PACWEST BANCORP
Form 10-Q
May 05, 2010

Use these links to rapidly review the document
TABLE OF CONTENTS

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2010

OR

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

For the transition period from to
Commission File Number: 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 Number)
401 West "A" Street **San Diego, California** (Address of principal executive offices)	**92101** (Zip Code)

(619) 233-5588
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 o No 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 definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer ý	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 in Rule 12b-2 of the Exchange Act). Yes o No ý

As of April 29, 2010 there were 35,306,235 shares of the registrant's common stock outstanding, excluding 1,424,574 shares of unvested restricted stock.

Table of Contents

TABLE OF CONTENTS

Table of Contents

PART I FINANCIAL INFORMATION

ITEM 1. Unaudited Condensed Consolidated Financial Statements

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2010	December 31, 2009
	(Dollars in thousands, except share data)	
Assets:		
Cash and due from banks	$ 87,510	$ 93,915
Due from banks interest bearing	431,211	117,133
Total cash and cash equivalents	518,721	211,048
Investments:		
Federal Home Loan Bank stock, at cost	50,429	50,429
Non-covered securities available-for-sale (amortized cost of $385,743 at March 31, 2010 and $370,913 at December 31, 2009)	388,180	371,575
Covered securities available-for-sale (amortized cost of $51,564 at March 31, 2010 and $52,967 at December 31, 2009)	51,061	52,125
Securities available-available-for sale, at fair value	439,241	423,700
Total investments	489,670	474,129
Non-covered loans, net of unearned income	3,253,834	3,707,383
Allowance for loan losses	(86,163)	(118,717)
Non-covered loans, net	3,167,671	3,588,666
Covered loans	591,669	621,686
Total loans	3,759,340	4,210,352
Premises and equipment, net	22,050	22,546
Non-covered other real estate owned, net	29,643	43,255
Covered other real estate owned, net	25,403	27,688
Total other real estate owned	55,046	70,943
Accrued interest receivable	16,164	18,205
Core deposit and customer relationship intangibles	30,872	33,296
Cash surrender value of life insurance	66,547	66,149
FDIC loss sharing asset	87,140	112,817
Other assets	157,667	104,594
Total assets	$ 5,203,217	$ 5,324,079
Liabilities and Stockholders' Equity:		
Deposits:		
Noninterest-bearing	$ 1,388,646	$ 1,302,974
Interest-bearing	2,765,591	2,791,595
Total deposits	4,154,237	4,094,569
Accrued interest payable and other liabilities	37,836	50,176
Borrowings	406,550	542,763
Subordinated debentures	129,750	129,798

Total liabilities	4,728,373	4,817,306
Stockholders' equity:		
Preferred stock, $0.01 par value. Authorized 5,000,000 shares; none issued and outstanding		
Common stock, $0.01 par value. Authorized 50,000,000 shares; 36,866,084 shares issued at March 31, 2010 and 35,128,452 shares issued at December 31, 2009 (includes 1,424,574 and 1,095,417 shares of unvested restricted stock, respectively)	369	351
Capital surplus	1,081,382	1,053,584
Accumulated deficit	(605,559)	(545,026)
Less common stock repurchased: 135,275 shares at March 31, 2010 and 113,130 shares at December 31, 2009	(2,469)	(2,032)
Accumulated other comprehensive income unrealized gain (loss) on securities available-for-sale, net	1,121	(104)
Total stockholders' equity	474,844	506,773
Total liabilities and stockholders' equity	$ 5,203,217	$ 5,324,079

See "Notes to Unaudited Condensed Consolidated Financial Statements."

