800, or via e-mail to *investor-relations@pacwestbancorp.com.*

All website addresses given in this document are for information only and are not intended to be an active link or to incorporate any website information into this document.

Forward-Looking Information

This Annual Report on Form 10-K contains certain forward-looking information about the Company, which statements are intended to be covered by the safe harbor for "forward-looking statements" provided by the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact are forward-looking statements. Such statements involve inherent risks and uncertainties, many of which are difficult to predict and are generally beyond the control of the Company. We caution readers that a number of important factors could cause actual results to differ materially from those expressed in, implied or projected by, such forward-looking statements. Risks and uncertainties include, but are not limited to:

- lower than expected revenues;
- credit quality deterioration or pronounced and sustained reduction in real estate market values resulting in an increase in the allowance for credit losses and a reduction in earnings;
- increased competitive pressure among depository institutions;
- the Company's ability to complete future acquisitions, including the CapitalSource merger, and to successfully integrate such acquired entities or achieve expected benefits, synergies and/or operating efficiencies within expected time-frames or at all;
- the Company's ability to obtain regulatory approvals and meet other closing conditions to the CapitalSource merger, on the expected terms and schedule;
- difficulties and delays in integrating the Company and CapitalSource businesses or fully realizing cost savings and other benefits;
- business disruption following the proposed CapitalSource merger;
- if the CapitalSource merger is completed, additional regulatory requirements associated with being a bank and bank holding company with assets in excess of $10 billion;
- the possibility that personnel changes will not proceed as planned;
- the cost of additional capital is more than expected;
- a change in the interest rate environment reduces interest margins;

asset/liability repricing risks and liquidity risks;

pending legal matters may take longer or cost more to resolve or may be resolved adversely to the Company;

general economic conditions, either nationally or in the market areas in which the Company does or anticipates doing business, are less favorable than expected;

environmental conditions, including natural disasters, may disrupt our business, impede our operations, negatively impact the values of collateral securing the Company's loans or impair the ability of our borrowers to support their debt obligations;

the economic and regulatory effects of the continuing war on terrorism and other events of war, including the conflicts and uncertainties in the Middle East;

legislative or regulatory requirements or changes adversely affecting the Company's business;

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- changes in the securities markets; and

- regulatory approvals for any capital activities or payment of dividends cannot be obtained, or are not obtained on terms expected or on the anticipated schedule.

If any of these risks or uncertainties materializes or if any of the assumptions underlying such forward-looking statements proves to be incorrect, our results could differ materially from those expressed in, implied or projected by, such forward-looking statements. Therefore, readers should be mindful that forward-looking statements are not guarantees of future performance and that they are subject to known and unknown risks and uncertainties that are difficult to predict. Except as required by law, we undertake no, and hereby disclaim any, obligation to update any forward-looking statements, whether as a result of new information, changed circumstances or otherwise. For additional information concerning risks and uncertainties related to us and our operations, please refer to Items 1 through 7A of this Annual Report on Form 10-K.

ITEM 1A. RISK FACTORS

Ownership of our common stock involves risk. You should carefully consider, in addition to the other information set forth herein, the following risk factors.

Risks Related to Our Business

Our business has been and may continue to be adversely affected by current conditions in the financial markets and economic conditions generally.

From December 2007 through June 2009, the U.S. economy was in recession and economic recovery through 2013 has been sluggish. As a result, the global financial markets have undergone and may continue to experience pervasive and fundamental disruptions. In some cases, the markets have produced downward pressure on stock prices and credit availability for certain issuers without regard to those issuers' underlying financial strength. While economic conditions have shown signs of improvement, the sustainability of an economic recovery is uncertain as business activity across a wide range of industries continues to face difficulties due to cautious business spending, a general lack of consumer spending, and sustained high levels of unemployment.

A sustained weakness or further weakening in business and economic conditions generally or specifically in the principal markets in which we do business could have one or more of the following adverse effects on our business:

- a decrease in the demand for loans and other products and services offered by us;

- a decrease in deposit balances due to overall reductions in the accounts of customers;

- a decrease in the value of our loans or other assets secured by consumer or commercial real estate;

- a decrease in net interest income derived from our lending and deposit gathering activities;

- an impairment of certain intangible assets; or

- an increase in the number of borrowers who become delinquent, file for protection under bankruptcy laws or default on their loans or other obligations to us. An increase in the number of delinquencies, bankruptcies or defaults could result in a higher level of nonperforming assets, net charge-offs and provision for credit losses.

Overall, the economic downturn has had an adverse effect on our business, and there can be no assurance that the economic recovery will be sustainable in the near term. If economic conditions worsen or remain volatile, we expect our business, financial condition and results of operations to be adversely affected.

Changes in economic conditions, in particular a reversal of the economic recovery in Southern California, could materially and adversely affect our business.

Our business is directly impacted by factors such as economic, political and market conditions, broad trends in industry and finance, legislative and regulatory changes, and changes in government monetary and fiscal policies and inflation, all of which are beyond our control. Although the Southern California economy continues to recover from the 2008 - 2009 recession, the region's recovery has lagged the rate of recovery of the national economy. The California unemployment rate remains elevated compared to the national rate and the state's overall economy continues to be negatively impacted by weaknesses in housing and employment in the inland regions. If there is a reversal of the the current fragile economic recovery, the Company could experience an increase in nonaccrual and classified loans, which generally results in a provision for credit losses and in turn reduces the Company's net earnings. Any further deterioration in the economic conditions, whether caused by national or local concerns, could materially and adversely affect our business. In particular, deterioration of the economic conditions in Southern California could result in the following consequences, any of which could materially and adversely affect our business: loan delinquencies may increase; problem assets and foreclosures may increase; demand for our products and services may decrease; low cost or noninterest bearing deposits may decrease; and collateral for loans made by us, especially real estate, may decline in value, in turn reducing customers' borrowing power, and reducing the value of assets and collateral associated with our existing loans. Until conditions provide for sustained improvement, our business, financial condition and results of operations may be adversely affected.

Further disruptions in the real estate market could materially and adversely affect our business.

In conjunction with the recent financial crisis, the real estate market experienced a slow-down due to negative economic trends and credit market disruption, the impacts of which are not yet completely known or quantified. At December 31, 2013, 65% and 5% of our total gross loans, both non-covered and covered, were comprised of real estate mortgage loans and real estate construction loans, respectively. While the real estate market has shown signs of recovery, we continue to observe in the marketplace tighter credit underwriting and higher premiums on liquidity, both of which may continue to place downward pressure on real estate values. Any further downturn in the real estate market could materially and adversely affect our business because a significant portion of our non-covered loans is secured by real estate. Our ability to recover on defaulted non-covered loans by selling the real estate collateral would then be diminished and we would be more likely to suffer losses on defaulted non-covered loans. Substantially all of our real property collateral is located in Southern California. If there were a further decline in real estate values, especially in Southern California, the collateral for our non-covered loans would provide less security. Real estate values could be affected by, among other things, a worsening of economic conditions, an increase in foreclosures, a decline in home sale volumes, an increase in interest rates, continued high levels of unemployment, earthquakes, droughts, wild fires and other natural disasters particular to California.

Our business is subject to interest rate risk, and variations in interest rates may materially and adversely affect our financial performance.

Changes in the interest rate environment may reduce our profits. It is expected that we will continue to realize income from the differential or "spread" between the interest earned on loans, securities and other interest-earning assets, and interest paid on deposits, borrowings and other interest-bearing liabilities. Net interest spreads are affected by the difference between the maturities and repricing characteristics of interest-earning assets and interest-bearing liabilities. Changes in market interest rates generally affect loan volume, loan yields, funding sources and funding costs. Our net interest spread depends on many factors that are partly or completely out of our control, including competition, federal economic monetary and fiscal policies, and general economic conditions.

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While an increase in the general level of interest rates may increase our loan yield, it may adversely affect the ability of certain borrowers with variable-rate loans to pay the interest on and principal of their obligations. In addition, an increase in market interest rates on loans is generally associated with a lower volume of loan originations, which may reduce earnings. Following an increase in the general level of interest rates, our ability to maintain a positive net interest spread is dependent on our ability to increase our loan offering rates, replace loan maturities with new originations, minimize increases on our deposit rates, and maintain an acceptable level and mix of funding. We cannot provide assurances that we will be able to increase our loan offering rates and continue to originate loans due to the competitive landscape in which we operate. Additionally, we cannot provide assurances that we can minimize the increases in our deposit rates while maintaining an acceptable level of deposits. Finally, we cannot provide any assurances that we can maintain our current levels of noninterest bearing deposits as customers may seek higher yielding products when rates increase.

Following a decline in the general level of interest rates, our ability to maintain a positive net interest spread is dependent on our ability to reduce the interest paid on deposits, borrowings, and other interest-bearing liabilities. We cannot provide assurance that we would be able to lower the rates paid on deposit accounts to support our liquidity requirements as lower rates may result in deposit outflows.

Accordingly, changes in levels of market interest rates could materially and adversely affect our net interest spread, asset quality, loan origination volume, liquidity, and overall profitability. We cannot assure you that we can minimize our interest rate risk.

We face strong competition from financial services companies and other companies that offer banking services, which could materially and adversely affect our business.

We conduct our banking operations primarily in Southern California. Increased competition in our market may result in reduced loans and deposits or less favorable loan and deposit terms. Ultimately, we may not be able to compete successfully against current and future competitors. Many competitors offer the same banking services that we offer in our service areas. These competitors include national banks, regional banks and other community banks. We also face competition from many other types of financial institutions, including without limitation, savings and loan institutions, finance companies, brokerage firms, insurance companies, credit unions, mortgage banks and other financial intermediaries. In particular, our competitors include several major financial companies whose greater resources may afford them a marketplace advantage by enabling them to maintain numerous banking locations and ATMs and conduct extensive promotional and advertising campaigns.

Additionally, banks and other financial institutions with larger capitalization and financial intermediaries not subject to bank regulatory restrictions have larger lending limits and are thereby able to serve the credit needs of larger customers. Areas of competition include interest rates for loans and deposits, efforts to obtain deposits, and the range and quality of products and services provided, including new technology driven products and services. Technological innovation continues to contribute to greater competition in domestic and international financial services markets as technological advances enable more companies to provide financial services. We also face competition from out-of-state financial intermediaries that have opened production offices or that solicit deposits in our market areas. Should competition in the financial services industry intensify, our ability to market our products and services may be adversely affected. If we are unable to attract and retain banking customers, we may be unable to grow or maintain the levels of our loans and deposits and our results of operations and financial condition may be adversely affected.

Competition from financial institutions seeking to maintain adequate liquidity places upward pressure on the rates paid on certain deposit accounts relative to the level of market interest rates during times of both decreasing and increasing market liquidity. To maintain both attractive and

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adequate levels of liquidity, without exhausting secondary sources of liquidity, we may incur increased deposit costs.

Several rating agencies publish unsolicited ratings of the financial performance and relative financial health of many banks, including Pacific Western, based on publicly available data. As these ratings are publicly available, a decline in the Bank's ratings may result in deposit outflows or the inability of the Bank to raise deposits in the secondary market as broker-dealers and depositors may use such ratings in deciding where to deposit their funds.

We may need to raise additional capital in the future and such capital may not be available when needed or at all.

We may need to raise additional capital in the future to provide us with sufficient capital resources and liquidity to meet our commitments and business needs. As a publicly traded company, a likely source of additional funds is the capital markets, accomplished generally through the issuance of equity, both common and preferred stock, and the issuance of subordinated debentures. Our ability to raise additional capital, if needed, will depend on, among other things, conditions in the capital markets at that time, which are outside of our control, and our financial performance. The current economic conditions and the loss of confidence in financial institutions may increase our cost of funding and limit our access to some of our customary sources of liquidity, including, but not limited to, the capital markets, inter-bank borrowings, repurchase agreements and borrowings from the discount window of the FRB.

We cannot assure you that access to such capital and liquidity will be available to us on acceptable terms or at all. Any occurrence that may limit our access to the capital markets, such as a decline in the confidence of debt purchasers, or depositors of the Bank or counterparties participating in the capital markets, may materially and adversely affect our capital costs and our ability to raise capital and, in turn, our liquidity. An inability to raise additional capital on acceptable terms when needed could have a materially adverse effect on our business.

We are subject to extensive regulation, which could materially and adversely affect our business.

Our operations are subject to extensive regulation by federal and state governmental authorities, and we are subject to various laws and judicial and administrative decisions imposing requirements and restrictions on part or all of our operations. The Dodd-Frank Act, enacted in July 2010, instituted major changes to the banking and financial institutions regulatory regimes. Regulations affecting banks and other financial institutions, such as the Dodd-Frank Act, are undergoing continuous review and change frequently; the ultimate effect of such changes cannot be predicted. Because our business is highly regulated, compliance with such regulations and laws may increase our costs and limit our ability to pursue business opportunities. Also, participation in specific government stabilization programs may subject us to additional restrictions. There can be no assurance that laws, rules and regulations will not be proposed or adopted in the future, which could (i) make compliance much more difficult or expensive, (ii) restrict our ability to originate, broker or sell loans or accept certain deposits, (iii) further limit or restrict the amount of commissions, interest or other charges earned on loans originated or sold by us, or (iv) otherwise materially and adversely affect our business or prospects for business.

The Dodd-Frank Act has had and will continue to have material implications for the Company and the entire financial services industry. Among other things it has had or will or potentially could have the following effects:

- together with regulations implementing Basel reforms, affect the levels of capital and liquidity with which we must operate and how we plan capital and liquidity levels;

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- subject us to new and/or higher fees paid to various regulatory entities, including but not limited to deposit insurance fees to the FDIC;
- impact our ability to invest in certain types of entities or engage in certain activities;
- restrict the nature of our incentive compensation programs for executive officers;
- subject us to the new Consumer Financial Protection Bureau, with its very broad rule-making and enforcement authorities; and
- subject us to new and different litigation and regulatory enforcement risks.

As the Dodd-Frank Act requires that many studies be conducted and that hundreds of regulations be written in order to fully implement it, the full impact of this legislation on us, our business strategies, and financial performance cannot be known at this time, and may not be known for a number of years. However, these impacts are expected to be substantial and some of them are likely to adversely affect us and our financial performance. The Dodd-Frank Act and related regulations may also require us to invest significant management attention and resources to make any necessary changes, and could therefore also adversely affect our business, financial condition and results of operations. Furthermore, if the CapitalSource merger is consummated, we will be subject to substantial additional regulation. See "Risk Factors Risks Relating to the Pending Merger with CapitalSource If the CapitalSource merger is consummated, we will be subject to substantial additional regulation."

Additionally, in order to conduct certain activities, including acquisitions, we are required to obtain regulatory approval. There can be no assurance that any required approvals can be obtained, or obtained without conditions or on a timeframe acceptable to us. For more information, please see "Item 1. Business Supervision and Regulation."

We are subject to capital adequacy standards, and a failure to meet these standards could adversely affect our financial condition.

The Company and the Bank are each subject to capital adequacy and liquidity guidelines and other regulatory requirements specifying minimum amounts and types of capital that must be maintained. From time to time, the regulators implement changes to these regulatory capital adequacy and liquidity guidelines. If we fail to meet these minimum capital and liquidity guidelines and other regulatory requirements, we or our subsidiaries may be restricted in the types of activities we may conduct and may be prohibited from taking certain capital actions, such as paying dividends and repurchasing or redeeming capital securities.

In particular, the capital requirements applicable to the Company and the Bank under the recently adopted Basel III capital rules are in the process of being phased-in. Once these new rules take effect, we will be required to satisfy additional and more stringent capital adequacy and liquidity standards than we have in the past. Additionally, stress testing requirements may have the effect of requiring us to comply with the requirements of the Basel III capital rules, or potentially even greater capital requirements, sooner than expected. While we expect to meet the requirements of the Basel III capital rules, inclusive of the capital conservation buffer, as phased in by the Federal Reserve, these requirements could have a negative impact on our ability to lend, grow deposit balances, make acquisitions and make capital distributions in the form of increased dividends or share repurchases. Higher capital levels could also lower our return on equity.

For more information concerning our compliance with capital and liquidity requirements, see "Item 1. Business Supervision and Regulation Capital Requirements."

The Dodd-Frank repeal of federal prohibitions on payment of interest on demand deposits could increase our interest expense.

All federal prohibitions on the ability of financial institutions to pay interest on demand deposit accounts were repealed as part of the Dodd-Frank Act. As a result, financial institutions can offer interest on demand deposits to compete for clients. Our interest expense will increase and our net interest margin will decrease if the Bank begins offering interest on demand deposits to attract additional customers or maintain current customers, which could have a material adverse effect on our business, financial condition and results of operations.

Emergency measures designed to stabilize the U.S. financial system are beginning to wind down.

Since the middle of 2008, in addition to the programs initiated under the Emergency Economic Stabilization Act of 2008, other regulators and federal agencies have taken steps to attempt to stabilize and add liquidity to the financial markets. Some of these programs have begun to expire and the impact of the expiration of these programs on the financial industry and the economic recovery is unknown. A slowdown in or reversal of the economic recovery could have a material adverse effect on our business, financial condition and results of operations.

Increases in or required prepayments of FDIC insurance premiums may adversely affect our earnings.

We are generally unable to control the amount of premiums that we are required to pay for FDIC insurance and premiums may be increased or accelerated in the future. Since 2008, higher levels of bank failures dramatically increased resolution costs of the FDIC and depleted the deposit insurance fund. In addition, the FDIC instituted temporary programs, some of which were made permanent by the Dodd-Frank Act, to further insure customer deposits at FDIC insured banks, which have placed additional stress on the deposit insurance fund.

In order to maintain a strong funding position and restore reserve ratios of the deposit insurance fund, the FDIC increased assessment rates of insured institutions. In addition, on November 12, 2009, the FDIC adopted a rule requiring banks to prepay three years' worth of premiums to replenish the depleted insurance fund.

Historically, the FDIC utilized a risk-based assessment system that imposed insurance premiums based upon a risk matrix that takes into account several components including but not limited to the bank's capital level and supervisory rating. Pursuant to the Dodd-Frank Act, the FDIC amended its regulations to base insurance assessments on the average consolidated assets less the average tangible equity of the insured depository institution during the assessment period.

Any future increases in or required prepayments of FDIC insurance premiums may adversely affect our financial condition or results of operations.

Our information systems may experience an interruption or security breach.

We rely heavily on communications and information systems to conduct our business. Any failure, interruption or breach in security of these systems could result in failures or disruptions in our customer relationship management, general ledger, deposit, loan and other systems. While we have policies and procedures designed to prevent or limit the effect of the possible failure, interruption or security breach of our information systems, there can be no assurance that any such failure, interruption or security breach will not occur or, if they do occur, that they will be adequately addressed. The occurrence of any failure, interruption or security breach of our information systems could damage our reputation, result in a loss of customer business, subject us to additional regulatory scrutiny or expose us to civil litigation and possible financial liability.

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We are exposed to risk of environmental liabilities with respect to properties to which we take title.

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

We may not pay dividends on common stock.

Our stockholders are only entitled to receive such dividends as our Board of Directors may declare out of funds legally available for such payments. Although we have historically declared cash dividends on our common stock, we are not required to do so and may reduce or eliminate our common stock dividend in the future. Our ability to pay dividends to our stockholders is subject to the restrictions set forth in Delaware law, by our federal regulator, and by certain covenants contained in the indentures governing the trust preferred securities issued by us or entities we have acquired. Notification to the FRB is also required prior to our declaring and paying a cash dividend to our stockholders during any period in which our quarterly and/or cumulative twelve-month net earnings are insufficient to fund the dividend amount, among other requirements. We may not pay a dividend should the FRB object until such time as we receive approval from the FRB or we no longer need to provide notice under applicable regulations. See "Item 5. Market for Registrant's Common Equity and Related Stockholder Matters Dividends" for more information on these restrictions. In addition, we may be restricted by applicable law or regulation or actions taken by our regulators, or as a result of our participation in any specific government stabilization programs, now or in the future, from paying dividends to our stockholders. Accordingly, we cannot assure you that we will continue paying dividends on our common stock at current levels or at all. Our failure to pay dividends on our common stock could have a material adverse effect on the market price of our common stock.

The primary source of the holding company's liquidity from which, among other things, we pay dividends is the receipt of dividends from the Bank.

The holding company, PacWest, is a legal entity separate and distinct from the Bank and our other subsidiaries. The availability of dividends from the Bank is limited by various statutes and regulations. It is possible, depending upon the financial condition of the Bank and other factors, that the FRB, the FDIC and/or the DBO could assert that payment of dividends or other payments is an unsafe or unsound practice, or that such regulatory authority may impose restrictions on the Bank's ability to pay dividends as a condition to the Bank's participation in any stabilization program. In the event the Bank is unable to pay dividends to the holding company, it is likely that we, in turn, would have to stop paying dividends on our common stock and may have difficulty meeting our other financial obligations, including payments in respect of any outstanding indebtedness or trust preferred securities. The inability of the Bank to pay dividends to us could have a material adverse effect on the market price of our common stock. See "Item 1. Business Supervision and Regulation" for additional information on the regulatory restrictions to which we and the Bank are subject.

Only a limited trading market exists for our common stock, which could lead to price volatility.

Our common stock trades on The NASDAQ Global Select Market under the symbol "PACW" and our trading volume is generally modest. The limited trading market for our common stock may cause fluctuations in the market value of our common stock to be exaggerated, leading to price volatility in

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excess of that which would occur in a more active trading market of our common stock. In addition, even if a more active market in our common stock develops, we cannot assure you that such a market will continue or that stockholders will be able to sell their shares.

Our allowance for credit losses may not be adequate to cover actual losses.

In accordance with accounting principles generally accepted in the United States, we maintain an allowance for loan and lease losses to provide for loan and lease defaults and non-performance and a reserve for unfunded loan commitments, which, when combined, we refer to as the allowance for credit losses. Our allowance for credit losses may not be adequate to address actual credit losses, and future provisions for credit losses could materially and adversely affect our operating results. Our allowance for credit losses is based on prior experience and an evaluation of the risks in the current portfolio. The amount of future losses is susceptible to changes in economic, operating and other conditions, including changes in interest rates that may be beyond our control, and these losses may exceed current estimates. Our federal and state regulators, as an integral part of their examination process, review our loans and leases and allowance for credit losses. While we believe our allowance for credit losses is appropriate for the risk identified in the Company's loan and lease portfolio, we cannot assure you that we will not further increase the allowance for credit losses, that it will be sufficient to address losses, or that regulators will not require us to increase this allowance. Any of these occurrences could materially and adversely affect our earnings. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" for more information.