Table of Contents

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS (LOSS)

	Quarter Ended		
	03/31/10	12/31/09	03/31/09
	(Dollars in thousands, except per share data)		
Interest income:			
Interest and fees on loans	$ 63,745	$ 70,331	$ 61,847
Interest on deposits in financial institutions	129	197	61
Interest on investment securities	5,121	5,041	1,546
Total interest income	68,995	75,569	63,454
Interest expense:			
Deposits	6,889	7,475	9,320
Borrowings	2,668	4,300	3,582
Subordinated debentures	1,415	1,467	1,779
Total interest expense	10,972	13,242	14,681
Net interest income before provision for credit losses	58,023	62,327	48,773
Provision for credit losses:			
Non-covered loans	112,527	34,900	14,000
Covered loans	20,700	18,000	
Total provision for credit losses	133,227	52,900	14,000
Net interest income (loss) after provision for credit losses	(75,204)	9,427	34,773
Noninterest income:			
Service charges on deposit accounts	2,729	2,890	3,149
Other commissions and fees	1,790	1,799	1,685
Increase in cash surrender value of life insurance	398	375	439
Increase in FDIC loss sharing asset	16,172	16,314	
Other income	180	450	808
Total noninterest income	21,269	21,828	6,081
Noninterest expense:			
Compensation	19,411	20,320	19,331
Occupancy	6,958	7,100	6,386
Data processing	1,969	1,831	1,628
Other professional services	1,998	2,047	1,524
Business development	667	663	725
Communications	804	789	693
Insurance and assessments	2,274	1,826	1,598
Other real estate owned, net	10,610	4,953	997
Intangible asset amortization	2,424	2,355	2,247
Reorganization and lease charges			1,215
Other	3,455	3,329	2,625
Total noninterest expense	50,570	45,213	38,969
Earnings (loss) before income taxes	(104,505)	(13,958)	1,885

Income taxes	(43,972)	(6,178)	440
Net earnings (loss)	$ (60,533)	$ (7,780)	$ 1,445
Earnings (loss) per share:			
Basic	$ (1.76)	$ (0.23)	$ 0.04
Diluted	$ (1.76)	$ (0.23)	$ 0.04
Dividends declared per share	$ 0.01	$ 0.01	$ 0.32

See "Notes to Unaudited Condensed Consolidated Financial Statements."

Table of Contents

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Quarter Ended March 31, 2010	Quarter Ended March 31, 2009
	(Dollars in thousands)	
Net earnings (loss)	$ (60,533)	$ 1,445
Other comprehensive income, net of related income taxes:		
Unrealized holding gains on securities available-for-sale arising during the period	1,225	622
Comprehensive net income (loss)	$ (59,308)	$ 2,067

See "Notes to Unaudited Condensed Consolidated Financial Statements."

Table of Contents

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

	Common Stock						
	Shares	Par Value	Capital Surplus	(Accumulated Deficit)	Treasury Stock	Accumulated Other Comprehensive Income (loss)	Total
	(Dollars in thousands, except share data)						
Balance as of January 1, 2010	35,015,322	$ 351	$ 1,053,584	$ (545,026)	$ (2,032)	$ (104)	$ 506,773
Net loss				(60,533)			(60,533)
Issuance of common stock	1,348,040	14	26,573				26,587
Tax effect from vesting of restricted stock			(664)				(664)
Restricted stock awarded and earned stock compensation, net of shares forfeited	389,592	4	2,250				2,254
Restricted stock surrendered	(22,145)				(437)		(437)
Cash dividends paid ($0.01 per share)			(361)				(361)
Other comprehensive income increase in net unrealized gain on securities available-for-sale, net of tax effect of $888 thousand						1,225	1,225
Balance as of March 31, 2010	36,730,809	$ 369	$ 1,081,382	$ (605,559)	$ (2,469)	$ 1,121	$ 474,844

See "Notes to Unaudited Condensed Consolidated Financial Statements."

Table of Contents

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Quarter Ended March 31, 2010	Quarter Ended March 31, 2009
	(Dollars in thousands)	
Cash flows from operating activities:		
Net earnings (loss)	$ (60,533)	$ 1,445
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:		
Depreciation and amortization	2,313	3,619
Provision for credit losses	133,227	14,000
Loss (gain) on sale of other real estate owned	(1,047)	37
Other real estate owned valuation adjustment	10,458	534
Gain (loss) on sale of premises and equipment	4	(19)
Restricted stock amortization	2,254	2,199
Tax effect included in stockholders' equity of restricted stock vesting	664	174
(Increase) decrease in accrued and deferred income taxes, net	(43,983)	814
Decrease in other assets	21,682	7,066
Partial settlement with FDIC on SPB deposit acquisition		(15,520)
Decrease in accrued interest payable and other liabilities	(11,513)	(5,068)
Net cash provided by operating activities	53,526	9,281
Cash flows from investing activities:		
Net decrease in net loans outstanding	94,001	44,326
Proceeds from sale of loans	200,609	
Securities available-for-sale:		
Maturities	53,465	15,323
Purchases	(66,856)	(33,786)
Proceeds from sale of other real estate owned	24,528	5,060
Capitalized costs to complete other real estate owned	(545)	
Purchases of premises and equipment, net	(850)	(1,001)
Proceeds from sale of premises and equipment	2	79
Net cash used by investing activities	304,354	30,001
Cash flows from financing activities:		
Net increase (decrease) in deposits:		
Noninterest-bearing	85,672	58,399
Interest-bearing	(26,004)	(132,798)
Net proceeds from issuance of common stock	26,587	100,000
Restricted stock surrendered	(437)	(646)
Tax effect included in stockholders' equity of restricted stock vesting	(664)	(174)
Net decrease in borrowings	(135,000)	
Cash dividends paid	(361)	(10,166)
Net cash used in financing activities	(50,207)	14,615
Net increase in cash and cash equivalents	307,673	53,897
Cash and cash equivalents at beginning of period	211,048	159,870
Cash and cash equivalents at end of period	$ 518,721	$ 213,767

Supplemental disclosure of cash flow information:

Cash paid during period for interest	$ 12,041	$ 15,441
Cash paid during period for income taxes		(393)
Transfer of loans to other real estate owned	17,826	11,700

See "Notes to Unaudited Condensed Consolidated Financial Statements."

Table of Contents

NOTE 1 BASIS OF PRESENTATION

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 a holding company for our 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.

We have completed 21 acquisitions since May 2000. See Notes 2 and 3 for more information about our acquisitions.

(a) Basis of Presentation

The accounting and reporting policies of the Company are in accordance with U.S. generally accepted accounting principles, which we refer to as GAAP. All significant intercompany balances and transactions have been eliminated.

Our financial statements reflect all adjustments that are, in the opinion of management, necessary to present a fair statement of the results for the interim periods presented. Certain information and note disclosures normally included in consolidated financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. The interim operating results are not necessarily indicative of operating results for the full year.

(b) Use of Estimates

Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period to prepare these consolidated financial statements in conformity with GAAP. Actual results could differ from those estimates. Material estimates subject to change in the near term include, among other items, the allowances for credit losses, the carrying value of other real estate owned, the carrying value of intangible assets, the carrying value of the FDIC loss sharing asset and the realization of deferred tax assets.

As described in Note 2 below, Pacific Western acquired assets and assumed liabilities of the former Affinity Bank ("Affinity") in an FDIC-assisted transaction, which we refer to as the Affinity acquisition. The acquired assets and assumed liabilities were measured at estimated fair value. Management made significant estimates and exercised significant judgment in estimating fair values and accounting for the acquisition of Affinity.

(c) Reclassifications

Certain prior year amounts have been reclassified to conform to the current year's presentation.

NOTE 2 ACQUISITIONS

Business Combinations are accounted for under the acquisition method of accounting in accordance with ASC 805, *Business Combinations.* Results of operations of an acquired business are included in the statement of earnings from the date of acquisition. Acquisition-related costs, including conversion and restructuring charges, are expensed as incurred. We adopted this guidance as of January 1, 2009 and applied it to the Affinity acquisition.

Table of Contents

NOTE 2 ACQUISITIONS (Continued)

For acquisitions completed prior to January 1, 2009, the estimated merger-related charges associated with each acquisition were recorded as a liability at closing when the related purchase price was allocated. For each acquisition, we developed an integration plan for the Company that addressed, among other things, requirements for staffing, systems platforms, branch locations and other facilities. The remaining merger-related liability totals $1.1 million at March 31, 2010 and represents the estimated lease payments, net of estimated sublease income, for the remaining life of leases for abandoned space.