Our acquisitions may subject us to unknown risks.

We have completed 26 acquisitions since May 2000. In addition, the CapitalSource merger is pending. Certain events may arise after the date of an acquisition, or we may learn of certain facts, events or circumstances after the closing of an acquisition, that may affect our financial condition or performance or subject us to risk of loss. These events include, but are not limited to: litigation resulting from circumstances occurring at the acquired entity prior to the date of acquisition; loan downgrades and credit loss provisions resulting from underwriting of certain acquired loans determined not to meet our credit standards; personnel changes that cause instability within a department; delays in implementing new policies or procedures or the failure to apply new policies or procedures; and other events relating to the performance of our business. Acquisitions involve inherent uncertainty and we cannot determine all potential events, facts and circumstances that could result in loss or give assurances that our investigation or mitigation efforts will be sufficient to protect against any such loss.

We are dependent on key personnel and the loss of one or more of those key personnel may materially and adversely affect our prospects.

We currently depend heavily on the services of our chairman, John Eggemeyer, our chief executive officer, Matthew Wagner, and a number of other key management personnel. The loss of Mr. Eggemeyer's or Mr. Wagner's services or that of other key personnel could materially and adversely affect our results of operations and financial condition. Our success also depends, in part, on our ability to attract and retain additional qualified management personnel. Competition for such personnel is strong in the banking industry, and we may not be successful in attracting or retaining the personnel we require.

Concentrated ownership of our common stock creates a risk of sudden changes in our share price.

As of February 18, 2014, directors and members of our executive management team owned or controlled approximately 4% of our common stock, excluding shares that may be issued to executive officers upon vesting of restricted stock awards. Investors who purchase our common stock may be subject to certain risks due to the concentrated ownership of our common stock. The sale by any of our large stockholders of a significant portion of that stockholder's holdings could have a material adverse

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effect on the market price of our common stock. In addition, the registration of any significant amount of additional shares of our common stock will have the immediate effect of increasing the public float of our common stock and any such increase may cause the market price of our common stock to decline or fluctuate significantly.

Our largest stockholder is a registered bank holding company, and the activities and regulation of such stockholder may materially and adversely affect the permissible activities of the Company.

CapGen Capital Group II LP, which we refer to as CapGen, beneficially owned approximately 9% of the Company as of February 18, 2014. CapGen is a registered bank holding company under the BHCA and is regulated by the FRB. Under the Dodd-Frank Act and related regulations, bank holding companies must be a "source of strength" for their subsidiaries. See "Item 1. Business Supervision and Regulation Bank Holding Company Regulation" for more information. Regulation of CapGen by the FRB may materially and adversely affect the activities and strategic plans of the Company should the FRB determine that CapGen or any other company in which either has invested has engaged in any unsafe or unsound banking practices or activities. While we have no reason to believe that the FRB is proposing to take any action with respect to CapGen that would adversely affect the Company, we remain subject to such risk.

A natural disaster could harm the Company's business.

Historically, California, in which a substantial portion of our business is located, has been susceptible to natural disasters, such as earthquakes, floods, droughts and wild fires and is currently in the midst of an ongoing drought. The nature and level of natural disasters cannot be predicted and may be exacerbated by global climate change. These natural disasters could harm our operations through interference with communications, including the interruption or loss of our computer systems, which could prevent or impede the Company from gathering deposits, originating loans and processing and controlling its flow of business, as well as through the destruction of facilities and our operational, financial and management information systems. Additionally, natural disasters could negatively impact the values of collateral securing our loans and interrupt our borrowers' abilities to conduct their business in a manner to support their debt obligations, either of which could result in losses and increased provisions for credit losses.

Our decisions regarding the fair value of assets acquired, including the realization of the FDIC loss sharing asset, could be inaccurate which could materially and adversely affect our business, financial condition, results of operations, and future prospects.

Management makes various assumptions and judgments about the collectability of acquired loans, including the creditworthiness of borrowers and the value of the real estate and other assets serving as collateral for the repayment of secured loans. In FDIC-assisted acquisitions that include loss sharing agreements, we may record a loss sharing asset that we consider adequate to absorb future losses, which may occur in the acquired loan portfolio. In determining the realization of the loss sharing asset, we analyze the expected cash flows, volume and classification of loans, volume and trends in delinquencies and nonaccruals, local economic conditions, and other pertinent information. If our assumptions are incorrect, the balance of the FDIC loss sharing asset may at any time be insufficient to cover future loan losses or subject to accelerated amortization. Any increase in future losses on loans and other assets covered by loss sharing agreements as well as any decrease in the expected cash flows from the FDIC could have a negative effect on our operating results.

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Our ability to obtain reimbursement under the loss sharing agreements on covered assets depends on our compliance with the terms of the loss sharing agreements.

Management must certify to the FDIC on a quarterly basis our compliance with the terms of the FDIC loss sharing agreements as a prerequisite to obtaining reimbursement from the FDIC for realized losses on covered assets. The required terms of the agreements are extensive and failure to comply with any of the guidelines could result in a specific asset or group of assets temporarily or permanently losing their loss sharing coverage. Additionally, management may decide to forgo loss share coverage on certain assets to allow greater flexibility over the management of certain assets. As of December 31, 2013, $473.6 million, or 7.2%, of the Company's assets, were covered by FDIC loss sharing agreements.

Under the terms of the FDIC loss sharing agreements, the assignment or transfer of the loss sharing agreement to another entity generally requires the written consent of the FDIC. Based on the manner in which assignment is defined in the agreements, the following events require the prior written consent of the FDIC for the applicable loss sharing agreements to continue:

1. a merger or consolidation of the Bank with or into another financial institution if the stockholders of the Bank will own less than 66.66% of the equity of the consolidated entity;

2. a merger or consolidation of the Company with or into another company if the stockholders of the Company will own less than 66.66% of the equity of the consolidated entity;

3. the sale of all or substantially all of the Bank's assets to another financial institution; and

4. a sale of shares by any one or more stockholders that will effect a change in control of the Bank, as determined by the FDIC with reference to the standards set forth in the Change in Bank Control Act, 12 U.S.C. 1817(j).

No assurances can be given that we will manage the covered assets in such a way as to always maintain loss share coverage on all such assets.

Risks Related to the Pending Merger with CapitalSource

On July 22, 2013, the Company announced it had entered into the CapitalSource merger agreement. The Company may be subject to the following risk factors in connection with the pending merger with CapitalSource:

Combining the Company and CapitalSource may be more difficult, costly or time consuming than expected and the anticipated benefits and cost savings of the merger may not be realized.

The success of the CapitalSource merger will depend on, among other things, the Company's ability to combine the businesses of PacWest and CapitalSource. If the Company is not able to successfully achieve this objective, the anticipated benefits of the CapitalSource merger may not be realized fully, or at all, or may take longer to realize than expected.

The Company and CapitalSource have operated and, until the consummation of the CapitalSource merger, will continue to operate independently. To realize the anticipated benefits and cost savings, after the completion of the CapitalSource merger, the Company expects to integrate CapitalSource's business into its own. It is possible that the integration process or other factors could result in the loss or departure of key employees, the disruption of the ongoing business of the Company or CapitalSource or inconsistencies in standards, controls, procedures and policies. The loss of key employees could have an adverse effect on the Company's financial results and the value of our common stock. It is also possible that clients, customers, depositors and counterparties of the Company or CapitalSource could choose to discontinue their relationships with the Company post-merger because they prefer doing business with an independent company or for any other reason, which would adversely affect the future performance of the Company. These transition matters could have an adverse effect on the Company during the pre-merger period and for an undetermined amount of time after the consummation of the CapitalSource merger.

The Company expects to incur substantial expenses related to the CapitalSource merger.

The Company expects to incur substantial expenses in connection with consummation of the CapitalSource merger and combining the business, operations, networks, systems, technologies, policies and procedures of CapitalSource with those of the Company. Although the Company has assumed that a certain level of transaction and combination expenses would be incurred, there are a number of factors beyond our control that could affect the total amount or the timing of such combination expenses. Many of the expenses that will be incurred, by their nature, are difficult to estimate accurately at the present time. Due to these factors, the transaction and combination expenses associated with the CapitalSource merger could, particularly in the near term, exceed the savings that the Company expects to achieve from the elimination of duplicative expenses and the realization of economies of scale and cost savings related to the combination of the businesses following the consummation of the CapitalSource merger. As a result of these expenses, the Company expects to take charges against our earnings before and after the completion of the CapitalSource merger. The charges taken in connection with the CapitalSource merger are expected to be significant, although the aggregate amount and timing of such charges are uncertain at present.

Failure of the CapitalSource merger to be completed, termination of the merger agreement or a significant delay in the consummation of the CapitalSource merger could negatively impact the Company.

The merger agreement is subject to a number of conditions which must be fulfilled in order to complete the CapitalSource merger. Remaining conditions include: (i) receipt of requisite regulatory approvals subject to certain limitations set forth in the merger agreement and (ii) absence of any governmental order or law prohibiting completion of the CapitalSource merger.

The obligation of each party to consummate the CapitalSource merger is also conditioned upon: (i) subject to certain exceptions, the accuracy of the representations and warranties of the other party, (ii) performance in all material respects by the other party of its obligations under the merger agreement, (iii) the adjusted stockholders' equity of the other party being in excess of a specified level, (iv) receipt by such party of a tax opinion to the effect that the CapitalSource merger will qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code and (v) the absence of a material adverse effect with respect to the other party since the date of the merger agreement. The Company and CapitalSource have agreed to use their respective reasonable best efforts to obtain all necessary regulatory approvals for the CapitalSource merger. The parties will not be required to take any action, or agree to any condition or restriction, in connection with obtaining any regulatory permits, consents, approvals and authorizations of governmental authorities that would reasonably be likely, in each case following the effective time (but regardless when the action, condition or restriction is to be taken or implemented), to (i) have a material adverse effect with respect to the combined company and its subsidiaries, taken as a whole or (ii) require the Company or the Bank to raise additional capital in an amount that would materially reduce the economic benefits of the CapitalSource merger to the holders of Company common stock (including the CapitalSource stockholders in respect of the shares of Company common stock received by them in the CapitalSource merger).

The remaining conditions to the consummation of the CapitalSource merger may not be fulfilled and, accordingly, the CapitalSource merger may not be completed. In addition, if the CapitalSource merger is not completed by July 31, 2014, either the Company or CapitalSource may choose not to proceed with the CapitalSource merger, and the parties can mutually decide to terminate the merger agreement at any time.

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If the CapitalSource merger is not consummated, the ongoing business, financial condition and results of operations of the Company may be materially adversely affected and the market price of the Company's common stock may decline significantly, particularly to the extent that the current market price reflects a market assumption that the CapitalSource merger will be consummated. If the consummation of the CapitalSource merger is delayed, the business, financial condition and results of operations of the Company may be materially adversely affected. Additionally, if the merger agreement is terminated, under certain circumstances, the Company may be required to pay a termination fee to CapitalSource in the amount of $59 million.

In addition, the Company has incurred and will incur substantial expenses in connection with the negotiation and completion of the transactions contemplated by the merger agreement. If the CapitalSource merger were not completed, the Company would have to recognize these expenses without realizing the expected benefits of the transaction. Any of the foregoing, or other risks arising in connection with the failure of or delay in consummating the CapitalSource merger, including the diversion of management attention from pursuing other opportunities and the constraints in the merger agreement on the ability to make significant changes to the Company's ongoing business during the pendency of the CapitalSource merger, could have a material adverse effect on the Company's business, financial condition and results of operations.

Additionally, the Company's business may have been adversely impacted by the failure to pursue other beneficial opportunities due to the focus of management on the CapitalSource merger, without realizing any of the anticipated benefits of completing the CapitalSource merger, and the market price of the Company's common stock might decline to the extent that the current market price reflects a market assumption that the CapitalSource merger will be completed. If the merger agreement is terminated and the board of directors seeks another merger or business combination, our stockholders cannot be certain that the Company will be able to find a party willing to engage in a transaction on more attractive terms than the CapitalSource merger.

We are subject to business uncertainties and contractual restrictions while the CapitalSource merger is pending.

Uncertainty about the effect of the CapitalSource merger on employees, customers, suppliers and vendors may have an adverse effect on the business, financial condition and results of operations of the Company. These uncertainties may impair the Company's ability to attract, retain and motivate key personnel, depositors and borrowers pending the consummation of the CapitalSource merger, as such personnel, depositors and borrowers may experience uncertainty about their future roles following the consummation of the CapitalSource merger. Additionally, these uncertainties could cause customers (including depositors and borrowers), suppliers, vendors and others who deal with us to seek to change existing business relationships with us or fail to extend an existing relationship with us. In addition, competitors may target the Company's existing customers by highlighting potential uncertainties and integration difficulties that may result from the CapitalSource merger.

The Company has a small number of key personnel. The pursuit of the CapitalSource merger and the preparation for the integration may place a burden on the Company's management and internal resources. Any significant diversion of management attention away from ongoing business concerns and any difficulties encountered in the transition and integration process could have a material adverse effect on the Company's business, financial condition and results of operations.

In addition, the merger agreement restricts the Company from taking certain actions without CapitalSource's consent while the CapitalSource merger is pending. These restrictions may, among other matters, prevent the Company from pursuing otherwise attractive business opportunities, selling assets, incurring indebtedness, engaging in significant capital expenditures in excess of certain limits set forth in the merger agreement, entering into other transactions or making other changes to the

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Company's business prior to consummation of the CapitalSource merger or termination of the merger agreement. These restrictions could have a material adverse effect on the Company's business, financial condition and results of operations.

The per share cash consideration to be paid in the CapitalSource merger and the exchange ratio are fixed and will not be adjusted for changes in our business, assets, liabilities, prospects, outlook, financial condition or results of operations, or in the event of any change in our stock price.

The merger consideration of $2.47 per share and the exchange ratio of 0.2837 of a share of PacWest common stock are fixed in the CapitalSource merger agreement and will not be adjusted for changes in our business, assets, liabilities, prospects, outlook, financial condition or results of operations, or changes in the market price of, analyst estimates of, or projections relating to, PacWest common stock. Any change in the market price of our common stock prior to the completion of the CapitalSource merger may affect the value of the stock component of the merger consideration that CapitalSource stockholders will receive upon completion of the CapitalSource merger. Stock price changes may result from a variety of factors, including general market and economic conditions, changes in our business, operations and prospects, and regulatory considerations, among other things. Many of these factors are beyond our control.

If the CapitalSource merger is consummated, we will be subject to substantial additional regulation.

If the CapitalSource merger is consummated, we will be subject to substantial additional regulation. Areas of additional regulation will include, but not be limited to, more sophisticated stress testing, additional capital requirements, including potentially the phase out of our trust preferred securities as Tier 1 capital that otherwise would have been grandfathered, more rigorous capital planning, enhanced governance standards, including those relating to risk management, higher FDIC deposit insurance assessments and direct oversight and examination by the Consumer Financial Protection Bureau. These additional regulatory requirements could divert management's attention away from ongoing business concerns, place a burden on internal resources, impose additional costs or limitations on the Company and affect our profitability.

Regulatory approvals may not be received, may take longer than expected or may impose conditions that are not presently anticipated or cannot be met.

Before the CapitalSource merger and the bank merger in connection therewith, may be completed, various approvals must be obtained from bank regulatory authorities. These governmental entities may impose conditions on the granting of such approvals. Such conditions or changes and the process of obtaining regulatory approvals could have the effect of delaying completion of the CapitalSource merger or of imposing additional costs or limitations on the Company following the CapitalSource merger. The regulatory approvals may not be received at all, may not be received in a timely fashion, and may contain conditions on the completion of the CapitalSource merger that are not anticipated or cannot be met. If the consummation of the CapitalSource merger is delayed, including by a delay in receipt of necessary governmental approvals, the business, financial condition and results of operations of the Company may also be materially adversely affected.

The CapitalSource merger will result in changes to the board of directors of the Company.

Upon completion of the CapitalSource merger, the composition of the board of directors of the Company will be different from the current board composition. The Company's board of directors currently consists of 15 directors. Upon the completion of the CapitalSource merger, the board of directors of the Company will consist of 13 members, eight of whom will be designated by the Company, and five of whom will be designated by CapitalSource, each of whom will be mutually

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agreeable to the Company and CapitalSource. This new composition of the board of directors of the Company may affect the future decisions of the Company.

In connection with the announcement of the CapitalSource merger agreement, 11 lawsuits have been filed and are pending, seeking, among other things, to enjoin the CapitalSource merger, and an adverse judgment in this lawsuit may prevent the CapitalSource merger from becoming effective within the expected time frame (if at all).

Since July 24, 2013, 11 putative stockholder class action lawsuits, referred to as the merger litigations, were filed against CapitalSource, PacWest and certain other defendants in connection with the CapitalSource merger agreement. Five of the 11 actions were filed in Superior Court of California, Los Angeles County: (1) Engel v. CapitalSource Inc. et al., Case No. BC516267, filed on July 24, 2013; (2) Miller v. Fremder et al., Case No. BC516590, filed on July 29, 2013; (3) Basu v. CapitalSource Inc. et al., Case No. BC516775, filed on July 31, 2013; (4) Holliday v. PacWest Bancorp et al., Case No. BC517209, filed on August 5, 2013; and (5) Iron Workers Mid-South Pension Fund v. CapitalSource Inc. et al., Case No. BC517698, filed on August 8, 2013, referred to as the California actions. The other six actions were filed in the Court of Chancery of the State of Delaware: (1) Fosket v. Byrnes et al., Case No. 8765, filed on August 1, 2013; (2) Bennett v. CapitalSource Inc. et al., Case No. 8770, filed on August 2, 2013; (3) Chalfant v. CapitalSource et al., Case No. 8777, filed on August 6, 2013; (4) Oliveira v. CapitalSource Inc. et al., Case No. 8779, filed on August 7, 2013; (5) Desai v. CapitalSource Inc. et al., Case No. 8804, filed on August 13, 2013; and (6) Fattore v. CapitalSource Inc. et al., Case No. 8927, filed on September 19, 2013, referred to as the Delaware actions.

The merger litigations allege variously that the members of the CapitalSource board of directors breached its fiduciary duties to CapitalSource stockholders by approving the CapitalSource merger for inadequate consideration; approving the transaction in order to obtain benefits not equally shared by other CapitalSource stockholders; entering into the CapitalSource merger agreement containing preclusive deal protection devices; failing to take steps to maximize the value to be paid to the CapitalSource stockholders; and failing to disclose material information regarding the proposed transaction. Each of the merger litigations also alleges claims against CapitalSource and PacWest for aiding and abetting these alleged breaches of fiduciary duties. Plaintiffs generally seek, among other things, declaratory and injunctive relief concerning the alleged breaches of fiduciary duties, injunctive relief prohibiting consummation of the CapitalSource merger, rescission, an accounting by defendants, damages and attorneys' fees and costs, and other and further relief.

On December 20, 2013, the parties in the California and Delaware actions entered into a Memorandum of Understanding setting forth the terms of an agreement in principle to settle both the California and Delaware Actions, subject to certain conditions and future occurrences. A further status conference is set in the California Actions for May 5, 2014. The Company expects to appear in the Delaware actions for Court approval in the event a settlement is finalized by the parties. At this stage, it is not possible to predict the outcome of the proceedings or their impact on CapitalSource or the Company. If final settlement is not reached and the plaintiffs are successful in enjoining the consummation of the CapitalSource merger, the lawsuit may prevent the CapitalSource merger from becoming effective within the expected timeframe (or at all).

The Company may not be able to realize the Company's and CapitalSource's deferred income tax assets.

CapitalSource has substantial operating losses for federal and state income tax purposes that can generally be utilized to offset future taxable income of CapitalSource, and, under certain circumstances, the Company after the consummation of the CapitalSource merger.

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If CapitalSource or the combined company were to undergo a change in ownership of more than 50% of its capital stock over a three-year period as measured under Section 382 of the Internal Revenue Code, the ability to utilize such net operating loss carryforwards and other tax attributes to offset future taxable income would be substantially limited. The annual limit would generally equal the product of the applicable long term tax exempt interest rate and the value of the relevant entity's capital stock immediately before the ownership change. These changes of ownership rules generally focus on ownership changes involving stockholders owning directly or indirectly 5% or more of a company's outstanding stock, including certain public groups of stockholders as set forth under Section 382, and those arising from new stock issuances and other equity transactions. The determination of whether an ownership change occurs is complex and not entirely within CapitalSource's or the combined company's control.

To preserve CapitalSource's ability to utilize its net operating losses, CapitalSource has adopted a tax benefit preservation plan, which is triggered upon certain transfers of CapitalSource securities. The Company plans to adopt a substantially similar tax benefit preservation plan upon consummation of the merger. The tax benefit preservation plan is generally designed to deter direct and indirect acquisitions of common stock if such acquisition would result in a stockholder becoming a "5-percent shareholder" (as defined by Section 382 and the related Treasury regulations) or increases the percentage ownership of common stock that is treated as owned by an existing 5-percent shareholder. CapitalSource's and the combined company's ability to utilize NOLs to offset its future taxable income would be limited if CapitalSource or the combined company were to undergo an "ownership change" within the meaning of Section 382 of the Internal Revenue Code.

Although the tax benefit preservation plans are intended to reduce the likelihood of an ownership change that could adversely affect CapitalSource or the combined company, there can be no assurance that such restrictions would prevent all transfers that could result in such an ownership change and thus no assurance can be given as to whether CapitalSource or the combined company could utilize the net operating losses to offset future taxable income. Additionally, because the tax benefit preservation plans may have the effect of restricting a stockholder's ability to dispose of or acquire the common stock of the Company, the liquidity and market value of common stock might suffer.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

As of February 22, 2014, we had a total of 108 properties consisting of 73 operating branch offices, four annex offices, four operations centers, 16 loan production offices, and 11 other properties. We own seven locations and the remaining properties are leased. Almost all properties are located in Southern California. Pacific Western's principal office is located at 10250 Constellation Blvd., Suite 1640, Los Angeles, CA 90067.

For additional information regarding properties of the Company and Pacific Western, see Note 10, *Premises and Equipment, Net,* of the Notes to Consolidated Financial Statements contained in "Item 8. Financial Statements and Supplementary Data."