Federally Assisted Acquisition of Affinity Bank

On August 28, 2009, Pacific Western Bank acquired certain assets and assumed certain liabilities of Affinity from the Federal Deposit Insurance Corporation ("FDIC") in an FDIC-assisted transaction. We entered into a loss sharing agreement with the FDIC, whereby the FDIC will cover a substantial portion of any future losses on loans, other real estate owned and certain investment securities. We refer to the acquired assets subject to the loss sharing agreement collectively as "covered assets." 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 agreement is in effect for 5 years for commercial assets (non-residential loans, OREO and certain securities) and 10 years for residential loans from the August 28, 2009 acquisition date. The loss recovery provisions are in effect for 8 years for commercial assets and 10 years for residential loans from the acquisition date. Affinity was a full service commercial bank headquartered in Ventura, California that operated 10 branch locations in California. We made this acquisition to expand our presence in California.

The assets acquired and liabilities assumed have been accounted for under the acquisition method of accounting (formerly the purchase method). The assets and liabilities, both tangible and intangible, were recorded at their estimated fair values as of the August 28, 2009 acquisition date.

Unaudited Pro Forma Results of Operations

The following table presents our unaudited pro forma results of operations for the periods presented as if the Affinity acquisition had been completed on January 1, 2009. The unaudited pro forma results of operations include the historical accounts of the Company and Affinity and pro forma adjustments as may be required, including the amortization of intangibles with definite lives and the amortization or accretion of any premiums or discounts arising from fair value adjustments for assets acquired and liabilities assumed. The unaudited pro forma information is intended for informational purposes only and is not necessarily indicative of our future operating results or operating results that would have occurred had these acquisitions been completed at the beginning of 2009. No assumptions have been applied to the pro forma results of operations regarding possible revenue enhancements, expense efficiencies or asset dispositions.

	For the Quarter Ended March 31, 2009 (Dollars in thousands, except per share data)	
Revenues (net interest income plus noninterest income)	$	135,245
Net earnings	$	42,449
Net income per share:		
Basic	$	1.38
Diluted	$	1.38

Table of Contents

NOTE 3 OTHER INTANGIBLE ASSETS

Our intangible assets with definite lives are core deposit intangibles, or CDI, and customer relationship intangibles, or CRI. These intangible assets are amortized over their useful lives to their estimated residual values and reviewed for impairment at least quarterly. If the recoverable amount of the intangible asset is determined to be less than its carrying value, we would then measure the amount of impairment based on an estimate of the intangible asset's fair value at that time. If the fair value is below the carrying value, the intangible asset is reduced to such fair value and impairment is recognized as noninterest expense in the financial statements.

The following table presents the changes in CDI and CRI and the related accumulated amortization for the periods indicated:

	Quarters Ended		
	3/31/10	12/31/09	3/31/09
	(Dollars in thousands)		
Gross amount of CDI and CRI:			
Balance at the beginning and end of the period	$ 75,911	$ 75,911	$ 72,990
Accumulated amortization:			
Balance at the beginning of the period	(42,615)	(40,260)	(33,068)
Amortization	(2,424)	(2,355)	(2,247)
Balance at the end of the period	(45,039)	(42,615)	(35,315)
Net CDI and CRI at the end of the period	$ 30,872	$ 33,296	$ 37,675

The aggregate amortization expense related to the intangible assets is expected to be $9.5 million for 2010. The estimated aggregate amortization expense related to these intangible assets for each of the subsequent four years is $8.0 million, $5.7 million, $4.1 million, and $2.6 million.

NOTE 4 INVESTMENT SECURITIES AND FHLB STOCK

The amortized cost, gross unrealized gains and losses and fair value of securities available-for-sale as of March 31, 2010 are presented in the table below. Other securities include an investment in overnight money market funds at a financial institution. The private label collateralized mortgage obligations were acquired in the Affinity acquisition and are covered by the FDIC loss sharing agreement. See Note 9 for information on fair value measurements and methodology.

	March 31, 2010			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
	(Dollars in thousands)			
Government-sponsored entity debt securities	$ 16,150	$ 53	$ 109	$ 16,094
Municipal securities	7,878	448		8,326
Residential mortgage-backed securities:				
Government and government-sponsored entity pass through	287,999	4,835	427	292,407
Government and government-sponsored entity collateralized mortgage obligations	71,428	465	2,828	69,065
Covered private label collateralized mortgage obligations	51,564	2,269	2,772	51,061
Other securities	2,288			2,288
Total	$ 437,307	$ 8,070	$ 6,136	$ 439,241

Table of Contents

NOTE 4 INVESTMENT SECURITIES AND FHLB STOCK (Continued)

Mortgage-backed securities have contractual terms to maturity and require periodic payments to reduce principal. In addition, expected maturities may differ from contractual maturities because obligors and/or issuers may have the right to call or prepay obligations with or without call or prepayment penalties. The contractual maturity distribution of our securities portfolio based on amortized cost and fair value as of March 31, 2010, is shown below.

	Maturity distribution as of March 31, 2010	
	Amortized cost	Fair value
	(Dollars in thousands)	
Due in one year or less	$ 2,289	$ 2,289
Due after one year through five years	14,210	14,866
Due after five years through ten years	57,298	57,948
Due after ten years	363,510	364,138
Total	$ 437,307	$ 439,241

At March 31, 2010, the fair value of debt securities and residential mortgage-backed debt securities issued by the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) was approximately $288.7 million. We do not own any equity securities issued by Fannie Mae or Freddie Mac.

As of March 31, 2010 securities available-for-sale with a fair value of $156.3 million were pledged as collateral for borrowings, public deposits and other purposes as required by various statutes and agreements.

At March 31, 2010 none of the securities in our investment portfolio had been in a continuous unrealized loss position for 12 months or longer. The following table presents the fair value and unrealized losses on securities that are in an unrealized loss position for less than 12 months and considered temporarily impaired as of March 31, 2010.

	Impairment Period of Less than 12 months	
Descriptions of securities	Fair Value	Unrealized Losses
	(Dollars in thousands)	
Government-sponsored entity debt securities	$ 9,891	$ 109
Residential mortgage-backed securities:		
Government and government-sponsored entity pass through	79,771	427
Government and government-sponsored entity collateralized mortgage obligations	39,324	2,828
Covered private label collateralized mortgage obligations	7,258	2,772
Total	$ 136,244	$ 6,136

FHLB Stock. The Company has a $50.4 million investment in Federal Home Loan Bank of San Francisco (FHLB) stock. The FHLB stock is carried at cost at March 31, 2010. In January 2009, the FHLB announced it suspended excess FHLB stock redemptions and dividend payments. Since then, the FHLB has paid two cash dividends, though at a rate less than that paid in the past. We evaluated the carrying value of our FHLB stock investment at March 31, 2010 and determined it was not impaired. Our evaluation considered the long-term nature of the investment, the liquidity position of

Table of Contents

NOTE 4 INVESTMENT SECURITIES AND FHLB STOCK (Continued)

the FHLB, the actions being taken by the FHLB to address its regulatory situation, and our intent and ability to hold this investment for a period of time sufficient to recover our recorded investment.

NOTE 5 COVERED LOANS, ALLOWANCE FOR LOSS ON COVERED LOANS, AND COVERED OTHER REAL ESTATE OWNED

We refer to the loans acquired in the Affinity acquisition as "covered loans" as we will be reimbursed for a substantial portion of any future losses on them under the terms of the FDIC loss sharing agreement. At the August 28, 2009 acquisition date, we estimated the fair value of the Affinity loan portfolio at $675.6 million which represents the expected cash flows from the portfolio discounted at a market-based rate. The carrying values of the covered loans were as follows at March 31, 2010 and December 31, 2009.

	March 31, 2010	December 31, 2009
	(In thousands)	
Covered loans, gross	$ 714,473	$ 742,535
Discount	(90,790)	(102,849)
Covered loans, net of discount	623,683	639,686
Less allowance for loan losses	32,014	18,000
Covered loans, net	$ 591,669	$ 621,686

The covered loans acquired in the Affinity transaction are subject to our internal and external credit review. If and when credit deterioration occurs a provision for credit losses for covered loans will be charged to earnings for the full amount without regard to the FDIC loss sharing agreement. The portion of the estimated loss reimbursable from the FDIC is recorded in noninterest income and increases the FDIC loss sharing asset. During the first quarter of 2010 we recorded a provision for credit losses of $20.7 million on the covered loan portfolio; such provision represents credit deterioration since the acquisition date based on decreases in expected cash flows on certain covered loans measured as of March 31, 2010 compared to acquisition date expected cash flows. We recorded $16.6 million in noninterest income to reflect the FDIC's share of this estimated loss.