ITEM 3. LEGAL PROCEEDINGS

In the ordinary course of our business, we are party to various legal actions, which we believe are incidental to the operation of our business. The outcome of such legal actions and the timing of ultimate resolution are inherently difficult to predict. In the opinion of management, based upon information currently available to us, any resulting liability, in addition to amounts already accrued, taking into consideration insurance which may be applicable, would not have a material adverse effect on the Company's financial statements or operations.

FCAL-Related Litigation

As set forth below, there are a number of litigation matters pending against FCB, the defense of which PacWest has assumed.

Fourteen lawsuits have been filed in the Superior Court of the State of California, County of Los Angeles against FCB, among others, by various former clients of political campaign and non-profit organization treasurer Kinde Durkee. The lawsuits are entitled (i) *Wardlaw, et al. v. First California Bank, et al*. (Case No. SC 114232), filed September 23, 2011; (ii) *Lou Correa for State Senate, Orange County's Youth et al. v. First California Bank, et al.* (Case No. BC 479872), filed February 29, 2012; (iii) *Committee(s) to Re-elect Lorreta Sanchez, Linda Sanchez and Susan Davis, et al. v. First California Bank, et al*. (Case No. BC 479873), filed February 29, 2012; (iv) *Holden for Assembly v. First California Bank, et al.* (Case No. BC 489604), filed August 3, 2012; (v) *Latino Diabetes Ass'n v. First California Bank, et al.* (Case No. BC 489605), filed August 3, 2012; (vi) *Jose Solorio Assembly Officeholder Committee, et al. v. First California Bank, et al.* (Case No. 492855), filed September 27, 2012; (vii) *Foster for Treasurer 2014, et al. v. First California Bank, et al.* (Case No. BC 492878), filed September 27, 2012; (viii) *Los Angeles County Democratic Central Committee, et al. v. First California Bank, et al.* (Case No. BC 492854), filed September 27, 2012; (ix) F*CAL v. 68th AD Democratic PAC, et al.* (Case No. : BC470812), filed September 23, 2011(the "Interpleader Action"); (x) *First California Bank v. Shallman, John, Shallman Communication/John D. Shallman v. FCB* (Case No. LC099226), filed December 11, 2012; (xi) *National Popular Vote, et al. v. First California Bank, et al.* (Case No. BC501213) filed February 19, 2013; (xii) *Zine v. First California Bank, et al*. (Case No. BC 504476), filed April 2, 2013; (xiii) *Rothman, Elliott v. FCAL* (Case No. BC511180), filed June 5, 2013; and (xiv) *Ted Lieu as Treasurer for Ted Lieu for Assembly 2008 v. First California Bank* (Case No. BC470182), filed November 18, 2011.

Plaintiffs in each of the cases claim, among other things, that FCB aided and abetted a fraud and unlawful conversion by Ms. Durkee and/or her affiliated company of funds held in accounts at FCB. Based largely on the same alleged conduct, plaintiffs also assert claims for an alleged violation of California Business & Professions Code Section 17200 and for declaratory relief. Plaintiffs seek compensatory and punitive damages, as well as various forms of equitable and declaratory relief.

Each of the cases is pending before the same judge, who is coordinating their progress. FCB has answered each of the complaints, and the parties are engaged in discovery.

On September 23, 2011, FCB filed a Complaint-in-Interpleader in the Superior Court of the State of California, County of Los Angeles (Case No. BC 470182), pursuant to which FCB interpleaded the sum of $2,539,049 as the amounts on deposit in accounts at FCB that were controlled by Ms. Durkee on behalf of the several hundred named defendants (the "Interpleader Action"). FCB seeks an order requiring the defendants to interplead and litigate their respective claims, discharging FCB from liability, and restraining proceedings or actions against FCB by the defendants with respect to those amounts. On December 6, 2011, the Interpleader Action was designated as complex and transferred to the Superior Court's complex litigation division. It has been related to the other pending actions that relate to the conduct of Ms. Durkee.

On June 18, 2012, FCB moved for summary judgment in the Interpleader Action. At hearings held in late 2012 and early 2013, the Superior Court entered summary judgment with respect to a majority of the accounts at issue. Those sums have been paid by the Superior Court to the former accountholders. There still remains a total of $99,884.79 on deposit with the Court in the Interpleader Action.

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In September 2013, Durkee pled guilty to mail fraud resulting in a judgment of $9.7 million being entered against her. The parties participated in a mediation on October 16, 2013, which did not result in settlement of any claims. Thereafter, at a Further Status Conference on December 19, 2013, the Court scheduled a jury trial on August 13, 2014 as to the following cases: Orange County's Youth, Latino Diabetes Association, Jose Solorio Assembly Officeholder Committee, Holden for Assembly, and Committee(s) to Re-elect Lorreta Sanchez, Linda Sanchez, and Susan Davis.

CapitalSource Merger-Related Litigation

Since July 24, 2013, 11 putative stockholder class action lawsuits (the "Merger Litigations") were filed against PacWest and certain other defendants in connection with PacWest entering into the CapitalSource Merger Agreement in which PacWest agreed to acquire CapitalSource. The CapitalSource Merger Agreement was publicly announced on July 22, 2013. Five of the 11 actions were filed in Superior Court of California, Los Angeles County: (1) *Engel* v. *CapitalSource, Inc. et al.*, Case No. BC516267, filed on July 24, 2013; (2) *Miller* v. *Fremder et al.*, Case No. BC516590, filed on July 29, 2013; (3) *Basu* v. *CapitalSource, Inc. et al.*, Case No. BC516775, filed on July 31, 2013; (4) *Holliday* v. *PacWest Bancorp et al.*, Case No. BC517209, filed on August 5, 2013 and (5) *Iron Workers Mid-South Pension Fund* v. *CapitalSource Inc. et al.*, Case No. BC517698, filed on August 8, 2013 (collectively, the "California Actions"). The other six actions were filed in the Court of Chancery of the State of Delaware: (1) *Fosket* v. *Byrnes et al.*, Case No. 8765, filed on August 1, 2013; (2) *Bennett* v. *CapitalSource, Inc. et al.*, Case No. 8770, filed on August 2, 2013; (3) *Chalfant* v. *CapitalSource et al.*, Case No. 8777, filed on August 6, 2013; (4) *Oliveira* v. *CapitalSource, Inc. et al.*, Case No. 8779, filed on August 7, 2013; (5) *Desai* v. *CapitalSource, Inc. et al.*, Case No. 8804, filed on August 13, 2013; and (6) *Fattore* v. *CapitalSource, Inc. et al.*, Case No. 8927, filed on September 19, 2013 (collectively, the "Delaware Actions").

On August 15, 2013, the Delaware Actions were consolidated into a single action, captioned *In re CapitalSource Inc. Stockholder Litigation*, Consol. C.A. No. 8765-CS, and assigned to Chancellor Leo E. Strine. On September 25, 2013, plaintiffs in the Delaware Actions filed a Verified Consolidated Amended Class Action Complaint (the "Delaware Consolidated Complaint"). On September 17, 2013, the California Actions were consolidated into a single action, captioned *In re CapitalSource Inc. Shareholder Litigation*, Lead Case No. BC516267, and assigned to Judge Elihu M. Berle. On October 2, 2013, plaintiffs in the California Actions filed an Amended Consolidated Complaint (the "California Consolidated Complaint").

The Delaware Consolidated Complaint and the California Consolidated Complaint each allege that the members of the CapitalSource board of directors breached their fiduciary duties to CapitalSource stockholders by approving the proposed merger for inadequate consideration; approving the transaction in order to obtain benefits not equally shared by other CapitalSource stockholders; entering into the merger agreement containing preclusive deal protection devices; and failing to take steps to maximize the value to be paid to the CapitalSource stockholders. The Delaware Consolidated Complaint and the California Consolidated Complaint also each allege claims against CapitalSource and PacWest for aiding and abetting these alleged breaches of fiduciary duties. Plaintiffs in these actions seek, among other things, declaratory and injunctive relief concerning the alleged breaches of fiduciary duties, injunctive relief prohibiting consummation of the merger, rescission, an accounting by defendants, damages and attorneys' fees and costs, and other and further relief. The judge in the Delaware Actions ruled on October 23, 2013, that discovery would proceed in the Delaware Actions and that it would be shared with the plaintiffs in the California Actions and that the California Actions would be stayed while that process takes place. Thereafter, on October 28, 2013, the California Actions' plaintiffs stipulated in the California Actions that they would participate in the discovery process in the Delaware Actions and the administrative stay in the California Actions will remain in place unless and until the Delaware Actions are abandoned.

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On December 20, 2013, the parties in the California and Delaware Actions entered into a Memorandum of Understanding setting forth the terms of an agreement in principle to settle both the California and Delaware Actions, subject to certain conditions and future occurrences. A further status conference is set in the California Actions for May 5, 2014. The Company expects to appear in the Delaware Actions for Court approval in the event a settlement is finalized by the parties. At this stage, it is not possible to predict the outcome of the proceedings or their impact on CapitalSource or the Company.

ITEM 4. MINE SAFETY DISCLOSURE

Not applicable.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Marketplace Designation, Sales Price Information and Holders

Our common stock is listed on The Nasdaq Global Select Market and is traded under the symbol "PACW." The following table summarizes the high and low sale prices for each quarterly period during the last two years for our common stock, as quoted and reported by The Nasdaq Stock Market, or Nasdaq:

	Stock Sales Prices		Dividends Declared During Quarter
	High	Low	
2012			
First quarter	$ 24.79	$ 19.57	$ 0.18
Second quarter	$ 25.50	$ 20.82	$ 0.18
Third quarter	$ 25.50	$ 22.20	$ 0.18
Fourth quarter	$ 25.29	$ 21.50	$ 0.25
2013			
First quarter	$ 29.20	$ 24.96	$ 0.25
Second quarter	$ 31.02	$ 25.81	$ 0.25
Third quarter	$ 36.31	$ 30.58	$ 0.25
Fourth quarter	$ 42.96	$ 34.14	$ 0.25

As of February 24, 2014, the closing price of our common stock on Nasdaq was $40.50 per share. As of that date, based on the records of our transfer agent, there were approximately 1,588 record holders of our common stock.

Dividends

Our ability to pay dividends to our stockholders is subject to the restrictions set forth in the Delaware General Corporation Law, or the DGCL. The DGCL provides that a corporation, unless otherwise restricted by its certificate of incorporation, may declare and pay dividends out of its surplus or, if there is no surplus, out of net profits for the fiscal year in which the dividend is declared and/or for the preceding fiscal year, as long as the amount of capital of the corporation is not less than the aggregate amount of the capital represented by the issued and outstanding stock of all classes having a preference upon the distribution of assets. Surplus is defined as the excess of a corporation's net assets (i.e., its total assets minus its total liabilities) over the capital associated with issuances of its common stock. Moreover, DGCL permits a board of directors to reduce its capital and transfer such amount to its surplus. In determining the amount of surplus of a Delaware corporation, the assets of the corporation, including stock of subsidiaries owned by the corporation, must be valued at their fair market value as determined by the board of directors, regardless of their historical book value. Our ability to pay dividends is also subject to certain other limitations. See "Item 1. Business Supervision and Regulation" and Note 20, *Dividend Availability and Regulatory Matters*, of the Notes to Consolidated Financial Statements contained in "Item 8. Financial Statements and Supplementary Data."

Set forth in the table above are the dividends declared and paid by the Company during the two most recent fiscal years. Our ability to pay cash dividends to our stockholders is also limited by certain covenants contained in the indentures governing trust preferred securities issued by us or entities that we have acquired, and the debentures underlying the trust preferred securities. Generally the

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indentures provide that if an Event of Default (as defined in the indentures) has occurred and is continuing, or if we are in default with respect to any obligations under our guarantee agreement which covers payments of the obligations on the trust preferred securities, or if we give notice of any intention to defer payments of interest on the debentures underlying the trust preferred securities, then we may not, among other restrictions, declare or pay any dividends with respect to our common stock. Notification to the FRB is also required prior to our declaring and paying a cash dividend to our stockholders during any period in which our quarterly and/or cumulative twelve-month net earnings are insufficient to fund the dividend amount, among other requirements. Under such circumstances, we may not pay a dividend should the FRB object until such time as we receive approval from the FRB or no longer need to provide notice under applicable regulations.

Holders of Company common stock are entitled to receive dividends declared by the Board of Directors out of funds legally available under state law governing the Company and certain federal laws and regulations governing the banking and financial services business. During 2013, 2012, and 2011, the Company paid $41.0 million, $28.8 million, and $7.6 million, respectively, in cash dividends on common stock.

We can provide no assurance that we will continue to declare dividends on a quarterly basis or otherwise. The declaration of dividends by the Company is subject to the discretion of our Board of Directors. Our Board of Directors will take into account such matters as general business conditions; our financial results; projected cash flows; capital requirements; contractual, legal and regulatory restrictions on the payment of dividends by us to our stockholders or by our subsidiary to the holding company; and such other factors as our Board of Directors may deem relevant.

PacWest's primary source of liquidity is the receipt of cash dividends from Pacific Western. Various statutes and regulations limit the availability of cash dividends from Pacific Western. It is possible, depending upon the financial condition of the bank in question, and other factors, that the FRB, the FDIC or the DBO could assert that payment of dividends or other payments is an unsafe or unsound practice. Pacific Western is subject to restrictions under certain federal and state laws and regulations governing banks which limit its ability to transfer funds to the holding company through intercompany loans, advances or cash dividends.

Dividends paid by state banks, such as Pacific Western, are regulated by the DBO under its general supervisory authority as it relates to a bank's capital requirements. A state bank may declare a dividend without the approval of the DBO as long as the total dividends declared in a calendar year do not exceed either the retained earnings or the total of net earnings for three previous fiscal years less any dividend paid during such period. During 2013, 2012 and 2011, the Bank paid $48.0 million, $50.0 million, and $25.5 million, respectively, in dividends to the Company. For the foreseeable future, any further cash dividends from the Bank to the Company will require DBO approval. See "Item 1. Business Supervision and Regulation," for further discussion of potential regulatory limitations on the holding company's receipt of funds from the Bank, as well as "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity" and Note 20, *Dividend Availability and Regulatory Matters,* of the Notes to Consolidated Financial Statements contained in "Item 8. Financial Statements and Supplementary Data" for a discussion of other factors affecting the availability of dividends and limitations on the ability to declare dividends.

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Securities Authorized for Issuance Under Equity Compensation Plans

The following table provides information as of December 31, 2013, regarding securities issued and to be issued under our equity compensation plans that were in effect during fiscal 2013:

Plan Category	Plan Name	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
		(a)	(b)	(c)
Equity compensation plans approved by security holders	The PacWest Bancorp 2003 Stock Incentive Plan(1)	(2)	$	1,433,647(3)
Equity compensation plans not approved by security holders	None			

(1) The PacWest Bancorp 2003 Stock Incentive Plan (the "Incentive Plan") was last approved by the stockholders of the Company at our 2009 Annual Stockholders Meeting and the authorized number of shares available for issuance under the Incentive Plan was increased to 9,000,000 shares at our 2014 Special Stockholders Meeting.

(2) Amount does not include the 1,216,524 shares of unvested time-based and performance-based restricted stock outstanding as of December 31, 2013 with an exercise price of zero.

(3) The Incentive Plan permits these remaining shares to be issued in the form of options, restricted stock, or SARs.

Recent Sales of Unregistered Securities and Use of Proceeds

None.

Repurchases of Common Stock

The following table presents stock purchases made during the fourth quarter of 2013:

Purchase Dates	Total Number of Shares Purchased(1)	Average Price Paid Per Share
October 1 - October 31, 2013		$
November 1 - November 30, 2013	10,424	38.01
December 1 - December 31, 2013	255,318	42.01
Total	265,742	$ 41.85

(1) Shares repurchased pursuant to net settlement by employees, in satisfaction of financial obligations incurred through the vesting of the Company's restricted stock.

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Five-Year Stock Performance Graph

The following chart compares the yearly percentage change in the cumulative stockholder return on our common stock based on the closing price during the five years ended December 31, 2013, with (1) the Total Return Index for U.S. companies traded on The Nasdaq Stock Market (the "NASDAQ Composite Index"), and (2) the Total Return Index for the KBW Regional Bank Stocks (the "KBW Regional Banking Index"). This comparison assumes $100 was invested on December 31, 2008, in our common stock and the comparison groups and assumes the reinvestment of all cash dividends prior to any tax effect and retention of all stock dividends. PacWest's total cumulative gain was 73.6% over the five year period ending December 31, 2013 compared to gains of 183.4% and 41.5% for the NASDAQ Composite Index and KBW Regional Banking Index, respectively.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*
Among PacWest Bancorp, the NASDAQ Composite Index,
and the KBW Regional Banking Index

*

$100 invested on December 31, 2008 in stock or index, including reinvestment of dividends.

	Year Ended December 31,					
Index	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
PacWest Bancorp	$ 100.00	$ 76.50	$ 81.34	$ 72.91	$ 98.61	$ 173.56
NASDAQ Composite	100.00	144.88	170.58	171.30	199.99	283.39
KBW Regional Banking	100.00	86.90	98.66	87.35	98.48	141.49

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ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth certain of our financial and statistical information for each of the years in the five-year period ended December 31, 2013. This data should be read in conjunction with our audited consolidated financial statements as of December 31, 2013 and 2012, and for each of the years in the three-year period ended December 31, 2013 and related Notes to Consolidated Financial Statements contained in "Item 8. Financial Statements and Supplementary Data."

	At or For the Year Ended December 31,				
	2013	2012	2011	2010	2009
	(In thousands, except per share amounts and percentages)				
Results of Operations[(1)]:					
Interest income	$ 309,914	$ 296,115	$ 295,284	$ 290,284	$ 269,874
Interest expense	(12,201)	(19,648)	(32,643)	(40,957)	(53,828)
Net interest income	297,713	276,467	262,641	249,327	216,046
Total negative provision (provision) for credit losses	4,210	12,819	(26,570)	(212,492)	(159,900)
FDIC loss sharing income (expense), net	(26,172)	(10,070)	7,776	22,784	16,314
Acquisition-related securities gain	5,222				
Gain from Affinity acquisition					66,989
Other noninterest income	25,194	25,942	23,650	20,454	22,604
Total noninterest income	4,244	15,872	31,426	43,238	105,907
Accelerated vesting of restricted stock	(12,420)				
Acquisition and integration costs	(28,392)	(4,089)	(600)	(732)	(600)
OREO income (expense), net	1,503	(10,931)	(10,676)	(14,770)	(23,322)
Debt termination expense		(22,598)		(2,660)	(481)
Other noninterest expense	(191,378)	(174,044)	(168,717)	(170,641)	(154,801)
Total noninterest expense	(230,687)	(211,662)	(179,993)	(188,803)	(179,204)
Earnings (loss) from continuing operations before income tax (expense) benefit	75,480	93,496	87,504	(108,730)	(17,151)
Income tax (expense) benefit	(30,003)	(36,695)	(36,800)	46,714	7,801
Net earnings (loss) from continuing operations	45,477	56,801	50,704	(62,016)	(9,350)
Loss from discontinued operations before income tax benefit	(620)				
Income tax benefit	258				
Net loss from discontinued operations	(362)				
Net earnings (loss)	$ 45,115	$ 56,801	$ 50,704	$ (62,016)	$ (9,350)

Adjusted earnings from continuing operations before income taxes(2)	$ 131,392	$ 128,241	$ 117,574	$ 100,014	$ 83,849

Per Common Share Data:					
Basic earnings (loss) per share (EPS):					
Net earnings from continuing operations	$ 1.09	$ 1.54	$ 1.37	$ (1.77)	$ (0.30)
Net earnings	$ 1.08	$ 1.54	$ 1.37	$ (1.77)	$ (0.30)
Diluted (loss) per share (EPS):					
Net earnings from continuing operations	$ 1.09	$ 1.54	$ 1.37	$ (1.77)	$ (0.30)
Net earnings	$ 1.08	$ 1.54	$ 1.37	$ (1.77)	$ (0.30)
Dividends declared during year	$ 1.00	$ 0.79	$ 0.21	$ 0.04	$ 0.35
Book value per share(2)(3)	$ 17.66	$ 15.74	$ 14.66	$ 13.06	$ 14.47
Tangible book value per share(2)(3)	$ 12.73	$ 13.22	$ 13.14	$ 11.06	$ 13.52
Shares outstanding at year-end(3)	45,823	37,421	37,254	36,672	35,015
Average shares outstanding:					
Basic EPS	40,823	35,684	35,491	35,108	31,899
Diluted EPS	40,823	35,684	35,491	35,108	31,899

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	At or For the Year Ended December 31,				
	2013	2012	2011	2010	2009
	(In thousands, except per share amounts and percentages)				
Balance Sheet Data:					
Total assets	$ 6,533,363	$ 5,463,658	$ 5,528,237	$ 5,529,021	$ 5,324,079
Cash and cash equivalents	147,422	164,404	295,617	108,552	211,048
Investment securities	1,522,684	1,392,511	1,372,464	929,056	474,129
Non-purchased credit impaired (Non-PCI) loans and leases(4)	3,930,539	3,074,947	2,841,071	3,196,881	3,716,444
Allowance for credit losses, Non-PCI loans and leases(4)	67,816	72,119	93,783	104,328	124,278
Purchased credit impaired (PCI) loans	382,796	517,885	705,332	910,394	636,624
FDIC loss sharing asset	45,524	57,475	95,187	116,352	112,817
Goodwill	208,743	79,866	39,141	47,301	
Core deposit and customer relationship intangibles	17,248	14,723	17,415	25,843	33,296
Deposits	5,280,987	4,709,121	4,577,453	4,649,698	4,094,569
Borrowings	113,726	12,591	225,000	225,000	542,763
Subordinated debentures	132,645	108,250	129,271	129,572	129,798
Liabilities of discontinued operations	123,028				
Stockholders' equity	809,093	589,121	546,203	478,797	506,773
Performance Ratios:					
Return on average assets	0.74%	1.04%	0.92%	(1.14)%	(0.19)%
Return on average equity	6.28%	10.01%	9.92%	(12.56)%	(1.93)%
Return on average tangible equity(2)	8.25%	11.76%	11.33%	(14.15)%	(2.08)%
Net interest margin	5.37%	5.52%	5.26%	5.02%	4.79%
Efficiency ratio(2)(5)	76.40%	72.40%	61.21%	64.53%	55.66%
Adjusted efficiency ratio(2)(5)	59.29%	57.58%	58.93%	63.05%	64.87%
Stockholders' equity to total assets ratio(2)	12.38%	10.78%	9.88%	8.66%	9.52%
Tangible common equity ratio(2)	9.24%	9.21%	8.95%	7.44%	8.95%
Average equity to average assets	11.75%	10.36%	9.32%	9.10%	10.06%
Loans to deposits ratio	81.68%	76.30%	77.48%	88.33%	106.31%
Dividend payout ratio(6)	90.89%	50.68%	15.04%	NM	NM
Tier 1 leverage capital ratio(7)	11.22%	10.53%	10.42%	8.54%	10.85%
Tier 1 risk-based capital ratio(7)	15.12%	15.17%	15.97%	12.68%	14.31%
Total risk-based capital ratio(7)	16.38%	16.43%	17.25%	13.96%	15.58%
Asset Quality:					
Non-PCI nonaccrual loans and leases(3)	$ 46,774	$ 41,762	$ 61,619	$ 95,509	$ 240,717
Other real estate owned	51,837	56,414	81,918	81,414	70,943
Total nonperforming assets	$ 98,611	$ 98,176	$ 143,537	$ 176,923	$ 311,660
Asset Quality Ratios:					
Non-PCI nonaccrual loans to Non-PCI loans and leases(3)	1.19%	1.36%	2.17%	2.99%	6.48%
Nonperforming assets to Non-PCI loans and leases and OREO(3)	2.48%	3.14%	4.91%	5.40%	8.23%
Allowance for credit losses to Non-PCI nonaccrual loans and leases	145.0%	172.7%	152.2%	109.2%	51.6%
Allowance for credit losses to Non-PCI loans and leases	1.73%	2.35%	3.30%	3.26%	3.34%
Net charge-offs to average gross Non-PCI loans and leases	0.12%	0.33%	0.80%	5.88%	2.22%

(1)

Operating results of acquired companies are included from the respective acquisition dates. See Note 4, *Acquisitions*, of the Notes to Consolidated Financial Statements contained in "Item 8. Financial Statements and Supplementary Data."