At the acquisition date, the amount by which the undiscounted expected cash flows exceed the estimated fair value of the acquired loans is the "accretable yield". The accretable yield is then measured at each financial reporting date and represents the difference between the remaining undiscounted expected cash flows and the current carrying value of the loans. The following table summarizes the changes therein for the three months ended March 31, 2010:

	Carrying Amount of Loans	Accretable Yield
	(In thousands)	
Balance as of January 1, 2010	$ 621,686	$ (226,446)
Accretion	11,169	11,169
Payments received	(20,456)	
Decrease in expected cash flows		18,608
Provision for loan losses	(20,700)	
Balance as of March 31, 2010	$ 591,699	$ (196,669)

Table of Contents

NOTE 5 COVERED LOANS, ALLOWANCE FOR LOSS ON COVERED LOANS, AND COVERED OTHER REAL ESTATE OWNED (Continued)

Covered Other Real Estate Owned

Other real estate owned covered under loss sharing agreements with the FDIC is recorded at fair value and is also carried exclusive of the FDIC loss sharing asset. Subsequent decreases in fair value estimates for covered other real estate owned result in a reduction of the covered other real estate owned carrying amounts and an increase in the FDIC loss sharing asset for the reimbursable portion. The following table summarizes covered OREO by property type at March 31, 2010:

Property Type	As of March 31, 2010 (Dollars in thousands)
Improved residential land	$ 7,554
Commercial real estate	8,725
Multi-family	6,279
Single family residence	2,845
Total	$ 25,403

The following table summarizes the activity related to the covered OREO for the three months ended March 31, 2010:

	As of March 31, 2010 (Dollars in thousands)
Balance as of January 1, 2010	$ 27,688
Additions	1,776
Loss provisions and fair value adjustments	(2,144)
Reductions related to sales	(1,917)
Balance as of March 31, 2010	$ 25,403

The components of covered OREO expense for the three months ended March 31, 2010 is as follows:

	As of March 31, 2010 (Dollars in thousands)
Maintenance costs	$ 125
Provision for losses	2,144
(Gain) loss on sale	(101)
	$ 2,168

NOTE 6 FDIC LOSS SHARING ASSET

The FDIC loss sharing asset was initially recorded at fair value which represents the present value of the estimated cash payments from the FDIC for future losses on covered assets. The ultimate collectability of this asset is dependent upon the performance of the underlying covered assets, the

Table of Contents

NOTE 6 FDIC LOSS SHARING ASSET (Continued)

passage of time and claims paid by the FDIC. The changes in the FDIC loss sharing asset for the three months ended March 31, 2010 are as follows:

	(In thousands)
Balance as of January 1, 2010	$ 112,817
FDIC share of additional losses	18,278
Cash payments received from the FDIC	(41,848)
Net accretion	(2,107)
Balance as of March 31, 2010	$ 87,140

NOTE 7 BORROWINGS, SUBORDINATED DEBENTURES AND BROKERED DEPOSITS

Borrowings

The following table summarizes our FHLB advances by their maturity dates outstanding at March 31, 2010:

Maturity Date	Amount	Contract Rate	Next Date Callable by FHLB
	(Dollars in thousands)		
8/23/2010	$ 20,000	4.90%	N/A(b)
12/29/2010	25,000	4.23%	N/A(a)(b)
9/8/2011	20,000	4.67%	N/A(a)(b)
1/11/2013	50,000	2.71%	7/11/2010(a)
9/9/2013	20,000	4.63%	N/A(a)(b)
8/25/2014	20,000	4.26%	N/A(a)(b)
9/23/2014	20,000	3.51%	N/A(a)(b)
12/11/2017	200,000	3.16%	6/11/2010(a)
1/11/2018	25,000	2.61%	7/11/2010(a)
Unamortized premium(c)	6,550		
Total	$ 406,550		

(a) Quarterly thereafter.

(b) FHLB advances assumed in the Affinity acquisition and prepaid in April 2010. A net prepayment penalty of $726,000 was charged to earnings at that time.

(c) This amount represents the fair value adjustment on assumed Affinity FHLB advances.

Table of Contents

NOTE 7 BORROWINGS, SUBORDINATED DEBENTURES AND BROKERED DEPOSITS (Continued)

The FHLB advances outstanding at March 31, 2010, are both term and callable advances. The maturities shown are the contractual maturities for all advances. The callable advances have all passed their initial call dates and are currently callable on a quarterly basis by the FHLB. While the FHLB may call the advances to be repaid for any reason, they are likely to be called if market interest rates are higher than the advances' stated rates on the call dates. We may repay the advances at any time with a prepayment penalty. Our aggregate remaining borrowing capacity under the FHLB secured lines of credit was $864.5 million at March 31, 2010. Additionally, the Bank had secured borrowing capacity from the Federal Reserve discount window of $366.0 million at March 31, 2010. The Bank also maintains unsecured lines of credit of $117.0 million with correspondent banks for the purchase of overnight funds; these lines are subject to availability of funds.

Subordinated Debentures

The Company had an aggregate of $129.8 million subordinated debentures outstanding at March 31, 2010. These subordinated debentures were issued in seven separate series. Each issuance has a maturity of thirty years from its date of issue. The subordinated debentures were issued to trusts established by us or entities we have acquired, which in turn issued trust preferred securities, which total $123.0 million at March 31, 2010. With the exception of Trust I and Trust CI, the subordinated debentures are callable at par, only by the issuer, five years from the date of issuance, subject to certain exceptions. We were permitted to call the debentures in the first five years if the prepayment election relates to one of the following three events: (i) a change in the tax treatment of the debentures stemming from a change in the IRS laws; (ii) a change in the regulatory treatment of the underlying trust preferred securities as Tier 1 capital; and (iii) a requirement to register the underlying trust as a registered investment company. However, redemption in the first five years is subject to a prepayment penalty. Trust I and Trust CI may not be called for 10 years from the date of issuance unless one of the three events described above has occurred and then a prepayment penalty applies. In addition, there is a prepayment penalty if either of these debentures is called 10 to 20 years from the date of their issuance and they may be called at par after 20 years. The proceeds of the subordinated debentures we originated were used primarily to fund several of our acquisitions and to augment regulatory capital. Interest payments made by the Company on subordinated debentures are considered dividend payments by the Federal Reserve Bank. As such, notification to the Federal Reserve Bank is required prior to our intent to pay such interest during any period in which our quarterly net earnings are not sufficient to fund the interest due. Should the FRB object to payment of interest on the subordinated debentures we would not be able to make the payments until approval is received or we no longer need to provide notice under applicable regulations.

Table of Contents

NOTE 7 BORROWINGS, SUBORDINATED DEBENTURES AND BROKERED DEPOSITS (Continued)

The following table summarizes the terms of each issuance of the subordinated debentures outstanding at March 31, 2010:

Series	Date issued	Amount	Maturity	Earliest Call Date by Company without Penalty[1]	Fixed or Variable Rate	Rate Index	Current Rate[2]	Next Reset Date
				(Dollars in thousands)				
Trust CI	3/23/2000	$ 10,310	3/8/2030	3/8/2020	Fixed	N/A	11.00%	N/A
Trust I	9/7/2000	8,248	9/7/2030	9/7/2020	Fixed	N/A	10.60%	N/A
Trust V	8/15/2003	10,310	9/17/2033	N/A	Variable	3 month LIBOR + 3.10	3.36%	6/15/2010
Trust VI	9/3/2003	10,310	9/15/2033	N/A	Variable	3 month LIBOR + 3.05	3.31%	6/11/2010
Trust CII	9/17/2003	5,155	9/17/2033	N/A	Variable	3 month LIBOR + 2.95	3.21%	6/15/2010
Trust VII	2/5/2004	61,856	4/23/2034	N/A	Variable	3 month LIBOR + 2.75	3.09%	7/28/2010
Trust CIII	8/15/2005	20,619	9/15/2035	9/15/2010	Fixed(3)	N/A	5.85%	9/15/2010
Unamortized premium[4]		2,942						
Total		$ 129,750						

(1) As described above, certain issuances may be called earlier without penalty upon the occurrence of certain events.