(2)

For information regarding this calculation, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Non-GAAP Measurements."

(3) Includes 1,216,524 shares, 1,698,281 shares, 1,675,730 shares, 1,230,582 shares, and 1,095,417 shares of unvested restricted stock outstanding at December 31, 2013, 2012, 2011, 2010, and 2009, respectively.

(4) During 2010, the Bank executed two sales of adversely classified loans totaling $398.5 million that included a total of $128.1 million in nonaccrual loans.

(5) The 2009 efficiency ratio includes the gain from the Affinity acquisition. The 2009 adjusted efficiency ratio excludes this gain.

(6) Not meaningful for 2010 and 2009.

(7) Capital ratios presented are for PacWest Bancorp consolidated.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This section should be read in conjunction with the disclosure regarding "Forward-Looking Statements" set forth in "Item 1. Business Forward-Looking Statements,"as well as the discussion set forth in "Item 1. Business Certain Business Risks" and "Item 8. Financial Statements and Supplementary Data," including the notes to consolidated financial statements.

Overview

We are a bank holding company registered under the Bank Holding Company Act of 1956, as amended. Our principal business is to serve as the holding company for our Los Angeles-based wholly-owned banking subsidiary, Pacific Western Bank, which we refer to as Pacific Western or the Bank. When we say "we," "our" or the "Company," we mean the Company on a consolidated basis with the Bank. When we refer to "PacWest" or to the holding company, we are referring to the parent company on a stand-alone basis.

Pacific Western is a full-service commercial bank offering a broad range of banking products and services including: accepting demand, money market, and time deposits; originating loans, including commercial, real estate construction, SBA guaranteed and consumer loans; originating equipment finance leases; and providing other business-oriented products. Our operations are primarily located in Southern California extending from San Diego County to California's Central Coast; we also operate three banking offices in the San Francisco Bay area, a leasing operation based in Utah, and asset-based lending operations based in Arizona as well as San Jose and Santa Monica, California. The Bank focuses on conducting business with small to medium-sized businesses in our marketplace and the owners and employees of those businesses. The majority of our loans are secured by the real estate collateral of such businesses. Our asset-based lending function operates in Arizona, California, Texas, Colorado, Minnesota, and the Pacific Northwest. Our equipment leasing function has lease receivables in 45 states.

We have completed 26 business acquisitions since the Company's inception in 1999, including the following four acquisitions during the three years ended December 31, 2013: (1) Pacific Western Equipment Finance, or EQF, on January 3, 2012; (2) Celtic Capital Corporation, or Celtic, on April 3, 2012; (3) American Perspective Bank, or APB, on August 1, 2012, and (4) First California Financial Group, Inc., or FCAL, on May 31, 2013. These acquisitions affect the comparability of our reported financial information as the operating results of the acquired entities are included in our operating results only from their respective acquisition dates. For further information on our acquisitions, see Note 4, *Acquisitions*, and Note 5, *Goodwill and Other Intangible Assets*, of the Notes to Consolidated Financial Statements included in "Item 8. Financial Statement and Supplementary Data."

Over the last year, the Company's assets have increased $1.1 billion to $6.5 billion at December 31, 2013 due to our 2013 acquisition. Gross non-covered loan and leases increased $815.4 million, securities available-for-sale increased $139.4 million, goodwill increased $128.9 million, and other assets increased $87.6 million, offset by a decline in covered loans of $94.9 million. The non-covered loans and leases increase includes $903.1 million of loans acquired in the FCAL acquisition and $765.3 million in originations and other purchases, offset by net paydowns of $853.0 million. The covered loans decline includes repayments and resolutions of $198.9 million, offset by $104.0 million of covered loans acquired in the FCAL acquisition. The increase in securities available-for-sale was attributable to ongoing purchases. The increase in goodwill was due to the FCAL acquisition.

Total liabilities increased $849.7 million during the year to $5.7 billion at December 31, 2013, due primarily to the FCAL acquisition. Total deposits increased $571.9 million to $5.3 billion at December 31, 2013 due to $1.1 billion of deposits acquired in the FCAL acquisition. During 2013, core deposits increased $727.8 million, while time deposits declined $155.9 million. At December 31, 2013,

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core deposits totaled $4.6 billion, or 88% of total deposits, and noninterest-bearing deposits totaled $2.3 billion, or 44% of total deposits. Borrowings increased $101.1 million to $113.7 million due mainly to an increase of $106.6 million in overnight Federal Home Loan Bank of San Francisco ("FHLB") advances. Subordinated debentures increased $24.4 million due to additional debt assumed in the FCAL acquisition. In connection with the FCAL acquisition, we acquired Electronic Payment Services ("EPS"), a division of the Bank that is being discontinued; liabilities of the EPS discontinued operations, which consisted primarily of noninterest-bearing deposits, totaled $123.0 million at December 31, 2013.

Net earnings for 2013 were $45.1 million, a decline of $11.7 million compared to 2012. The decline in profitability was due mainly to: (a) the $24.3 million ($14.7 million after tax) increase in acquisition and integration costs, (b) the $12.3 million ($7.1 million after tax) increase in net credit costs (provision, FDIC loss sharing expense, and OREO expense), (c) the $12.4 million ($12.2 million after tax) accelerated vesting of restricted stock, and (d) the $12.1 million ($7.0 million after tax) increase, mostly from acquisitions, in compensation expense. These items were offset by: (a) the $22.6 million ($13.1 million after tax) decrease in debt termination expense and (b) the $21.2 million ($12.3 million after tax) increase in net interest income.

In December 2013, the Company accelerated the vesting of certain restricted stock awards that resulted in a pre-tax charge of $12.4 million ($12.2 million after tax). This action was taken by the Company in order to eliminate an additional $21.0 million of compensation and tax expense related to change in control payments that the Company would have otherwise incurred upon consummation of the CapitalSource merger. Such eliminated expenses relate to tax gross-up payments and the value of lost tax deductions, in each case due to the impact of Sections 280G and 4999 of the Internal Revenue Code as they apply to change in control payments that would have become payable to certain PacWest employees in conjunction with the CapitalSource merger. The restricted stock awards that were vested on an accelerated basis in 2013 would have otherwise vested upon consummation of the CapitalSource merger, and the $12.2 million after-tax charge to earnings that we recorded in December 2013 would have been incurred at that time.

During 2013, stockholders' equity increased $220.0 million, due mainly to the issuance of $242.3 in common stock in connection with the FCAL acquisition, net of $41.0 million in dividends paid. Stockholders' equity remained strong with Tier 1 risk-based capital and total risk-based capital ratios of 15.1% and 16.4%, respectively, at December 31, 2013.

In managing the top line of our business, the focus is on earning-asset growth, loan yield, deposit cost, and net interest margin, as net interest income accounted for 99% of our net revenues (net interest income plus noninterest income) for 2013.

CapitalSource Merger Announcement

On July 22, 2013, PacWest announced the signing of a definitive agreement and plan of merger (the "Agreement") whereby PacWest and CapitalSource, Inc. ("CapitalSource") will merge in a transaction valued at approximately $2.8 billion based on the closing price of PacWest common stock on February 13, 2014 of $40.11. The combined company will be called PacWest Bancorp. As part of the merger, CapitalSource Bank, a wholly-owned subsidiary of CapitalSource, will merge with and into Pacific Western, and the combined subsidiary bank will be called Pacific Western Bank. The CapitalSource national lending operation will continue to do business under the name CapitalSource as a division of Pacific Western Bank.

Under the terms of the Agreement, CapitalSource shareholders will receive $2.47 in cash and 0.2837 shares of PacWest common stock for each share of CapitalSource common stock. The total value of the CapitalSource per share merger consideration was $13.85 based on the closing price of PacWest shares on February 13, 2014 of $40.11.

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As of December 31, 2013, on a pro forma consolidated basis, the combined company would have had approximately $15.4 billion in assets with 94 branches throughout California. The combined institution would be the 6th largest publicly-owned bank headquartered in California, and the 8th largest commercial bank headquartered in California (out of more than 214 financial institutions in the state).

We currently expect to receive final regulatory approval in the first quarter of 2014 and to close the merger on April 1, 2014.

First California Financial Group Acquisition

On May 31, 2013, we completed the acquisition of First California Financial Group, Inc., or FCAL, following receipt of shareholder approval from both institutions and all required regulatory approvals. As part of the acquisition, First California Bank, or FCB, a wholly-owned subsidiary of FCAL, merged with and into Pacific Western.

In the FCAL acquisition, each share of FCAL common stock was converted into the right to receive 0.2966 of a share of PacWest common stock. The exchange ratio was calculated based on the volume-weighted average share price of PacWest common stock for the 20 consecutive trading days ending on the second full trading day prior to the receipt of the last of the regulatory approvals required under the merger agreement. PacWest issued an aggregate of approximately 8.4 million shares of PacWest common stock to FCAL stockholders. In addition, 1,094,000 shares of FCAL common stock previously owned by PacWest at a cost of $4.1 million were cancelled in the transaction. These shares were carried in our securities available-for-sale portfolio at their estimated market value with their unrealized gain of $5.2 million included in stockholders' equity at May 31, 2013. Under acquisition accounting, this unrealized gain was recognized in earnings. Based on the closing price of PacWest's common stock on May 31, 2013 of $28.83 per share, the aggregate consideration paid to FCAL common stockholders, including the 1,094,000 shares of FCAL common stock owned by us and cancelled in the merger, was $251.6 million. The application of the acquisition method of accounting resulted in goodwill of $129.1 million. All of the recognized goodwill is expected to be non-deductible for tax purposes.

FCB was a full-service commercial bank headquartered in Westlake Village, California. FCB provided a full range of banking services, including revolving lines of credit, term loans, commercial real estate loans, construction loans, consumer loans and home equity loans to individuals, professionals, and small to mid-sized businesses. FCB operated 15 branches throughout Southern California in the Los Angeles, Orange, Riverside, San Bernardino, San Diego, Ventura, and San Luis Obispo Counties. We made this acquisition to expand our presence in Southern California. We completed the conversion and integration of the FCB branches to PWB's operating platform in June 2013 and as a result, we added seven locations to our branch network.

2012 Transactions

Sale of Branches

On September 21, 2012, Pacific Western completed the sale of 10 branches. The branches were located in Los Angeles, San Bernardino, Riverside, and San Diego Counties. The 2012 branch sale resulted in the transfer of $125.2 million of deposits; no loans were sold in this transaction. The buyer paid a blended deposit premium of 2.5% and we recognized a net gain of $297,000 on this transaction.

American Perspective Bank Acquisition

On August 1, 2012, Pacific Western completed the acquisition of American Perspective Bank, or APB, previously headquartered in San Luis Obispo, California. Pacific Western acquired all of the outstanding common stock of APB for $58.1 million in cash and APB was merged with and into Pacific

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Western; we refer to this transaction as the APB acquisition. APB operated two branches located in San Luis Obispo and Santa Maria, California, and a loan production office located in Paso Robles, California, which has since been converted to a full-service branch. The APB acquisition strengthened our presence in the Central Coast region.

Celtic Capital Corporation Acquisition

On April 3, 2012, Pacific Western completed the acquisition of Celtic Capital Corporation, or Celtic, an asset-based lending company based in Santa Monica, California. Pacific Western acquired all of the capital stock of Celtic for $18 million in cash and Celtic became a wholly-owned subsidiary of Pacific Western; we refer to this transaction as the Celtic acquisition. Celtic focuses on providing asset-based loans to borrowers across the United States for amounts generally up to $5 million. The Celtic acquisition diversified our loan portfolio, expanded our product lines, and deployed excess liquidity into higher yielding assets.

Pacific Western Equipment Finance Acquisition

On January 3, 2012, Pacific Western completed the acquisition of Pacific Western Equipment Finance (formerly known as Marquette Equipment Finance, and which we refer to as EQF), an equipment leasing company based in Midvale, Utah. Pacific Western acquired all of the capital stock of EQF for $35 million in cash and EQF became a division of Pacific Western; we refer to this transaction as the EQF acquisition. The EQF acquisition diversified our lending portfolio, expanded our product lines, and deployed excess liquidity into higher yielding assets.

FDIC-Assisted Acquisitions

Affinity Bank Acquisition

On August 28, 2009, we acquired substantially all of the assets of Affinity Bank, or Affinity, including all loans, and assumed substantially all of its liabilities, including the insured and uninsured deposits and excluding certain brokered deposits, from the Federal Deposit Insurance Corporation ("FDIC") in an FDIC-assisted transaction. In connection with the Affinity acquisition, the FDIC made a cash payment to Pacific Western of $87.2 million.

We entered into a loss sharing agreement with the FDIC, whereby the FDIC agreed to cover a substantial portion of any future losses on acquired loans, other real estate owned, or OREO, and certain investment securities. Under the terms of such loss sharing agreement, the FDIC will absorb 80% of losses and receive 80% of loss recoveries on the first $234 million of losses on covered assets and absorb 95% of losses and receive 95% of loss recoveries on covered assets exceeding $234 million. The loss sharing provisions are in effect for 5 years for commercial (non-single family) assets (non-residential loans, OREO and certain securities) and 10 years for residential (single family) loans from the August 28, 2009 acquisition date. The loss recovery provisions are in effect for 8 years for commercial (non-single family) assets and 10 years for residential (single family) loans from the acquisition date. Accordingly, the loss sharing provisions expire in the third quarters of 2014 and 2019 for non-single family and single family covered assets, respectively, while the related loss recovery provisions expire in the third quarters of 2017 and 2019, respectively.

Los Padres Bank Acquisition

On August 20, 2010, we acquired certain assets of Los Padres Bank, or Los Padres, including all loans, and assumed substantially all of its liabilities, including all deposits, from the FDIC in an FDIC-assisted acquisition, which we refer to as the Los Padres acquisition. In connection with the Los Padres acquisition, the FDIC made a cash payment to Pacific Western of $144.0 million. Other than a deposit premium of $3.4 million, we paid no cash or other consideration to acquire Los Padres.

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We entered into a loss sharing agreement with the FDIC, whereby the FDIC agreed to cover a substantial portion of any future losses on acquired loans, with the exception of acquired consumer loans, and other real estate owned. Under the terms of such loss sharing agreement, the FDIC is obligated to reimburse the Bank for 80% of losses with respect to the covered assets. The Bank will reimburse the FDIC for 80% of recoveries with respect to losses for which the FDIC paid the Bank 80% reimbursement under the loss sharing agreement. The loss sharing provisions for commercial (non-single family) and single family covered assets are in effect for 5 years and 10 years, respectively, from the acquisition date, and the loss recovery provisions are in effect for 8 years and 10 years, respectively, from the August 20, 2010 acquisition date. Accordingly, the loss sharing provisions expire in the third quarters of 2015 and 2020 for non-single family and single family covered assets, respectively, while the related loss recovery provisions expire in the third quarters of 2018 and 2020, respectively. We refer to the acquired assets subject to any loss sharing agreement collectively as "covered assets."

Key Performance Indicators

Among other factors, our operating results depend generally on the following:

The Level of Our Net Interest Income

Net interest income is the excess of interest earned on our interest-earning assets over the interest paid on our interest-bearing liabilities. Net interest margin is net interest income expressed as a percentage of average interest-earning assets. A sustained low interest rate environment combined with low loan growth and high levels of marketplace liquidity may lower both our net interest income and net interest margin going forward.

Our primary interest-earning assets are loans and investments. Our primary interest-bearing liabilities are deposits. We attribute our high net interest margin to our high level of noninterest-bearing deposits and low cost of deposits. While our deposit balances will fluctuate depending on deposit holders' perceptions of alternative yields available in the market, we attempt to minimize these variances by attracting a high percentage of noninterest-bearing deposits. At December 31, 2013, approximately 44% of our total deposits were noninterest-bearing.

Loan and Lease Growth

We generally seek new lending opportunities in the $500,000 to $15 million range; try to limit loan maturities to one year for commercial loans, up to 18 months for construction loans, and up to ten years for commercial real estate loans; and price lending products so as to preserve our interest spread and net interest margin. Achieving robust loan growth has been challenging and repayments have outpaced new loan volume. Net loan growth over the last year would have involved (a) under-pricing competitors in many cases at margins that are not significantly above our securities portfolio yield, and (b) incurring unacceptable interest rate risk. We continue to selectively make or renew quality loans to our good customers that contribute positively to our profitability and net interest margin and we are focused on building relationships rather than attracting customers at low prices. Our loan pipeline has built up nicely due to slowly improving economic conditions in our markets, our focus on existing customers for new business referrals, and the service levels we provide that enable us to attract and retain business from the larger banks. During 2013, exclusive of loans acquired in the FCAL acquisition, we originated and purchased $765.3 million in non-covered loans and leases, which included $232.2 million in commercial loans and leases from our Asset Financing segment. See " Results of Operations Business Segments" for more information regarding our Asset-Financing segment.

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The Magnitude of Credit Losses

We stress credit quality in originating and monitoring the loans that we make and measure our success by the levels of our nonperforming assets, net charge-offs, and allowance for credit losses. We maintain an allowance for credit losses on loans and leases, which is the sum of our allowance for loan and lease losses and our reserve for unfunded loan commitments. Provisions for credit losses are charged to operations as and when needed for both on and off-balance sheet credit exposure. Loans and leases which are deemed uncollectable are charged off and deducted from the allowance for loan and lease losses. Recoveries on loans and leases previously charged off are added to the allowance for loan and lease losses. The provision for credit losses on the loan and lease portfolio was based on our allowance methodology and reflected historical and current net charge-offs, the levels and trends of nonaccrual and classified loans and leases, the migration of loans and leases into various risk classifications, and the level of outstanding loans and leases. For acquired non-impaired loans, a provision for credit losses may be recorded to reflect credit deterioration after the acquisition date. For purchased credit impaired loans, a provision for credit losses may be recorded to reflect decreases in expected cash flows on such loans compared to those previously estimated.

We regularly review our loans and leases to determine whether there has been any deterioration in credit quality stemming from economic conditions or other factors which may affect collectability of our loans and leases. Changes in economic conditions, such as inflation, unemployment, increases in the general level of interest rates, declines in real estate values, and negative conditions in borrowers' businesses could negatively impact our customers and cause us to adversely classify loans and leases and increase portfolio loss factors. An increase in classified loans and leases generally results in increased provisions for credit losses. Any deterioration in the real estate market may lead to increased provisions for credit losses because of our concentration in real estate loans.

The Level of Our Noninterest Expense

Our noninterest expense includes fixed and controllable overhead, the major components of which are compensation, occupancy, data processing, and other professional services. It also includes costs that tend to vary based on the volume of activity, such as OREO expense. We measure success in controlling both fixed and variable costs through monitoring of the efficiency ratio. We calculate the base efficiency ratio by dividing noninterest expense by net revenues (the sum of net interest income plus noninterest income). We also calculate a non-GAAP measure called the "adjusted efficiency ratio." The adjusted efficiency ratio is calculated in the same manner as the base efficiency ratio except that (a) noninterest income is reduced by FDIC loss sharing income and securities gains and losses, and (b) noninterest expense is reduced by OREO expenses, acquisition and integration costs, accelerated vesting of restricted stock, and debt termination expense.

The consolidated base and adjusted efficiency ratios have been as follows:

Quarterly Period in 2013	**Base Efficiency Ratio**	**Adjusted Efficiency Ratio**
First	64.5%	61.7%
Second	93.5%	62.4%
Third	64.3%	57.3%
Fourth	85.5%	56.7%

We disclose the adjusted efficiency ratio as it shows the trend in recurring overhead-related noninterest expense relative to recurring net revenues. See "Results of Operations Non-GAAP Measurements" for the calculations of the base and adjusted efficiency ratios.

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Adjusted Net Earnings From Continuing Operations

Our net earnings from continuing operations for 2013 totaled $45.5 million. Another measure of earnings used as an indicator of earnings generating capability and ability to absorb credit losses is adjusted net earnings from continuing operations. We calculate adjusted net earnings from continuing operations by excluding credit loss provisions, FDIC loss sharing income or expense, securities gains and losses, OREO expenses, acquisition and integration costs, and accelerated vesting of restricted stock. On a pre-tax basis, before loss from discontinued operations, this amounted to $131.4 million for 2013. After applying our 2013 effective tax rate of 39.7%, our adjusted net earnings from continuing operations were $79.2 million.

Critical Accounting Policies

The following discussion and analysis of financial condition and results of operations are based upon our consolidated financial statements and the notes thereto, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of the consolidated financial statements requires us to make a number of estimates and assumptions that affect the reported amounts and disclosures in the consolidated financial statements. On an ongoing basis, we evaluate our estimates and assumptions based upon historical experience and various other factors and circumstances. We believe that our estimates and assumptions are reasonable; however, actual results may differ significantly from these estimates and assumptions, which could have a material impact on the carrying value of assets and liabilities at the balance sheet dates and on our results of operations for the reporting periods.

Our significant accounting policies and practices are described in Note 1, *Nature of Operations and Summary of Significant Accounting Policies*, of the Notes to Consolidated Financial Statements contained in "Item 8. Financial Statements and Supplementary Data." The accounting policies that involve significant estimates and assumptions by management, which have a material impact on the carrying value of certain assets and liabilities, are considered critical accounting policies. We have identified our policies for the allowances for credit losses, the carrying values of intangible assets, and deferred income tax assets as critical accounting policies.

Allowance for Credit Losses on Non-Purchased Credit Impaired Loans and Leases

The allowance for credit losses on non-purchased credit impaired ("Non-PCI") loans and leases is the combination of the allowance for loan and lease losses and the reserve for unfunded loan commitments. The allowance for loan and lease losses is reported as a reduction of outstanding loan and lease balances and the reserve for unfunded loan commitments is included within other liabilities. Generally, as loans are funded, the amount of the commitment reserve applicable to such funded loans is transferred from the reserve for unfunded loan commitments to the allowance for loan and lease losses based on our allowance methodology. The following discussion is for Non-PCI loans and leases and the allowance for credit losses thereon. Refer to " Allowance for Credit Losses on Purchased Credit Impaired Loans" for the policy on purchased credit impaired loans.

The allowance for loan and lease losses is maintained at a level deemed appropriate by management to adequately provide for known and inherent risks in the loan and lease portfolio and other extensions of credit at the balance sheet date. The allowance is based upon a continuing review of the portfolio, past loan and lease loss experience, current economic conditions that may affect the borrowers' ability to pay, and the underlying collateral value of the loans and leases. Loans and leases, which are deemed to be uncollectable, are charged off and deducted from the allowance. The provision for loan and lease losses and recoveries on loans and leases previously charged off are added to the allowance.

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The methodology we use to estimate the amount of our allowance for credit losses is based on both objective and subjective criteria. While some criteria are formula driven, other criteria are subjective inputs included to capture environmental and general economic risk elements which may trigger losses in the loan and lease portfolios, and to account for the varying levels of credit quality in the loan and lease portfolios of the entities we have acquired that have not yet been captured in our objective loss factors.

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

Impaired loans and leases are identified at each reporting date based on certain criteria and the majority of which are individually reviewed for impairment. Non-PCI nonaccrual loans and leases with an unpaid principal balance over $250,000 and all performing restructured loans are reviewed individually for the amount of impairment. Non-PCI nonaccrual loans and leases with an unpaid principal balance of $250,000 or less are evaluated for impairment collectively. A loan or lease is considered impaired when it is probable that we will be unable to collect all amounts due according to the original contractual terms of the agreement. We measure impairment of a loan based upon the fair value of the loan's collateral if the loan is collateral-dependent or the present value of cash flows, discounted at the loan's effective interest rate, if the loan is not collateral-dependent. The impairment amount on a collateral-dependent loan is charged-off to the allowance, and the impairment amount on a loan that is not collateral-dependent is set up as a specific reserve within the allowance. We measure impairment of a lease based upon the present value of the scheduled lease and residual cash flows, discounted at the lease's effective interest rate. Increased charge-offs or additions to specific reserves generally result in increased provisions for credit losses.

Our loan and lease portfolio, excluding impaired loans and leases, which are evaluated individually, is categorized into several pools for purposes of determining allowance amounts by pool. The pools we currently evaluate are: commercial real estate construction, residential real estate construction, SBA real estate, hospitality real estate, real estate other, commercial collateralized, commercial unsecured, SBA commercial, consumer, asset-based and leasing. Within these pools, we then evaluate loans and leases not adversely classified, which we refer to as "pass" credits, separately from adversely classified loans and leases. The adversely classified loans and leases are further grouped into three credit risk rating categories: "special mention," "substandard," and "doubtful," which we define as follows:

Special Mention: Loans and leases classified as "special mention" have a potential weakness that requires management's attention. If not addressed, these potential weaknesses may result in further deterioration in the borrower's ability to repay the loan or lease.

Substandard: Loans and leases classified as "substandard" have a well-defined weakness or weaknesses that jeopardize the collection of the debt. They are characterized by the possibility that we will sustain some loss if the weaknesses are not corrected.

Doubtful: Loans and leases classified as "doubtful" have all the weaknesses of those classified as "substandard," with the additional trait that the weaknesses make collection or repayment in full highly questionable and improbable.

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In addition, we may refer to the loans and leases classified as "substandard" and "doubtful" together as "classified" loans and leases. For further information on classified loans and leases, see Note 7, *Loans and Leases*, of the Notes to Consolidated Financial Statements contained in "Item 8. Financial Statements and Supplementary Data."

The allowance amounts for "pass" rated loans and leases and those loans and leases adversely classified, which are not reviewed individually, are determined using historical loss rates developed through migration analysis. The migration analysis is updated quarterly based on historic losses and movement of loans between ratings. As a result of this migration analysis and its quarterly updating, decreases we experience in both charge-offs and adverse classifications generally result in lower loss factors.

Finally, in order to ensure our allowance methodology is incorporating recent trends and economic conditions, we apply environmental and general economic factors to our allowance methodology including: credit concentrations; delinquency trends; economic and business conditions; the quality of lending management and staff; lending policies and procedures; loss and recovery trends; nature and volume of the portfolio; nonaccrual and problem loan trends; usage trends of unfunded commitments; and other adjustments for items not covered by other factors.

Management believes that the allowance for loan and lease losses is adequate and appropriate for the known and inherent risks in our Non-PCI loan and lease portfolio. In making its evaluation, management considers certain quantitative and qualitative factors including the Company's historical loss experience; the volume and type of lending conducted by the Company; the results of our credit review process; the levels of classified and criticized loans and leases; the levels of impaired loans and leases, including nonperforming loans and leases and performing restructured loans; regulatory policies; general economic conditions; underlying collateral values; and other factors regarding collectability and impairment. To the extent we experience, for example, increased levels of documentation deficiencies, adverse changes in collateral values, or negative changes in economic and business conditions, which adversely affect our borrowers, our classified loans and leases may increase. Higher levels of classified loans and leases generally result in higher allowances for loan and lease losses.

We recognize that the determination of the allowance for loan and lease losses is sensitive to the assigned credit risk ratings and inherent loss rates at any given point in time. Therefore, we perform sensitivity analyses to provide insight regarding the impact that adverse changes in credit risk ratings may have on our allowance for loan and lease losses. The sensitivity analyses have inherent limitations and are based on various assumptions as of a point in time and, accordingly, it is not necessarily representative of the impact loan risk rating changes may have on the allowance for loan and lease losses.

At December 31, 2013, in the event that 1% of our Non-PCI loans and leases were downgraded one credit risk rating category for each category (e.g., 1% of the "pass" category moved to the "special mention" category, 1% of the "special mention" category moved to the "substandard" category, and 1% of the "substandard" category moved to the "doubtful" category within our current allowance methodology), the allowance for credit losses would have increased by approximately $1.3 million. In the event that 5% of our Non- PCI loans and leases were downgraded one credit risk category, the allowance for credit losses would have increased by approximately $6.7 million.

Given our current risk management processes, we believe that the credit risk ratings and inherent loss rates currently assigned are appropriate. It is possible that others, given the same information, may at any point in time reach different conclusions that could be significant to the Company's financial statements. In addition, current credit risk ratings are subject to change as we continue to review loans and leases within our portfolio and as our borrowers are impacted by economic trends within their market areas.

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

Allowance for Credit Losses on Purchased Credit Impaired Loans

The purchased credit impaired ("PCI") loans are subject to our internal and external credit review. If deterioration in the expected cash flows results in a reserve requirement, a provision for credit losses is charged to earnings. For PCI loans, the allowance for loan losses is measured at the end of each financial reporting period based on expected cash flows. Decreases or (increases) in the amount and changes in the timing of expected cash flows on the PCI loans as of the financial reporting date compared to those previously estimated are usually recognized by recording a provision or a (negative provision) for credit losses on such loans.

Goodwill and Other Intangible Assets

Goodwill and intangible assets arise from the acquisition method of accounting for business combinations. Goodwill and other intangible assets generated from business combinations and deemed to have indefinite lives are not subject to amortization and are instead tested for impairment at least annually. Intangible assets with definite lives arising from business combinations are tested for impairment quarterly.

Our other intangible assets with definite lives include core deposit and customer relationship intangibles. The establishment and subsequent amortization of these intangible assets requires several assumptions including, among other things, the estimated cost to service deposits acquired, discount rates, estimated attrition rates and useful lives. These intangibles are being amortized over their estimated useful lives up to 10 years and tested for impairment quarterly. If the value of the core deposit intangible or the customer relationship intangible is determined to be less than the carrying value in future periods, a write-down would be taken through a charge to our earnings. The most significant element in evaluation of these intangibles is the attrition rate of the acquired deposits or loan relationships. If such attrition rate were to accelerate from that which we expected, the intangible may have to be reduced by a charge to earnings. The attrition rate related to deposit flows or loan flows is influenced by many factors, the most significant of which are alternative yields for loans and deposits available to customers and the level of competition from other financial institutions and financial services companies.

Deferred Income Tax Assets

Our deferred income tax assets arise from differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and net operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. From an accounting standpoint, we determine whether a deferred tax asset is realizable based on facts and circumstances, including the Company's current and projected future tax position, the historical level of our taxable income, and estimates of our future taxable income. In most cases, the realization of deferred tax assets is based on our future profitability. If we were to experience either reduced profitability or operating losses in a future period, the realization of our deferred tax assets may no longer be considered more likely than not that they will be realized. In such an instance, we could be required to record a valuation allowance on our deferred tax assets by charging earnings.

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Non-GAAP Measurements

Certain discussion in this Form 10-K contains certain non-GAAP financial disclosures for adjusted earnings from continuing operations before income taxes, adjusted efficiency ratio, adjusted allowance for credit losses to loans and leases, return on average tangible equity, and tangible common equity ratio. The Company uses certain non-GAAP financial measures to provide meaningful supplemental information regarding the Company's operational performance and to enhance investors' overall understanding of such financial performance. As analysts and investors view adjusted earnings from continuing operations before income taxes as an indicator of the Company's ability to both generate earnings and absorb credit losses, we disclose this amount in addition to pre-tax earnings. We disclose the adjusted efficiency ratio as it shows the trend in recurring overhead-related noninterest expense relative to recurring net revenues. As the allowance for credit losses takes into account credit deterioration on acquired loans and leases, which include an estimate of credit losses in their initial fair values, we disclose the adjusted allowance for credit losses to loans and leases in addition to the allowance for credit losses to loans and leases. The adjusted allowance for credit losses to loans and leases excludes acquired loans and leases and the related allowance. Given that the use of return on average tangible equity, tangible common equity amounts and ratios, and tangible book value per share is prevalent among banking regulators, investors and analysts, we disclose our return on average tangible equity in addition to return on average equity, our tangible common equity ratio in addition to the equity-to-assets ratio, and tangible book value per share in addition to book value per share. The methodology for determining adjusted earnings from continuing operations before income taxes, adjusted efficiency ratio, adjusted allowance for credit losses to loans and leases, return on average tangible equity, and tangible common equity may differ among companies.

These non-GAAP financial measures are presented for supplemental informational purposes only for understanding the Company's operating results and should not be considered a substitute for financial information presented in accordance with U.S. generally accepted accounting principles ("GAAP").

The following tables present performance amounts and ratios in accordance with GAAP and a reconciliation of the non-GAAP financial measurements to the GAAP financial measurements:

Adjusted Earnings From Continuing Operations Before Income Taxes	**Year Ended December 31,**		
	2013	**2012**	**2011**
		(In thousands)	
Earnings from continuing operations before income taxes	$ 75,480	$ 93,496	$ 87,504
Plus: Provision (negative provision) for credit losses	(4,210)	(12,819)	26,570
Accelerated vesting of restricted stock	12,420		
Non-covered OREO (income) expense, net	330	4,150	7,010
Covered OREO (income) expense, net	(1,833)	6,781	3,666
Other-than-temporary impairment loss on covered securities		1,115	
Acquisition and integration costs	28,392	4,089	600
Debt termination expense		22,598	
Less: FDIC loss sharing income (expense), net	(26,172)	(10,070)	7,776
Gain on sale of securities	137	1,239	
Acquisition-related securities gain	5,222		
Adjusted earnings from continuing operations before income taxes	$ 131,392	$ 128,241	$ 117,574

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Adjusted Efficiency Ratio	Year Ended December 31, 2013	2012	2011
	(Dollars in thousands)		
Noninterest expense	$ 230,687	$ 211,662	$ 179,993
Less: Accelerated vesting of restricted stock	12,420		
Non-covered OREO (income) expense, net	330	4,150	7,010
Covered OREO (income) expense, net	(1,833)	6,781	3,666
Acquisition and integration costs	28,392	4,089	600
Debt termination expense		22,598	
Adjusted noninterest expense	$ 191,378	$ 174,044	$ 168,717
Net interest income	$ 297,713	$ 276,467	$ 262,641
Noninterest income	4,244	15,872	31,426
Net revenues	301,957	292,339	294,067
Less: FDIC loss sharing income (expense), net	(26,172)	(10,070)	7,776
Gain on sale of securities	137	1,239	
Acquisition-related securities gain	5,222		
Other-than-temporary impairment loss on covered securities		(1,115)	
Adjusted net revenues	$ 322,770	$ 302,285	$ 286,291
Base efficiency ratio(1)	76.4%	72.4%	61.2%
Adjusted efficiency ratio(2)	59.3%	57.6%	58.9%

(1) Noninterest expense divided by net revenues.

(2) Adjusted noninterest expense divided by adjusted net revenues.

Adjusted Allowance for Credit Losses to Loans and Leases (Excludes PCI Loans)	December 31, 2013	2012
	(Dollars in thousands)	
Allowance for credit losses	$ 67,816	$ 72,119
Less: Allowance related to acquired loans and leases	607	1,046
Adjusted allowance for credit losses	$ 67,209	$ 71,073

Gross loans and leases	$ 3,930,539	$ 3,074,947
Less: Carrying value of acquired Non-PCI loans and leases	1,060,172	298,456
Adjusted loans and leases	$ 2,870,367	$ 2,776,491
Allowance for credit losses to loans and leases[1]	1.73%	2.35%
Adjusted allowance for credit losses to loans and leases[2]	2.34%	2.56%

(1) Allowance for credit losses divided by gross loans and leases.

(2) Adjusted allowance for credit losses divided by adjusted loans and leases.

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Return on Average Tangible Equity	Year Ended December 31, 2013	2012	2011
	(Dollars in thousands)		
PacWest Bancorp Consolidated:			
Net earnings	$ 45,115	$ 56,801	$ 50,704
Average stockholders' equity	$ 718,920	$ 567,342	$ 510,990
Less: Average intangible assets	172,096	84,545	63,656
Average tangible common equity	$ 546,824	$ 482,797	$ 447,334
Return on average equity[1]	6.28%	10.01%	9.92%
Return on average tangible equity[2]	8.25%	11.76%	11.33%

(1) Calculated as net earnings divided by average stockholders' equity.

(2) Calculated as net earnings divided by average tangible common equity.

Tangible Common Equity	December 31, 2013	2012	2011
	(Dollars in thousands)		
PacWest Bancorp Consolidated:			
Stockholders' equity	$ 809,093	$ 589,121	$ 546,203
Less: Intangible assets	225,991	94,589	56,556
Tangible common equity	$ 583,102	$ 494,532	$ 489,647
Total assets	$ 6,533,363	$ 5,463,658	$ 5,528,237
Less: Intangible assets	225,991	94,589	56,556
Tangible assets	$ 6,307,372	$ 5,369,069	$ 5,471,681
Equity to assets ratio	12.38%	10.78%	9.88%
Tangible common equity ratio[1]	9.24%	9.21%	8.95%

Book value per share	$	17.66	$	15.74	$	14.66
Tangible book value per share[2]	$	12.73	$	13.22	$	13.14
Shares outstanding		45,822,834		37,420,909		37,254,318
Pacific Western Bank:						
Stockholders' equity	$	911,200	$	649,656	$	625,494
Less: Intangible assets		225,991		94,589		56,556
Tangible common equity	$	685,209	$	555,067	$	568,938
Total assets	$	6,523,742	$	5,443,484	$	5,512,025
Less: Intangible assets		225,991		94,589		56,556
Tangible assets	$	6,297,751	$	5,348,895	$	5,455,469
Equity to assets ratio		13.97%		11.93%		11.35%
Tangible common equity ratio[1]		10.88%		10.38%		10.43%

(1) Calculated as tangible common equity divided by tangible assets.

(2) Calculated as tangible common equity divided by shares outstanding.

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Results of Operations

Acquisitions Impact Earnings Performance

The comparability of financial information is affected by our acquisitions. We completed the following four acquisitions during the three years ended December 31, 2013: (1) Pacific Western Equipment Finance, or EQF, on January 3, 2012; (2) Celtic Capital Corporation, or Celtic, on April 3, 2012; (3) American Perspective Bank, or APB, on August 1, 2012, and (4) First California Financial Group, Inc., or FCAL, on May 31, 2013. These acquisitions have been accounted for using the acquisition method of accounting and, accordingly, their operating results have been included in the consolidated financial statements from their respective acquisition dates.

Net Interest Income

Net interest income, which is our principal source of income, represents the difference between interest earned on interest-earning assets and interest paid on interest-bearing liabilities. Net interest margin is net interest income expressed as a percentage of average interest-earning assets. The following table presents, for the periods indicated, the distribution of average assets, liabilities and stockholders' equity, as well as interest income and yields earned on average interest-earning assets and interest expense and rates paid on average interest-bearing liabilities.

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	Year Ended December 31,								
	2013			2012			2011		
	Average Balance	Interest Income/ Expense	Yields and Rates	Average Balance	Interest Income/ Expense	Yields and Rates	Average Balance	Interest Income/ Expense	Yields and Rates
	(Dollars in thousands)								
ASSETS									
Loans and leases, net of unearned income[1]	$ 3,975,337	$ 272,726	6.86%	$ 3,548,369	$ 260,230	7.33%	$ 3,755,190	$ 260,143	6.93%
Investment securities[2]	1,460,516	36,923	2.53%	1,373,640	35,657	2.60%	1,100,869	34,785	3.16%
Deposits in financial institutions	104,092	265	0.25%	87,600	228	0.26%	136,447	356	0.26%
Federal funds sold				2					
Total interest-earning assets	5,539,945	$ 309,914	5.59%	5,009,611	$ 296,115	5.91%	4,992,506	$ 295,284	5.91%
Other assets	576,908			468,024			492,577		
Total assets	$ 6,116,853			$ 5,477,635			$ 5,485,083		
LIABILITIES AND STOCKHOLDERS' EQUITY									
Interest checking deposits	$ 582,408	$ 303	0.05%	$ 515,767	$ 268	0.05%	$ 491,145	$ 777	0.16%
Money market deposits	1,400,065	2,455	0.18%	1,219,457	2,314	0.19%	1,227,482	5,356	0.44%
Savings deposits	194,300	63	0.03%	159,888	50	0.03%	150,837	226	0.15%
Time deposits	753,122	5,047	0.67%	889,146	10,639	1.20%	1,077,930	14,290	1.33%
Total interest-bearing deposits	2,929,895	7,868	0.27%	2,784,258	13,271	0.48%	2,947,394	20,649	0.70%
Borrowings	12,979	537	4.14%	98,787	2,656	2.69%	225,542	7,071	3.14%
Subordinated debentures	122,649	3,796	3.10%	112,015	3,721	3.32%	129,432	4,923	3.80%
Total interest-bearing liabilities	3,065,523	$ 12,201	0.40%	2,995,060	$ 19,648	0.66%	3,302,368	$ 32,643	0.99%
Noninterest-bearing demand deposits	2,186,697			1,870,088			1,627,729		
Other liabilities	145,713			45,145			43,996		
Total liabilities	5,397,933			4,910,293			4,974,093		
Stockholders' equity	718,920			567,342			510,990		
Total liabilities and stockholders' equity	$ 6,116,853			$ 5,477,635			$ 5,485,083		
Net interest income		$ 297,713			$ 276,467			$ 262,641	

Net interest rate spread		5.19%		5.25%		4.92%
Net interest margin		5.37%		5.52%		5.26%
Total deposits	$ 5,116,592		$ 4,654,346		$ 4,575,123	
All-in deposit cost[3]		0.15%		0.29%		0.45%

(1) Includes nonaccrual loans and leases and loan fees.

(2) Interest income on investment securities includes non-taxable interest of $11.8 million, $5.6 million, and $1.2 million for 2013, 2012, and 2011, respectively. The tax-equivalent yield on investment securities was 2.93%, 2.76% and 3.22% for 2013, 2012 and 2011, respectively.

(3) All-in deposit cost is calculated as annualized interest expense on deposits divided by average total deposits.

Net interest income is affected by changes in both interest rates and the volume of average interest-earning assets and interest-bearing liabilities. The changes in the amount and mix of average interest-earning assets and interest-bearing liabilities are referred to as changes in "volume." The changes in the yields earned on average interest-earning assets and rates paid on average interest-bearing liabilities are referred to as changes in "rate." The change in interest income/expense attributable to volume reflects the change in volume multiplied by the prior year's rate and the change in interest income/expense attributable to rate reflects the change in rates multiplied by the prior year's volume. The changes in interest income and expense, which are not attributable specifically to either volume or rate, are allocated ratably between the two categories.

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The following table presents, for the years indicated, changes in interest income and expense and the amount of change attributable to changes in volume and rate:

	2013 Compared to 2012			2012 Compared to 2011		
	Total Increase (Decrease)	Increase (Decrease) Due to Volume	Rate	Total Increase (Decrease)	Increase (Decrease) Due to Volume	Rate
	(In thousands)					
Interest Income:						
Loans and leases	$ 12,496	$ 29,998	$ (17,502)	$ 87	$ (14,735)	$ 14,822
Investment securities	1,266	2,213	(947)	872	7,725	(6,853)
Deposits in financial institutions	37	42	(5)	(128)	(127)	(1)
Total interest income	13,799	32,253	(18,454)	831	(7,137)	7,968
Interest Expense:						
Interest checking deposits	35	35		(509)	37	(546)
Money market deposits	141	326	(185)	(3,042)	(35)	(3,007)
Savings deposits	13	11	2	(176)	13	(189)
Time deposits	(5,592)	(1,443)	(4,149)	(3,651)	(2,346)	(1,305)
Total interest-bearing deposits	(5,403)	(1,071)	(4,332)	(7,378)	(2,331)	(5,047)
Borrowings	(2,119)	(3,074)	955	(4,415)	(3,522)	(893)
Subordinated debentures	75	339	(264)	(1,202)	(619)	(583)
Total interest expense	(7,447)	(3,806)	(3,641)	(12,995)	(6,472)	(6,523)
Net interest income	$ 21,246	$ 36,059	$ (14,813)	$ 13,826	$ (665)	$ 14,491

The net interest margin ("NIM") is impacted by several items that cause volatility from period to period. The effects of such items on the NIM are shown in the following table for the periods indicated:

Items Impacting NIM Volatility	Year Ended December 31, 2013	2012	2011
	Increase (Decrease) in NIM		
Accelerated accretion of acquisition discounts resulting from PCI loan payoffs	0.08%	0.16%	0.18%
Nonaccrual loan interest	0.01%	0.01%	0.01%
Unearned income on the early repayment of leases	0.02%	0.05%	
Celtic loan portfolio premium amortization	(0.01)%	(0.03)%	
Total	0.10%	0.19%	0.19%

As reported NIM	5.37%	5.52%	5.26%
Core NIM	5.27%	5.33%	5.07%

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The following table presents the loan yields and related average balances for our Non-PCI loans and leases, PCI loans, and total loan and lease portfolio for the periods indicated:

	Year Ended December 31, 2013	2012	2011
	(Dollars in thousands		
Yields:			
Non-PCI loans and leases	6.38%	6.82%	6.49%
PCI loans	10.63%	9.66%	8.52%
Total loans and leases	6.86%	7.33%	6.93%
Average Balances:			
Non-PCI loans and leases	$ 3,528,278	$ 2,935,420	$ 2,948,696
PCI loans	447,059	612,949	806,494
Total loans and leases	$ 3,975,337	$ 3,548,369	$ 3,755,190

Reductions in the higher yielding PCI loans will result in lower net interest income in the absence of larger amounts of originated or acquired non-impaired loans. The loan yield is impacted by the same items which cause volatility in the NIM. The following table presents the effects of these items on the total loan and lease yield for the periods indicated:

Items Impacting Loan and Lease Yield Volatility	**Year Ended December 31, 2013**	**2012**	**2011**
	Increase (Decrease) in Loan Yield		
Accelerated accretion of acquisition discounts resulting from PCI loan payoffs	0.12%	0.21%	0.24%
Nonaccrual loan interest	0.01%	0.02%	0.02%
Unearned income on the early repayment of leases	0.03%	0.07%	
Celtic loan portfolio premium amortization	(0.02)%	(0.04)%	
Total	0.14%	0.26%	0.26%
As reported loan and lease yield	6.86%	7.33%	6.93%
Core loan and lease yield	6.72%	7.07%	6.67%

2013 Compared to 2012

Our net interest margin and net interest income are driven by the combination of our loan and securities volume, asset yield, high proportion of demand deposit balances to total deposits, and disciplined deposit pricing.

The 2013 NIM was 5.37%, a decrease of 15 basis points from 5.52% for last year. The decrease was due to lower yields on loans and leases and investment securities, offset partially by lower funding costs.

Net interest income increased $21.2 million to $297.7 million for the year ended December 31, 2013 compared to 2012; interest income increased $13.8 million and interest expense decreased $7.4 million. Interest income on loans and leases increased $12.5 million due to a higher average loan and lease balance offset by a lower loan and lease yield. The increase in the average loan and lease balance was due mainly to acquisitions including FCAL on May 31, 2013 and APB on August 1, 2012. The lower loan and lease yield was due to lower accelerated accretion of acquisition discounts resulting from PCI loan payoffs and lower income from early lease payoffs. Interest income on investment securities increased $1.3 million due mostly to higher average portfolio balances from purchases during the year. Interest expense on deposits decreased $5.4 million due mainly to a lower average rate and

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balances for time deposits. Interest expense on borrowings declined $2.1 million due mostly to lower average borrowings; we repaid fixed-rate term FHLB advances at the end of the first quarter of 2012 and have used lower cost overnight FHLB advances as needed.

The yield on average loans and leases decreased 47 basis points to 6.86% for the year ended December 31, 2013 compared to 7.33% for the prior year, due to lower accelerated accretion of acquisition discounts resulting from PCI loan payoffs, lower income on early repayment of leases, and lower yields on new loan and lease originations. Accelerated accretion of acquisition discounts resulting from PCI loan payoffs totaled $4.4 million for the year ended December 31, 2013 and $7.6 million for the prior year, increasing the loan yields by 12 basis points and 21 basis points, respectively. Total income from early lease payoffs was $1.3 million for the year ended December 31, 2013 and $2.4 million for the prior year.

All-in deposit cost declined 14 basis points to 0.15% for the year ended December 31, 2013 compared to last year. The cost of interest-bearing deposits declined 21 basis points to 0.27% due to a lower rate on average time deposits and a shift in the deposit mix to lower cost interest-bearing checking, money market and savings deposits from higher cost time deposits. The cost of total interest-bearing liabilities declined 26 basis points to 0.40% due to the reduction in the cost of time deposits and lower average fixed-rate borrowings; we repaid $225.0 million in fixed-rate term FHLB advances and redeemed $18.6 million in subordinated debentures in the first quarter of 2012.

2012 Compared to 2011

The 2012 NIM was 5.52%, an increase of 26 basis points from 5.26% for 2011. The increase was due to growth in low cost deposits, lower wholesale funding and higher loan and leases yields, offset partially by lower average loan and leases and an increase in lower yielding investment securities.

The $13.8 million increase in net interest income for 2012 compared to 2011 was due to lower funding costs of $13.0 million and higher interest income of $831,000. Interest expense decreased as a result of strong growth in low cost deposits, lower rates on all interest-bearing deposits and lower average wholesale funding. Interest expense on deposits decreased $7.4 million. The cost of all interest-bearing deposits decreased 22 basis points to 0.48% and the all-in deposit cost decreased 16 basis points to 0.29% for 2012. Average noninterest-bearing deposits increased $242.4 million while average time deposits declined $188.8 million. All other average interest-bearing deposits increased $25.7 million year-over-year. Interest expense on borrowings declined $4.4 million due to lower average borrowings of $126.8 million and a lower average rate on such borrowings; we repaid $225.0 million in fixed-rate term FHLB advances at the end of the first quarter of 2012, which were replaced with lower cost overnight FHLB advances and low cost deposits. Interest expense on subordinated debentures decreased $1.2 million due to the March 2012 redemption of $18.6 million in fixed-rate subordinated debentures. The cost of interest-bearing liabilities decreased 33 basis points to 0.66% due to the reduction in the cost of interest-bearing deposits and the first quarter of 2012 repayment of the fixed-rate term FHLB advances and the redemption of the fixed-rate subordinated debentures.

The increase in interest income was attributed to increases in the securities portfolio which offset the expected decreases in the loan portfolio. Average securities increased $272.8 million while the securities yield declined 56 basis points to 2.60%; such decline in yield was in-line with market trends during 2012. Average loans decreased $206.8 million while the loan yield increased 40 basis points to 7.33%. The lower average loans and leases included $393.2 million of acquired loans and leases and the expected decreases of Non-PCI and PCI loans. The higher loan and leases yield was attributed to the addition of Celtic's and EQF's higher-yielding loan and lease portfolios. The loan and lease yield, earning asset yield and net interest margin are all affected by loans and leases being placed on or removed from nonaccrual status and the acceleration of acquisition discounts on early repayment of PCI loans; the combination of these items increased interest income $8.1 million and positively impacted the net interest margin 17 basis points in 2012. For 2011, these items increased interest income $9.5 million and increased the net interest margin 19 basis points.

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Provision for Credit Losses

The following table presents the details of the provision for credit losses, the related year-over-year increases and decreases, and allowance for credit losses data for the years indicated:

	Year Ended December 31, 2013	Increase (Decrease)	2012	Increase (Decrease)	2011
	(Dollars in thousands)				
Provision For Credit Losses:					
Addition to (reduction in) allowance for Non-PCI loans and leases	$ (1,355)	$ 8,395	$ (9,750)	$ (20,255)	$ 10,505
Addition to (reduction in) reserve for unfunded loan commitments	1,355	3,605	(2,250)	(5,045)	2,795
Total provision (negative provision) for Non-PCI loans and leases		12,000	(12,000)	(25,300)	13,300
Provision (negative provision) for PCI loans	(4,210)	(3,391)	(819)	(14,089)	13,270
Total provision (negative provision) for credit losses	$ (4,210)	$ 8,609	$ (12,819)	$ (39,389)	$ 26,570
Non-PCI Allowance for Credit Losses Data:					
Net charge-offs on Non-PCI loans and leases	$ 4,303	$ (5,361)	$ 9,664	$ (14,181)	$ 23,845
Net charge-off ratios:					
Net charge-offs to average Non-PCI loans and leases	0.12%		0.33%		0.81%
At year-end:					
Allowance for loan and lease losses	$ 60,241	$ (5,658)	$ 65,899	$ (19,414)	$ 85,313
Allowance for credit losses	67,816	(4,303)	72,119	(21,664)	93,783
Non-PCI nonaccrual loans and leases	46,774	5,012	41,762	(19,857)	61,619
Non-PCI classified loans and leases	127,311	26,292	101,019	(84,541)	185,560
Allowance for credit losses to Non-PCI loans and leases	1.73%		2.35%		3.30%
Allowance for credit losses to Non-PCI nonaccrual loans and leases	145.0%		172.7%		152.2%

Provisions for credit losses are charged to earnings as and when needed for both on and off-balance sheet credit exposures. We have a provision for credit losses on our non-purchased credit impaired ("Non-PCI") loans and leases and a provision for credit losses on our purchased credit impaired ("PCI') loans. The provision for credit losses on our Non-PCI loans and leases is based on our allowance methodology and is an expense, or contra-expense, that, in our judgment, is required to maintain the adequacy of the allowance for loan and lease losses and the reserve for unfunded loan commitments. Our allowance methodology reflects historical and current net charge-offs, the levels and trends of nonaccrual and classified loans and leases, the migration of loans and leases into various risk classifications, and the level of outstanding loans and leases. The provision for credit losses on our PCI loans results from decreases or increases in expected cash flows on such loans compared to those previously estimated.

We made negative provisions for credit losses totaling $4.2 million and $12.8 million during 2013 and 2012, respectively, and provision for credit losses totaling $26.6 million during 2011. The 2013 negative provision for credit losses consisted of a $1.4 million reduction to the allowance for Non-PCI loans and leases, a $1.4 million addition to the reserve for unfunded loan commitments, and $4.2 million reduction to the allowance for PCI loans. The negative 2013 provision for PCI loans was driven by increases in expected and actual cash flows on PCI loan pools compared to those previously estimated. Increases in actual cash flows include early payoffs and/or amounts received in excess of previous estimates. The 2012 negative provision for credit losses consisted of a $9.8 million reduction to the allowance for loan and lease losses on the Non-PCI loan and lease portfolio, a $2.2 million reduction to the reserve for unfunded loan commitments, and an $819,000 reduction to the allowance for credit losses on PCI loans. The negative 2012 provision for Non-PCI loans was based on our allowance methodology, which reflected (a) lower net charge-offs, (b) declining levels and improving trends of nonaccrual and classified loans and leases, (c) the migration of loans and leases into various risk classifications, and (d) a decline in Non-PCI loans when acquisition activity is excluded. The 2011 provision for credit losses was comprised of a $10.5 million addition to the allowance for loan losses on the Non-PCI loan portfolio, a $2.8 million addition to the reserve for unfunded loan commitments, and a $13.3 million addition to the allowance for credit losses on PCI loans.

Our Non-PCI loans and leases at December 31, 2013, included $1.1 billion in loans and leases acquired in acquisitions. These acquired loans and leases were initially recorded at their estimated fair values and such initial fair values included an estimate of credit losses. The allowance calculation for Non-PCI loans and leases included an amount for credit deterioration on acquired loans and leases since their acquisition dates. At December 31, 2013, the allowance for credit losses included $607,000 attributed to these acquired loans and leases. When these acquired loans and leases are excluded from the total of Non-PCI loans and leases and the related allowance of $607,000 is excluded from the allowance for credit losses, the result is an adjusted coverage ratio of our allowance for credit losses for Non-PCI loans and leases of 2.34% at December 31, 2013; the comparable ratio at December 31, 2012 was 2.56%.

Increased provisions for credit losses may be required in the future based on loan and unfunded commitment growth, the effect that changes in economic conditions, such as inflation, unemployment, market interest rate levels, and real estate values, may have on the ability of our borrowers to repay their loans, and other negative conditions specific to our borrowers' businesses. See " Critical Accounting Policies," " Financial Condition Allowance for Credit Losses on Non-PCI Loans," " Financial Condition Allowance for Credit Losses on PCI Loans," and Note 1(h), *Nature of Operations and Summary of Significant Accounting Policies Impaired Loans and Leases and Allowances for Credit Losses and Leases*, and Note 7, *Loans and Leases*, of the Notes to Consolidated Financial Statements contained in "Item 8. Financial Statements and Supplementary Data."

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Noninterest Income

The following table presents the details of noninterest income and related year-over-year increases and decreases for the years indicated:

	Year Ended December 31,				
	2013	Increase (Decrease)	2012	Increase (Decrease)	2011
	(In thousands)				
Noninterest Income:					
Service charges on deposit accounts	$ 11,765	$ (1,087)	$ 12,852	$ (977)	$ 13,829
Other commissions and fees	8,416	290	8,126	510	7,616
Gain on sale of leases	1,791	(976)	2,767	2,767	
Gain on sale of securities	137	(1,102)	1,239	1,239	
Acquisition-related securities gain	5,222	5,222			
Other-than-temporary-impairment losses on covered securities		1,115	(1,115)	(1,115)	
Increase in cash surrender value of life insurance	1,164	(100)	1,264	(179)	1,443
FDIC loss sharing income (expense), net	(26,172)	(16,102)	(10,070)	(17,846)	7,776
Other income	1,921	1,112	809	47	762
Total noninterest income	$ 4,244	$ (11,628)	$ 15,872	$ (15,554)	$ 31,426

The following table presents the details of FDIC loss sharing income (expense), net for the years indicated:

	Year Ended December 31,		
	2013	2012	2011
	(In thousands)		
FDIC Loss Sharing Income, Net:			
Gain (loss) on FDIC loss sharing asset[(1)]	$ 2,320	$ (5,487)	$ 8,379
FDIC loss sharing asset amortization, net	(26,829)	(10,658)	(3,063)
Net reimbursement (to) from FDIC for covered OREOs[(2)]	(1,547)	5,164	2,416
Other-than-temporary impairment losses on covered securities		892	
Other	(116)	19	44
Total FDIC loss sharing income (expense), net	$ (26,172)	$ (10,070)	$ 7,776

(1) Includes increases related to covered loan loss provisions and decreases for: (a) write-offs for covered loans expected to be resolved at amounts higher than their carrying values, and (b) amounts to be reimbursed to the FDIC for covered loans resolved at amounts higher than their carrying values.

(2) Represents amounts to be reimbursed to the FDIC for gains on covered OREO sales and due from the FDIC for covered OREO write-downs.

2013 Compared to 2012

Noninterest income declined by $11.7 million to $4.2 million during the year ended December 31, 2013 compared to $15.9 million for last year. The decrease was due mainly to higher net FDIC loss sharing expense of $16.1 million in 2013 and the $5.2 million non-taxable acquisition-related securities gain recognized in 2013. FDIC loss sharing expense, net, increased due to higher amortization of the FDIC loss sharing asset and lower net covered OREO costs, offset by a higher gain on the FDIC loss sharing asset.

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2012 Compared to 2011

Noninterest income decreased by $15.5 million to $15.9 million for 2012 compared to $31.4 million for 2011. The decrease was due mostly to lower net FDIC loss sharing income of $17.8 million, higher other-than-temporary impairment ("OTTI") losses of $1.1 million, and lower fee income from service charges on deposit accounts of $977,000. These decreases in noninterest income were offset, in part, by $4.0 million of gains on sales of leases and securities; there were no such gains in 2011. Net FDIC loss sharing income decreased due mainly to higher write-downs and amortization of the FDIC loss sharing asset, offset by higher net covered OREO costs and covered investment security losses. The write-downs and amortization of the FDIC loss sharing asset are the result of lower losses collectable from the FDIC, which include both the current period activity and estimated future activity on covered PCI loans. This occurs when expected cash flows on covered PCI loan pools improve causing the carrying value of the FDIC loss sharing asset to be reduced in the current reporting period. The OTTI loss related to one covered investment security due to deteriorating cash flows and significant delinquency of the underlying loan collateral. This OTTI loss was offset partially by related FDIC loss sharing income of $892,000; there were no such impairments or impairment-related loss sharing income in 2011. Lower non-sufficient funds fees caused the decline in service charges on deposit accounts. The 2012 gain on sale of leases related to the acquired EQF operations. The gain on sale of securities relates to the sale of $43.9 million of available-for-sale MBS securities; such securities were identified as generally having a higher volatility than the broader portfolio and were sold as part of our portfolio management activities. During 2012, we also recognized a $297,000 gain on the sale of 10 branches; there was no such gain in 2011.

Noninterest Expense

The following table presents the details of noninterest expense and related increases and decreases for the years indicated:

	Year Ended December 31,				
	2013	Increase (Decrease)	2012	Increase (Decrease)	2011
	(In thousands)				
Noninterest Expense:					
Compensation	$ 107,067	$ 12,100	$ 94,967	$ 8,167	$ 86,800
Accelerated vesting of restricted stock	12,420	12,420			
Occupancy	29,459	1,346	28,113	(572)	28,685
Data processing	9,494	374	9,120	156	8,964
Other professional services	9,481	1,114	8,367	(619)	8,986
Business development	3,282	744	2,538	217	2,321
Communications	2,923	400	2,523	(488)	3,011
Insurance and assessments	5,596	312	5,284	(1,887)	7,171
Non-covered other real estate owned, net	330	(3,820)	4,150	(2,860)	7,010
Covered other real estate owned, net	(1,833)	(8,614)	6,781	3,115	3,666
Intangible asset amortization	5,402	(924)	6,326	(2,102)	8,428
Acquisition and integration	28,392	24,303	4,089	3,489	600
Debt termination		(22,598)	22,598	22,598	
Other expense	18,674	1,868	16,806	2,455	14,351
Total noninterest expense	$ 230,687	$ 19,025	$ 211,662	$ 31,669	$ 179,993

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The following tables present the components of non-covered and covered OREO expense, net for the years indicated:

	Year Ended December 31,		
	2013	2012	2011
	(In thousands)		
Non-Covered OREO Expense:			
Provision for losses	$ 818	$ 3,820	$ 5,026
Maintenance costs	1,082	2,018	2,177
(Gain) loss on sale	(1,570)	(1,688)	(193)
Total non-covered OREO expense, net	$ 330	$ 4,150	$ 7,010

	Year Ended December 31,		
	2013	2012	2011
	(In thousands)		
Covered OREO Expense:			
Provision for losses	$ 1,697	$ 10,513	$ 11,968
Maintenance costs	101	366	645
(Gain) loss on sale	(3,631)	(4,098)	(8,947)
Total covered OREO expense, net	$ (1,833)	$ 6,781	$ 3,666

2013 Compared to 2012

Noninterest expense increased by $19.0 million to $230.7 million during the year ended December 31, 2013 compared to $211.7 million for last year. This increase was due mostly to the combination of: (a) higher acquisition and integration costs of $24.3 million recognized in 2013; (b) accelerated vesting of restricted stock of $12.4 million; and (c) higher compensation expense of $12.1 million due to a higher employee count resulting from acquisition activity; offset in part by: (d) lower debt termination expense of $22.6 million as a result of the early repayments of FHLB advances and subordinated debentures in 2012; and (e) lower OREO expense of $12.4 million due mainly to lower write-downs. Excluding the accelerated vesting of restricted stock, acquisition and integration costs, OREO expense, and debt termination expense, noninterest expense increased $17.3 million due to the bank acquisitions completed on May 31, 2013 and August 1, 2012.

In December 2013, the Company accelerated the vesting of certain restricted stock awards that resulted in a pre-tax charge of $12.4 million ($12.2 million after tax). This action was taken by the Company in order to eliminate an additional $21.0 million of compensation and tax expense related to change in control payments that the Company would have otherwise incurred upon consummation of the CapitalSource merger. Such eliminated expenses relate to tax gross-up payments and the value of lost tax deductions, in each case due to the impact of Sections 280G and 4999 of the Internal Revenue Code as they apply to change in control payments that would have become payable to certain PacWest employees in conjunction with the CapitalSource merger. The restricted stock awards that were vested on an accelerated basis in 2013 would have otherwise vested upon consummation of the CapitalSource merger, and the $12.2 million after-tax charge to earnings that we recorded in December 2013 would have been incurred at that time.

Noninterest expense includes (a) amortization of time-based restricted stock, which vests either in increments over a three to five year period or at the end of such period and is included in compensation expense, and (b) intangible asset amortization, which is related to customer deposits and customer relationship intangible assets. Amortization of restricted stock, excluding the accelerated vesting of restricted stock, totaled $8.5 million and $5.7 million for the years ended December 31, 2013 and 2012, respectively. Intangible asset amortization totaled $5.4 million for the year ended December 31, 2013 compared to $6.3 million for 2012; the decrease was due to certain intangibles being fully amortized.

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2012 Compared to 2011

Noninterest expense increased by $31.7 million to $211.7 million for 2012 compared to $180.0 million for 2011. The increase was due mostly to $22.6 million in debt termination expense incurred in the first quarter of 2012 for the early repayments of FHLB advances and subordinated debentures; there was no such expense incurred in 2011. Acquisition and integration costs increased $3.5 million as a result of our 2012 acquisition activities, including the then proposed acquisition of FCAL. Covered OREO expense increased by $3.1 million due mostly to lower gains on sales offset by lower write-downs, while non-covered OREO expense decreased $2.8 million due to higher gains on sales of and lower write-downs.

When debt termination expense, acquisition and integration costs, and OREO costs, are excluded, noninterest expense increased $5.3 million; this increase included $15.1 million of noninterest expense for the operations of APB, Celtic and EQF since their respective acquisition dates. The remaining $9.8 million decrease in overhead costs included: (a) lower intangible asset amortization of $2.7 million due to the timing of core deposit and customer relationship intangibles becoming fully amortized; (b) lower compensation costs of $2.0 million due to the staff reduction effort late in 2011 and cost savings from the third quarter of 2012 branch sale transaction; (c) lower occupancy costs of $1.9 million due to lease renewals at lower rates and property cost savings after the 2012 branch sale transaction; (d) lower insurance and assessments of $1.9 million due to the revised deposit insurance assessment formula; and (e) lower other professional services costs of $1.2 million due to lower legal fees for litigation on loans and to lower fees for our outsourced internal audit function.

Amortization of restricted stock totaled $5.7 million and $7.6 million for the years ended December 31, 2012 and 2011, respectively. Intangible asset amortization totaled $6.3 million for the year ended December 31, 2012 compared to $8.4 million for the prior year.

Income Taxes

Effective income tax rates were 39.7%, 39.2%, and 42.1% for the years ended December 31, 2013, 2012, and 2011, respectively. The difference in the effective tax rates between the annual periods relates mainly to the level of tax credits and tax deductions and the amount of tax exempt income recorded in each of the years. The Company operates primarily in the federal and California jurisdictions and the blended statutory tax rate for federal and California is 42%. For further information on income taxes, see Note 15, *Income Taxes*, of the Notes to Consolidated Financial Statements contained in "Item 8. Financial Statements and Supplementary Data."

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Fourth Quarter Results

The following table sets forth our unaudited quarterly results for the period indicated:

	Three Months Ended December 31, 2013	Three Months Ended September 30, 2013
	(Dollars in thousands, except per share data)	
Earnings Summary:		
Interest income	$ 83,856	$ 85,158
Interest expense	(2,598)	(2,869)
Net interest income	81,258	82,289
Negative provision for credit losses	1,338	4,167
FDIC loss sharing expense, net	(10,593)	(7,032)
Gain on asset sales	411	604
Acquisition-related securities gain		5,222
Other noninterest income	6,256	6,333
Total noninterest income (expense)	(3,926)	5,127
Accelerated vesting of restricted stock	(12,420)	
Non-covered OREO expense, net	(25)	88
Covered OREO expense, net	594	332
Acquisition and integration costs	(4,253)	(5,450)
Other noninterest expense	(49,984)	(51,170)
Total noninterest expense	(66,088)	(56,200)
Earnings from continuing operations before income taxes	12,582	35,383
Income tax expense	(9,135)	(11,243)
Net earnings from continuing operations	3,447	24,140
Earnings (loss) from discontinued operations before income taxes	(578)	39
Income tax (expense) benefit	240	(16)
Net earnings (loss) from discontinued operations	(338)	23
Net earnings	$ 3,109	$ 24,163

Profitability Measures:				
Basic and diluted earnings per share:				
Net earnings from continuing operations	$	0.07	$	0.53
Net earnings	$	0.06	$	0.53
Annualized return on:				
Average assets		0.19%		1.44%
Average equity		1.51%		12.02%
Net interest margin		5.41%		5.46%
Core net interest margin		5.31%		5.29%
Base efficiency ratio		85.5%		64.3%
Adjusted efficiency ratio[1]		56.7%		57.3%

(1) Excludes FDIC loss sharing expense, securities gains and losses, OREO expense, acquisition and integration costs, and accelerated vesting of restricted stock.

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Fourth Quarter of 2013 Compared to Third Quarter of 2013

We recorded net earnings of $3.1 million for the fourth quarter of 2013 compared to net earnings of $24.2 million for the third quarter of 2013.The quarter-over-quarter decrease in net earnings of $21.1 million was due mostly to: (a) the $12.4 million ($12.2 million after tax) accelerated vesting of restricted stock, (b) the $6.2 million ($3.6 million after tax) increase in net credit costs (mostly due to higher FDIC loss sharing expense), (c) the $5.2 million non-taxable acquisition-related securities gain recorded in the third quarter but not repeated in the fourth quarter, and (d) the $1.0 million ($598,000 after tax) decrease in net interest income. These items were offset in part by the decrease in acquisition and integration costs of $1.2 million ($524,000 after tax).

The net interest margin ("NIM") is impacted by several items that cause volatility from period to period. The effects of such items on the NIM are shown in the following table for the periods indicated:

Items Impacting NIM Volatility	Three Months Ended December 31, 2013	Three Months Ended September 30, 2013
	Increase (Decrease) in NIM	
Accelerated accretion of acquisition discounts resulting from PCI loan payoffs	0.10%	0.14%
Nonaccrual loan interest		0.02%
Unearned income on the early repayment of leases	0.01%	0.02%
Celtic loan portfolio premium amortization	(0.01)%	(0.01)%
Total	0.10%	0.17%
As reported NIM	5.41%	5.46%
Core NIM	5.31%	5.29%

The following table presents the loan yields and related average balances for our non-covered loans and leases, covered loans, and total loan and lease portfolio for the periods indicated:

	Three Months Ended December 31, 2013	Three Months Ended September 30, 2013
	(Dollars in thousands)	
Yields:		
Non-PCI loans and leases	6.14%	6.35%
PCI loans	13.15%	11.88%
Total loans and leases	6.77%	6.90%
Average Balances:		
Non-PCI loans and leases	$ 3,916,650	$ 3,889,780
PCI loans	384,727	430,990
Total loans and leases	$ 4,301,377	$ 4,320,770

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The loan yield is impacted by the same items that cause volatility in the NIM. The following table presents the effects of these items on the total loan and lease yield for the periods indicated:

Items Impacting Loan and Lease Yield Volatility	Three Months Ended December 31, 2013	Three Months Ended September 30, 2013
	Increase (Decrease) in Loan Yield	
Accelerated accretion of acquisition discounts resulting from PCI loan payoffs	0.13%	0.19%
Nonaccrual loan interest		0.03%
Unearned income on the early repayment of leases	0.01%	0.03%
Celtic loan portfolio premium amortization	(0.01)%	(0.02)%
Total	0.13%	0.23%
As reported loan and lease yield	6.77%	6.90%
Core loan and lease yield	6.64%	6.67%

The NIM for the fourth quarter was 5.41%, a decrease of five basis points from 5.46% for the third quarter. The decrease was due to a lower yield on loans and leases, offset partially by lower funding costs.

Net interest income declined by $1.0 million to $81.3 million for the fourth quarter compared to $82.3 million for the third quarter due primarily to lower interest income on loans and leases. Interest income on loans and leases decreased $1.8 million due to lower accelerated accretion of acquisition discounts resulting from PCI loan payoffs, lower nonaccrual loan interest recoveries, and lower income from early lease payoffs. Interest income on investment securities increased $551,000 due to a higher average portfolio balance and a higher yield; the improved yield on our securities portfolio is a result of higher yielding securities purchased during the third quarter, the impact of which was fully realized in the fourth quarter, and lower premium amortization on mortgage-related securities due to slower prepayment speeds. Interest expense declined by $271,000 due to a lower average rate and average balance for time deposits.

The yield on loans and leases declined to 6.77% for the fourth quarter from 6.90% for the third quarter due to lower accelerated accretion of acquisition discounts resulting from PCI loan payoffs, lower nonaccrual interest recoveries and lower income from early lease payoffs. The accelerated accretion of acquisition discounts resulting from PCI loan payoffs totaled $1.4 million for the fourth quarter and $2.1 million for the third quarter, increasing the loan yields by 13 basis points and 19 basis points, respectively. Total nonaccrual interest recoveries were $15,000 for the fourth quarter and $350,000 for the third quarter. Total income from early lease payoffs was $52,000 for the fourth quarter and $299,000 for the third quarter.

The cost of average funding sources declined two basis points to 0.18% for the fourth quarter from 0.20% for the third quarter. This includes all-in deposit cost which declined one basis point to 0.11% for the fourth quarter. The cost of total interest-bearing deposits decreased two basis points to 0.19% for the fourth quarter from 0.21% for the third quarter. The cost of total interest-bearing liabilities declined two basis points to 0.32% for the fourth quarter. Such declines are due mainly to a lower average rate on time deposits.

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The Company recorded a negative provision for credit losses of $1.3 million in the fourth quarter of 2013 compared to a negative provision for credit losses of $4.2 million in the third quarter of 2013 as follows:

	Three Months Ended December 31, 2013	Three Months Ended September 30, 2013	Increase (Decrease)
	(In thousands)		
Provision (Negative Provision) for Credit Losses on:			
Non-PCI loans and leases	$	$	$
PCI loans	(1,338)	(4,167)	2,829
Total provision (negative provision) for credit losses	$ (1,338)	$ (4,167)	$ 2,829

The provision level on the Non-PCI portfolio is generated by our allowance methodology and reflects historical and current net charge-offs, the levels of nonaccrual and classified loans and leases, the migration of loans and leases into various risk classifications and the level of outstanding loans and leases. Based on such methodology, there was no fourth quarter provision. The provision or (negative provision) for credit losses on the PCI loans results from, respectively, decreases or (increases) in expected cash flows on such loans compared to those previously estimated.

Noninterest income declined by $9.0 million to a negative $3.9 million for the fourth quarter of 2013 from a positive $5.1 million for the prior quarter. The decrease was due mostly to the $5.2 million non-taxable acquisition-related securities gain recorded in the third quarter that was not repeated in the fourth quarter and an increase in FDIC loss sharing expense. The acquisition-related securities gain recognized our previously-held equity interest in FCAL common stock at its fair value as of the acquisition date. The $3.6 million increase in FDIC loss sharing expense was due to higher amortization of the FDIC loss sharing asset and lower gains on the FDIC loss sharing asset as covered PCI loan performance generally continues to improve in relation to initial expectations.

The Bank reviewed its exposure to potential losses in December 2013 under the proposed regulations, referred to as the Volcker rule, concerning investment securities and hedging activities. We identified securities totaling $11 million in our portfolio that may be negatively impacted by this rule. In order to minimize the risk to the Company and the Bank in holding these securities, we sold $10 million of the securities in December and realized a $272,000 pre-tax loss. The remaining security, which is covered under a loss sharing agreement and which has a market value approximating its carrying value, will be sold if required under the Volcker rule. Neither the Company nor the Bank is engaged in any sort of hedging activity utilizing derivatives.

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The following table presents the details of FDIC loss sharing income (expense), net for the periods indicated:

	Three Months Ended		
	December 31, 2013	September 30, 2013	Increase (Decrease)
	(In thousands)		
FDIC Loss Sharing Income, Net:			
Gain (loss) on FDIC loss sharing asset[1]	$ (1,909)	$ 269	$ (2,178)
FDIC loss sharing asset amortization, net	(8,111)	(6,971)	(1,140)
Net reimbursement (to) from FDIC for covered OREO activity[2]	(508)	(276)	(232)
Other	(65)	(54)	(11)
Total FDIC loss sharing income (expense), net	$ (10,593)	$ (7,032)	$ (3,561)

(1) Includes increases related to covered loan loss provisions and decreases for: (a) write-offs for covered loans expected to be resolved at amounts higher than their carrying values, and (b) amounts to be reimbursed to the FDIC for covered loans resolved at amounts higher than their carrying values.

(2) Represents amounts to be reimbursed to the FDIC for gains on covered OREO sales and due from the FDIC for covered OREO write-downs.

Noninterest expense increased by $9.9 million to $66.1 million during the fourth quarter compared to $56.2 million during the third quarter due to the $12.4 million of expense from accelerated vesting of restricted stock, offset by the decreases in acquisition and integration costs and other professional services of $1.2 million and $516,000. The decrease in other professional services was due mainly to lower legal expense for litigation and loans, none of which related to acquisition activity. Excluding the accelerated vesting of restricted stock, acquisition and integration costs, and OREO expense, noninterest expense declined $1.2 million during the fourth quarter as we continue to make improvements in efficiency. All operating expense categories declined, except for business development expense, which increased $236,000 as we made $297,000 in CRA donations in the fourth quarter.

Noninterest expense includes: (a) amortization of restricted stock, which is included in compensation, and (b) intangible asset amortization. Amortization of restricted stock, excluding the accelerated vesting of restricted stock, totaled $2.3 million for the fourth quarter and $2.4 million for the third quarter. Intangible asset amortization totaled $1.4 million for the fourth quarter and $1.5 million for the third quarter.

Business Segments

The Company's reportable segments consist of "Banking," "Asset Financing," and "Other." At December 31, 2013, the Other segment consisted of the PacWest Bancorp holding company and other elimination and reconciliation entries. The accounting policies of the reported segments are the same as those of the Company described in Note 1, "*Nature of Operations and Summary of Significant Accounting Policies."*

The Bank's Asset Financing segment includes the operations of the divisions and subsidiaries that provide asset-based commercial loans and equipment leases. The asset-based lending products are offered primarily through three business units: (1) First Community Financial ("FCF"), a division of the Bank, based in Phoenix, Arizona; (2) BFI Business Finance ("BFI"), a wholly-owned subsidiary of the Bank, based in San Jose, California; and (3) Celtic Capital Corporation ("Celtic"), a wholly-owned subsidiary of the Bank based in Santa Monica, California. The Bank's leasing products are offered through Pacific Western Equipment Finance ("EQF"), a division of the Bank based in Midvale, Utah.

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The following tables present information regarding our business segments as of and for the years indicated:

Balance Sheet Data	December 31, 2013 Banking	Asset Financing	Other	Consolidated Company
	(In thousands)			
Loans and leases, net of unearned income	$ 3,837,475	$ 474,877	$	$ 4,312,352
Allowance for loan and lease losses	(75,498)	(6,536)		(82,034)
Total loans and leases, net	$ 3,761,977	$ 468,341	$	$ 4,230,318
Goodwill[1]	$ 183,065	$ 25,678	$	$ 208,743
Core deposit and customer relationship intangibles, net	15,331	1,917		17,248
Total assets	6,004,067	519,675	9,621	6,533,363
Total deposits[2]	5,302,822		(21,835)	5,280,987

(1) The increase in the Banking segment's goodwill during 2013 was due primarily to $129.1 million from the FCAL acquisition.

(2) The negative balance for total deposits in the "Other" segment represents the elimination of holding company cash held in deposit accounts at the Bank.

Balance Sheet Data	December 31, 2012 Banking	Asset Financing	Other	Consolidated Company
	(In thousands)			
Loans and leases, net of unearned income	$ 3,175,165	$ 415,132	$	$ 3,590,297
Allowance for loan and lease losses	(87,538)	(4,430)		(91,968)
Total loans and leases, net	$ 3,087,627	$ 410,702	$	$ 3,498,329
Goodwill	$ 54,188	$ 25,678	$	$ 79,866
Core deposit and customer relationship intangibles, net	12,151	2,572		14,723
Total assets	4,991,927	451,557	20,174	5,463,658
Total deposits[1]	4,737,593		(28,472)	4,709,121

(1) The negative balance for total deposits in the "Other" segment represents the elimination of holding company cash held in deposit accounts at the Bank.

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Results of Operations	Banking	Asset Financing	Other	Consolidated Company
	Year Ended December 31, 2013			
	(In thousands)			
Interest income	$ 261,492	$ 48,422	$	$ 309,914
Intersegment interest income (expense)	1,525	(1,525)		
Other interest expense	(7,873)	(532)	(3,796)	(12,201)
Net interest income	255,144	46,365	(3,796)	297,713
Negative provision (provision) for credit losses	8,079	(3,869)		4,210
FDIC loss sharing expense	(26,172)			(26,172)
Acquisition-related securities gain			5,222	5,222
Other noninterest income	21,532	3,558	104	25,194
Total noninterest income	(4,640)	3,558	5,326	4,244
Accelerated vesting of restricted stock	(12,420)			(12,420)
OREO income (expense)	1,503			1,503
Intangible asset amortization	(4,748)	(654)		(5,402)
Acquisition and integration costs	(28,132)		(260)	(28,392)
Other noninterest expense	(156,600)	(23,575)	(5,801)	(185,976)
Total noninterest expense	(200,397)	(24,229)	(6,061)	(230,687)
Earnings (loss) from continuing operations before income taxes	58,186	21,825	(4,531)	75,480
Income tax (expense) benefit	(24,940)	(9,101)	4,038	(30,003)
Net earnings (loss) from continuing operations	33,246	12,724	(493)	45,477
Loss from discontinued operations before income taxes	(620)			(620)
Income tax benefit	258			258
Net loss from discontinued operations	(362)			(362)
Net earnings (loss)	$ 32,884	$ 12,724	$ (493)	$ 45,115

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Results of Operations	Banking	Asset Financing	Other	Consolidated Company
	Year Ended December 31, 2012			
	(In thousands)			
Interest income	$ 251,720	$ 44,395	$	$ 296,115
Intersegment interest income (expense)	2,055	(2,055)		
Other interest expense	(15,043)	(884)	(3,721)	(19,648)
Net interest income	238,732	41,456	(3,721)	276,467
Negative provision (provision) for credit losses	14,585	(1,766)		12,819
FDIC loss sharing expense	(10,070)			(10,070)
Other noninterest income	21,811	4,017	114	25,942
Total noninterest income	11,741	4,017	114	15,872
OREO expense	(10,931)			(10,931)
Intangible asset amortization	(5,898)	(428)		(6,326)
Acquisition and integration costs	(4,089)			(4,089)
Debt termination expense	(24,195)		1,597	(22,598)
Other noninterest expense	(138,640)	(23,502)	(5,576)	(167,718)
Total noninterest expense	(183,753)	(23,930)	(3,979)	(211,662)
Earnings (loss) before income taxes	81,305	19,777	(7,586)	93,496
Income tax (expense) benefit	(31,542)	(8,327)	3,174	(36,695)
Net earnings (loss)	$ 49,763	$ 11,450	$ (4,412)	$ 56,801

Results of Operations	Banking	Asset Financing	Other	Consolidated Company
	Year Ended December 31, 2011			
	(In thousands)			
Interest income	$ 276,734	$ 18,550	$	$ 295,284
Intersegment interest income (expense)	1,226	(1,226)		
Other interest expense	(27,720)		(4,923)	(32,643)

Net interest income	250,240	17,324	(4,923)	262,641
Provision for credit losses	(26,520)	(50)		(26,570)
FDIC loss sharing income	7,776			7,776
Other noninterest income	22,833	660	157	23,650
Total noninterest income	30,609	660	157	31,426
OREO expense	(10,676)			(10,676)
Intangible asset amortization	(8,264)	(164)		(8,428)
Acquisition and integration costs	(600)			(600)
Other noninterest expense	(141,188)	(10,846)	(8,255)	(160,289)
Total noninterest expense	(160,728)	(11,010)	(8,255)	(179,993)
Earnings (loss) before income taxes	93,601	6,924	(13,021)	87,504
Income tax (expense) benefit	(39,554)	(2,917)	5,671	(36,800)
Net earnings (loss)	$ 54,047	$ 4,007	$ (7,350)	$ 50,704

2013 Compared to 2012

Net earnings for the Banking segment declined $16.9 million to $32.9 million for the year ended December 31, 2013 compared to $49.8 million for the year ended December 31, 2012. The decrease in net earnings was due mainly to higher acquisition and integration costs of $24.0 million ($14.6 million after tax); $12.4 million ($12.2 million after tax) in accelerated vesting of restricted stock; higher compensation expense, mostly from acquisitions, of $11.8 million ($6.8 million after tax); and higher net credit costs (provision for credit losses, FDIC loss sharing expense, and OREO expense) of $10.2 million ($5.9 million after tax). These items were offset in part by $24.2 million ($14.0 million after tax) in debt termination expense recognized in 2012 with no similar charge in 2013; and higher net interest income of $16.4 million ($9.5 million after tax).

The increase in net interest income for 2013 compared to 2012 was due mainly to an increase in interest-earning assets and lower interest expense on deposits and borrowings, offset by a lower yield on average interest-earning assets. The Banking segment's average interest-earning assets increased $435.3 million primarily due to the FCAL acquisition. The yield on average interest-earning assets was 5.15% for 2013 compared to 5.42% for 2012.

Net earnings for the Asset Financing segment increased $1.3 million to $12.7 million for the year ended December 31, 2013 compared to $11.4 million for the year ended December 31, 2012. The increase in net earnings was due mostly to an increase in net interest income of $4.9 million ($2.8 million after tax), of which the Celtic acquisition that occurred in April 2012, contributed $3.2 million ($1.8 million after tax) in 2013. The Asset Financing segment's average interest-earning assets increased $98.1 million during the current year. The yield on average interest-earning assets was 10.64% for 2013 compared to 12.43% for 2012. Provision for credit losses increased $2.1 million ($1.2 million after tax) due primarily to two asset-based lending relationships that were identified as impaired in the current year. Net earnings were positively impacted by an increase in noninterest income, offset partially by an increase in overhead expenses in 2013 from the Celtic acquisition.

The net loss for the Other segment declined $3.9 million to $493,000 for the year ended December 31, 2013 compared to $4.4 million for the year ended December 31, 2012. This decrease in net loss was primarily the result of the $5.2 million non-taxable acquisition-related securities gain from the conversion of FCAL stock at the date of merger. This was partially offset by lower debt termination income of $1.6 million ($926,000 after tax) that was recognized in the prior year.

2012 Compared to 2011

Net earnings for the Banking segment declined $4.3 million to $49.8 million for the year ended December 31, 2012, compared to $54.1 million for 2011. The decrease was due mainly to $24.2 million ($14.0 million after tax) in debt termination expense recognized in 2012 with no similar charge in 2011; lower FDIC loss sharing income of $17.8 million ($10.4 million after tax); lower net interest income of $11.5 million ($6.7 million after tax); and higher acquisition and integration costs of $3.5 million ($2.0 million after tax). These items were offset partially by lower provision for credit losses on PCI and Non-PCI loans and leases of $41.1 million ($23.8 million after tax), and a $2.8 million tax benefit attributable to tax credits and a lower effective tax rate related to tax exempt income. The decrease in net interest income for 2012 compared to 2011 is attributed to both lower average interest-earning assets and a lower yield on such assets. The Banking segment's average interest-earning assets totaled $4.6 billion for 2012, a $197.5 million decrease compared to 2011, due to lower average loans. The yield on the Banking segment's average interest-earning assets decreased 29 basis points to 5.42% for 2012 compared to 5.71% for 2011.

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Net earnings for the Asset Financing segment increased $7.4 million for the year ended December 31, 2012 compared to 2011 due to the 2012 EQF and Celtic acquisitions, which added $6.8 million in net earnings. The remaining increase in net earnings was due in part to increased net interest income and lower intangible asset amortization and other professional services expense in 2012. Net interest income for the Asset Financing segment increased $24.1 million ($14.0 million after tax), of which $23.4 million ($13.6 million after tax) related to the EQF and Celtic acquisitions. The yield on the Asset Financing segment's average interest-earning assets decreased by one basis point to 12.43% for 2012 compared to 12.44% for 2011.

The Asset Financing segment provision for credit losses increased $1.7 million ($995,000 after tax), due mainly to increased loan and lease volumes for EQF and Celtic post acquisition. Noninterest income increased $3.4 million ($1.9 million after tax), all of which related to EQF and Celtic, including a $2.8 million ($1.6 million after tax) gain on sale of leases. Total noninterest expense for the Asset Financing segment increased by $12.9 million ($7.5 million after tax). EQF and Celtic combined added $13.4 million ($7.8 million after tax) of noninterest expense, while compensation expense, other professional services, and intangible asset amortization in the other financing units declined.

The net loss for the Other segment decreased $2.9 million for the year ended December 31, 2012 as compared to 2011. This decrease was the result of lower after-tax interest expense of $697,000, after-tax income on debt termination of $926,000 attributable to the early redemption of $18.6 million in subordinated debentures during the first quarter of 2012, and lower compensation expense and other professional services.

Financial Condition

Investment Portfolio

Our portfolio consists primarily of U.S. government agency obligations, government-sponsored enterprise ("GSE") obligations, obligations of states and political subdivisions ("municipal securities"), and corporate debt securities. The covered private label collateralized mortgage obligations ("CMOs') were acquired in the August 2009 Affinity acquisition and are covered by a FDIC loss sharing agreement.

The following table presents the composition of our investment portfolio at the dates indicated:

	December 31,		
Security Type	**2013**	**2012**	**2011**
		(In thousands)	
Residential mortgage-backed securities:			
Government agency and government-sponsored enterprise pass through securities	$ 707,188	$ 807,842	$ 1,042,507
Government agency and government-sponsored enterprise collateralized mortgage obligations	192,873	101,694	82,027
Covered private label collateralized mortgage obligations	37,904	44,684	45,149
Municipal securities	436,658	348,041	126,797
Corporate debt securities	82,707	42,365	25,128
Government-sponsored enterprise debt securities	9,872		
Other securities	27,543	10,759	4,750
Total securities available-for-sale	1,494,745	1,355,385	1,326,358
Federal Home Loan Bank stock	27,939	37,126	46,106
Total investment securities	$ 1,522,684	$ 1,392,511	$ 1,372,464

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The following table presents the detail of our market purchases of securities during the years indicated:

Security Type	Year Ended December 31, 2013	2012	2011
	(In thousands)		
Residential mortgage-backed securities:			
Government agency and government-sponsored enterprise pass through securities	$ 199,563	$ 156,376	$ 449,927
Government agency and government-sponsored enterprise collateralized mortgage obligations	129,321	61,114	60,190
Municipal securities	122,740	215,603	120,501
Corporate debt securities	54,148	51,264	25,096
Government-sponsored enterprise debt securities	10,047		
Collateralized loan obligation securities	9,867		
Other securities	24,525	1,503	2,596
Total market purchases of securities available-for-sale	$ 550,211	$ 485,860	$ 658,310

The following table presents the components, yields, and durations of our securities available-for-sale as of the date indicated:

Security Type	December 31, 2013 Amortized Cost	Carrying Value	Yield(1)	Duration (in years)
	(Dollars in thousands)			
Residential mortgage-backed securities:				
Government agency and government-sponsored enterprise pass through securities	$ 691,944	$ 707,188	2.15%	3.7
Government agency and government-sponsored enterprise collateralized mortgage obligations	197,069	192,873	2.39%	5.1
Covered private label collateralized mortgage obligations	30,502	37,904	9.09%	2.9
Municipal securities(2)	459,182	436,658	2.97%	6.2
Corporate debt securities	84,119	82,707	2.61%	2.6
Government-sponsored enterprise debt securities	10,046	9,872	2.51%	6.3
Other securities	27,654	27,543	0.99%	4.4
Total securities available-for-sale(2)	$ 1,500,516	$ 1,494,745	2.60%	4.5

(1) Represents the yield for the month of December 2013.

(2) The tax equivalent yield was 4.46% and 2.97% for municipal securities and total securities available-for-sale, respectively.

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The following table shows the geographic composition of the majority of our municipal securities portfolio as of the date indicated:

Municipal Securities by State:	December 31, 2013 Carrying Value	% of Total
	(In thousands)	
Texas	$ 84,142	19%
Washington	41,443	10%
New York	31,859	7%
Colorado	25,090	6%
Illinois	23,927	6%
Ohio	22,021	5%
California	19,455	5%
Hawaii	15,005	3%
Florida	14,987	3%
Massachusetts	14,877	3%
Total of 10 largest states	292,806	67%
All other states	143,852	33%
Total municipal securities	$ 436,658	100%

The following table presents a summary of rates and contractual maturities of our securities available-for-sale as of the date indicated:

December 31, 2013	One Year or Less Carrying Value	Rate	One Year Through Five Years Carrying Value	Rate	Five Years Through Ten Years Carrying Value	Rate	Over Ten Years Carrying Value	Rate	Total Carrying Value	Rate
					(Dollars in thousands)					
Residential mortgage-backed securities:										
Government agency and government-sponsored enterprise pass through securities	$ 17	6.93%	$ 1,607	4.35%	$ 44,203	3.55%	$ 661,361	3.84%	$ 707,188	3.82%
Government agency and government-sponsored enterprise collateralized mortgage obligations			25	9.09%	51,298	3.83%	141,550	3.25%	192,873	3.41%
Covered private label collateralized mortgage obligations					533	5.33%	37,371	5.86%	37,904	5.85%
Municipal securities[(1)]	2,202	5.01%	2,952	4.64%	12,141	3.92%	419,363	4.53%	436,658	4.51%
Corporate debt securities			20,165	1.46%	11,938	1.25%	50,604	2.70%	82,707	2.19%
Government-sponsored enterprise debt securities					9,872	2.65%			9,872	2.65%
Other securities	3,573						23,970	0.69%	27,543	0.60%
Total securities available-for-sale[(1)]	$ 5,792	1.93%	$ 24,749	2.04%	$ 129,985	3.42%	$ 1,334,219	3.95%	$ 1,494,745	3.87%

(1) Rates on tax exempt securities are not presented on a tax equivalent basis.

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Loans and Leases

The following tables present the balance of our total gross loans and lease by portfolio segment and class as of the dates indicated:

	December 31, 2013		December 31, 2012	
	Amount	% of Total	Amount	% of Total
Real estate mortgage:				
Hospitality	$ 181,735	4%	$ 183,788	5%
SBA 504	45,166	1%	54,158	1%
Other	2,569,097	60%	2,186,264	61%
Total real estate mortgage	2,795,998	65%	2,424,210	67%
Real estate construction:				
Residential	58,898	1%	54,602	1%
Commercial	160,619	4%	100,002	3%
Total real estate construction	219,517	5%	154,604	4%
Total real estate loans	3,015,515	70%	2,578,814	71%
Commercial:				
Collateralized	588,031	13%	470,861	13%
Unsecured	153,880	4%	80,910	2%
Asset-based	202,428	5%	239,430	7%
SBA 7(a)	28,642	1%	25,325	1%
Total commercial	972,981	23%	816,526	23%
Leases	269,769	6%	174,373	5%
Consumer	55,070	1%	23,119	1%
Total gross loans and leases	$ 4,313,335	100%	$ 3,592,832	100%

The following table presents our loan and lease portfolio activity for the year ended December 31, 2013:

	December 31, 2012	Originated and Purchased	Net Paydowns	Net Acquired	December 31, 2013
			(In thousands)		
Non-covered loans, excluding					
Asset Financing Segment	$ 2,635,702	$ 533,086	$ (679,171)	$ 903,103	$ 3,392,720
Asset Financing Segment	413,803	232,245	(173,851)		472,197

Total non-covered loans and leases	3,049,505	765,331	(853,022)	903,103	3,864,917
Covered loans	543,327		(198,946)	104,037	448,418
Total	$ 3,592,832	$ 765,331	$ (1,051,968)	$ 1,007,140	$ 4,313,335

Our real estate loan portfolio is predominantly commercial-related loans and as such does not expose us to the risks generally associated with residential mortgage loans such as option ARM, interest-only, or subprime mortgage loans. Our portfolio does expose us to risk elements associated with mortgage loans on commercial property. Commercial real estate mortgage loan repayments typically do not rely on the sale of the underlying collateral, but instead rely on the income producing potential of the collateral as the source of repayment. Ultimately, though, due to the loan amortization period generally being greater than the contractual loan term, the borrower may be required to

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refinance the loan, either with us or another lender, or pay off the loan, by selling the underlying collateral.

At December 31, 2013, we had $306.8 million of commercial real estate mortgage loans maturing over the next 12 months. For any of these loans, in the event that we provide a concession through a refinance or modification which we would not ordinarily consider in order to protect as much of our investment as possible, such loan may be considered a troubled debt restructuring even though it was performing throughout its term. The circumstances regarding any modification and a borrower's specific situation, such as their ability to obtain financing from another source at similar market terms, are evaluated on an individual basis to determine if a troubled debt restructuring has occurred. Higher levels of troubled debt restructurings may lead to increased classified assets and credit loss provisions.

The following table presents the composition of our total real estate mortgage loan portfolio as of the dates indicated:

	December 31, 2013		December 31, 2012	
Loan Category	**Amount**	**% of Total**	**Amount**	**% of Total**
	(Dollars in thousands)			
Commercial real estate mortgage:				
Industrial/warehouse	$ 354,345	13%	$ 341,862	14%
Retail	346,370	12%	362,771	15%
Office buildings	434,961	16%	357,624	15%
Owner-occupied	233,195	8%	209,697	9%
Hotel	181,735	6%	183,788	7%
Healthcare	189,737	7%	113,854	5%
Mixed use	68,966	2%	54,052	2%
Gas station	35,224	1%	35,725	1%
Self storage	73,760	3%	65,362	3%
Restaurant	21,510	1%	18,325	1%
Land acquisition/development	4,420		21,922	1%
Unimproved land	12,517	1%	13,341	1%
Other	174,780	6%	182,377	7%
Total commercial real estate mortgage	2,131,520	76%	1,960,700	81%
Residential real estate mortgage:				
Multi-family	330,229	12%	262,815	11%
Single family owner-occupied	212,508	8%	115,958	5%
Single family nonowner-occupied	33,741	1%	28,790	1%
Mixed use	10,701		3,372	
HELOCs	77,299	3%	52,575	2%
Total residential real estate mortgage	664,478	24%	463,510	19%
Total gross real estate mortgage loans	$ 2,795,998	100%	$ 2,424,210	100%

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Non-Covered Loans and Leases

The following table presents the balance of our non-covered loans and leases by portfolio segment and class as of the dates indicated:

	December 31, 2013		December 31, 2012	
	Amount	% of Total	Amount	% of Total
	(Dollars in thousands)			
Real estate mortgage:				
Hospitality	$ 179,340	5%	$ 181,144	6%
SBA 504	45,166	1%	54,158	2%
Other	2,153,519	56%	1,684,008	55%
Total real estate mortgage	2,378,025	62%	1,919,310	63%
Real estate construction:				
Residential	58,881	1%	48,629	1%
Commercial	142,842	4%	81,330	3%
Total real estate construction	201,723	5%	129,959	4%
Total real estate loans	2,579,748	67%	2,049,269	67%
Commercial:				
Collateralized	581,097	15%	458,206	15%
Unsecured	150,985	4%	80,381	2%
Asset-based	202,428	5%	239,430	8%
SBA 7(a)	28,642	1%	25,325	1%
Total commercial	963,152	25%	803,342	26%
Leases	269,769	7%	174,373	6%
Consumer	52,248	1%	22,521	1%
Total gross non-covered loans and leases	$ 3,864,917	100%	$ 3,049,505	100%

During 2013, gross non-covered loans and leases increased $815.4 million, due primarily to $903.1 million of acquired loans from the FCAL acquisition and $765.3 million in originations and purchases, offset by net paydowns of $853.0 million. Our ability to make new loans is dependent on economic factors in our market area, borrower qualifications, competition, and liquidity, among other items. Given the state of the economy in our market areas and the intense competition for loans, achieving robust loan growth was challenging and net paydowns exceeded our originations and purchases during the year. Organic net loan growth during the year would have involved underpricing competitors in many cases at margins that were not significantly above our securities portfolio yield. However, we have seen some improvement in our markets and expect new loan activity will increase.

During 2012, gross non-covered loans and leases increased $237.4 million due primarily to $393.2 million of acquired loans and leases from our 2012 acquisitions, offset partially by a decline of $155.8 million due to payments and resolution activities.

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Our largest loan portfolio concentration is the non-covered real estate mortgage category, which includes loans secured by commercial and residential real estate. The following table presents the composition of our non-covered real estate mortgage loan portfolio as of the dates indicated:

	December 31,			
	2013		2012	
Loan Category	**Amount**	**% of Total**	**Amount**	**% of Total**
	(Dollars in thousands)			
Commercial real estate mortgage:				
Industrial/warehouse	$ 336,648	14%	$ 316,459	16%
Retail	281,739	12%	271,412	14%
Office buildings	392,921	16%	304,373	16%
Owner-occupied	218,786	9%	195,170	10%
Hotel	179,340	8%	181,144	9%
Healthcare	180,957	8%	102,816	5%
Mixed use	63,218	3%	51,294	3%
Gas station	31,421	1%	29,632	2%
Self storage	47,762	2%	29,688	2%
Restaurant	20,617	1%	16,755	1%
Land acquisition/development	4,420		21,922	1%
Unimproved land	12,043	1%	13,173	1%
Other	167,356	7%	172,273	9%
Total commercial real estate mortgage	1,937,228	82%	1,706,111	89%
Residential real estate mortgage:				
Multi-family	211,360	9%	103,742	5%
Single family owner-occupied	149,917	6%	44,792	2%
Single family nonowner-occupied	16,084	1%	12,789	1%
Mixed use	10,230		1,333	
HELOCs	53,206	2%	50,543	3%
Total residential real estate mortgage	440,797	18%	213,199	11%
Total gross non-covered real estate mortgage loans	$ 2,378,025	100%	$ 1,919,310	100%

The largest subset of the "Other" commercial real estate mortgage category is for fixed base operators at airports with a balance of $24.3 million, or 14.5%, of the total.

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Covered Loans

The following table presents the composition of our covered loans as of the dates indicated:

	December 31,			
	2013		2012	
Covered Loans	**Amount**	**% of Total**	**Amount**	**% of Total**
	(Dollars in thousands)			
Real estate mortgage:				
Hospitality	$ 2,395	1%	$ 2,644	1%
Other	415,578	92%	502,256	92%
Total real estate mortgage	417,973	93%	504,900	93%
Real estate construction:				
Residential	17		5,973	1%
Commercial	17,777	4%	18,672	4%
Total real estate construction	17,794	4%	24,645	5%
Total real estate loans	435,767	97%	529,545	98%
Commercial:				
Collateralized	6,934	1%	12,655	2%
Unsecured	2,895	1%	529	
Total commercial	9,829	2%	13,184	2%
Consumer	2,822	1%	598	
Total gross covered loans	$ 448,418	100%	$ 543,327	100%

The loans acquired in the Affinity and Los Padres acquisitions are covered by loss sharing agreements with the FDIC and we will be reimbursed for a substantial portion of any future losses. We acquired $110.0 million of covered assets in the FCAL acquisition. We assumed the loss sharing agreements between First California Bank and the FDIC related to FCB's acquisition of Western Commercial Bank ("Western Commercial") and San Luis Trust Bank ("San Luis").

Under the terms of the Affinity loss sharing agreement, the FDIC will (a) absorb 80% of losses and receive 80% of loss recoveries on the first $234 million of losses on covered assets and (b) absorb 95% of losses and receive 95% of loss recoveries on losses exceeding $234 million. The Affinity loss sharing provisions expire in the third quarters of 2014 and 2019 for non-single family covered assets and single family covered assets, respectively, while the related loss recovery provisions expire in the third quarters of 2017 and 2019, respectively.

Under the terms of the Los Padres loss sharing agreement, the FDIC will absorb 80% of losses and receive 80% of loss recoveries on the covered assets. The Los Padres loss sharing provisions expire in the third quarters of 2015 and 2020 for non-single family and single family covered assets, respectively, while the related loss recovery provisions expire in the third quarters of 2018 and 2020, respectively.

Under the terms of the Western Commercial loss sharing agreement, the FDIC will absorb 80% of losses and receive 80% of loss recoveries on the covered assets; all of which were deemed to be non-single family. The Western Commercial loss sharing provision expires in the fourth quarter of 2015, while the related loss recovery provision expires in the fourth quarter of 2018.

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Under the terms of the San Luis loss sharing agreement, the FDIC will absorb 80% of losses and receive 80% of loss recoveries on the covered assets. The San Luis loss sharing provisions expire in the first quarters of 2016 and 2021 for non-single family and single family covered assets, respectively, while the related loss recovery provisions expire in the first quarters of 2019 and 2021, respectively.

Both the Western Commercial and San Luis loss sharing agreements contain True-Up provisions. As of December 31, 2013, the estimated True-Up liability of $6.6 million is included in other liabilities in the accompanying condensed consolidated balance sheets.

The following table presents the composition of our covered real estate mortgage loan portfolio as of the dates indicated:

	December 31,			
	2013		2012	
Loan Category	**Amount**	**% of Total**	**Amount**	**% of Total**
	(Dollars in thousands)			
Commercial real estate mortgage:				
Industrial/warehouse	$ 17,697	4%	$ 25,403	5%
Retail	64,631	16%	91,359	18%
Office buildings	42,040	10%	53,251	11%
Owner-occupied	14,409	3%	14,527	3%
Hotel	2,395	1%	2,644	1%
Healthcare	8,780	2%	11,038	2%
Mixed use	5,748	1%	2,758	1%
Gas station	3,803	1%	6,093	1%
Self storage	25,998	6%	35,674	7%
Restaurant	893		1,570	
Unimproved land	474		168	
Other	7,424	2%	10,104	2%
Total commercial real estate mortgage	194,292	46%	254,589	51%
Residential real estate mortgage:				
Multi-family	118,869	29%	159,073	32%
Single family owner-occupied	62,591	15%	51,588	10%
Single family nonowner-occupied	17,657	4%	16,001	3%
Mixed use	471		2,039	
HELOCs	24,093	6%	21,610	4%
Total residential real estate mortgage	223,681	54%	250,311	49%
Total gross covered real estate mortgage loans	$ 417,973	100%	$ 504,900	100%

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Loan and Lease Interest Rate Sensitivity

The following table presents contractual maturity and repricing information for the indicated Non-PCI and PCI loans and leases at December 31, 2013:

	Repricing or Maturing In			
	One Year Or Less	Over One to Five Years	Over Five Years	Total
	(In thousands)			
Non-PCI Loans:				
Real estate mortgage	$ 689,936	$ 1,350,474	$ 384,454	$ 2,424,864
Real estate construction	144,386	61,783	2,921	209,090
Commercial	674,351	209,257	88,399	972,007
Leases	19,219	227,609	22,941	269,769
Consumer	48,629	3,452	2,728	54,809
Total Non-PCI	1,576,521	1,852,575	501,443	3,930,539
PCI Loans	249,611	88,566	44,619	382,796
Total	$ 1,826,132	$ 1,941,141	$ 546,062	$ 4,313,335

The following table presents the interest rate profile of Non-PCI and PCI loans and leases due after one year at December 31, 2013:

	Due After One Year		
	Fixed Rate	Floating Rate	Total
	(In thousands)		
Non-PCI Loans:			
Real estate mortgage	$ 1,129,820	$ 605,108	$ 1,734,928
Real estate construction	29,812	34,892	64,704
Commercial	285,405	12,251	297,656
Leases	250,550		250,550
Consumer	5,884	296	6,180
Total Non-PCI	1,701,471	652,547	2,354,018
PCI Loans	77,122	56,063	133,185
Total	$ 1,778,593	$ 708,610	$ 2,487,203

Allowance for Credit Losses on Non-PCI Loans and Leases

For a discussion of our policy and methodology on the allowance for credit losses on Non-PCI loans and leases, see " Critical Accounting Policies   Allowance for Credit Losses on Non-PCI Loans and Leases." For further information on the allowance for credit losses on Non-PCI loans and leases, see Note 7, *Loans and Leases*, of the Notes to Consolidated Financial Statements contained in "Item 8. Financial Statements and Supplementary Data."

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The following table presents the balance of our allowance for credit losses on Non-PCI loans and leases and certain credit quality measures as of the dates indicated:

	December 31,				
Non-PCI Allowance Data:	**2013**	**2012**	**2011**	**2010**	**2009**
	(Dollars in thousands)				
Allowance for loan and lease losses	$ 60,241	$ 65,899	$ 85,313	$ 98,653	$ 118,717
Reserve for unfunded loan commitments	7,575	6,220	8,470	5,675	5,561
Allowance for credit losses	$ 67,816	$ 72,119	$ 93,783	$ 104,328	$ 124,278
Allowance for credit losses to loans and leases	1.73%	2.35%	3.30%	3.26%	3.34%
Allowance for credit losses to nonaccrual loans and leases	145.0%	172.7%	152.2%	109.2%	51.6%
Allowance for credit losses to nonperforming assets	68.8%	73.5%	65.3%	59.0%	39.9%

The following table presents the changes in our Non-PCI allowance for loan and lease losses for the years indicated:

Year Ended December 31,