(2) As of April 28, 2010; excludes debt issuance costs.

(3) Interest rate is fixed until 9/15/2010 and then is variable at a rate of 3-month LIBOR + 1.69%.

(4) This amount represents the fair value adjustment on assumed trusts.

As previously mentioned, the subordinated debentures were issued to trusts established by us, or entities we acquired, which in turn issued $123.0 million of trust preferred securities. These securities are currently included in our Tier I capital for purposes of determining the Company's Tier I and total risk-based capital ratios. The Board of Governors of the Federal Reserve System, which is the holding company's banking regulator, has promulgated a modification of the capital regulations affecting trust preferred securities. Although this modification was scheduled to be effective on March 31, 2009, the Federal Reserve postponed the effective date to March 31, 2011. At that time, the Company will be allowed to include in Tier I 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 certain intangibles, including goodwill, core deposit intangibles and customer relationship intangibles, net of any related deferred income tax liability. The regulations currently in effect through December 31, 2010, limit the amount of trust preferred securities that can be included in Tier I capital to 25% of the sum of core capital elements without a deduction for permitted intangibles. We have determined that our Tier I capital ratios would remain above the well-capitalized level had the modification of the capital regulations been in effect at March 31, 2010. We expect that our Tier I capital ratios will be at or above the existing well-capitalized levels on March 31, 2011, the first date on which the modified capital regulations must be applied.

Brokered Deposits

Brokered deposits totaled $168.7 million at March 31, 2010 and are included in the interest-bearing deposits balance on the accompanying consolidated balance sheet. Such amount includes (a) $62.8 million of customer deposits that were subsequently participated with other FDIC-insured financial institutions through the CDARS program as a means to provide FDIC deposit insurance coverage for the full amount of our customers' deposits, (b) $104.4 million of wholesale CDs, and

Table of Contents

NOTE 7 BORROWINGS, SUBORDINATED DEBENTURES AND BROKERED DEPOSITS (Continued)

(c) $1.5 million of brokered deposits acquired in the Security Pacific Bank (SPB) deposit acquisition. Such amounts exclude $2.4 million of money desk CDs acquired in SPB deposit and Affinity Bank acquisitions.

NOTE 8 COMMITMENTS AND CONTINGENCIES

Lending Commitments

The Bank is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated balance sheets. The contract or notional amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Commitments to extend credit amounting to $732.4 million and $790.6 million were outstanding at March 31, 2010 and December 31, 2009.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support private borrowing arrangements. Most guarantees expire within one year from the date of issuance. The Company generally requires collateral or other security to support financial instruments with credit risk. Standby letters of credit amounting to $30.3 million and $31.2 million were outstanding at March 31, 2010 and December 31, 2009.

The Company has investments in low income housing project partnerships which provide the Company income tax credits and in several small business investment companies. As of March 31, 2010 the Company had commitments to contribute capital to these entities totaling $177,000.

Legal Matters

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 ultimate outcome and amount of liability, if any, with respect to these legal actions to which we are currently a party cannot presently be ascertained with certainty. In the opinion of management, based upon information currently available to us, any resulting liability is not likely to have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

NOTE 9 FAIR VALUE MEASUREMENTS

ASC 820, *Fair Value Measurements and Disclosures,* defines fair value, establishes a framework for measuring fair value including a three-level valuation hierarchy, and expands disclosures about fair value measurements. Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement

Table of Contents

NOTE 9 FAIR VALUE MEASUREMENTS (Continued)

date reflecting assumptions that a market participant would use when pricing an asset or liability. The hierarchy uses three levels of inputs to measure the fair value of assets and liabilities as follows:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2: Observable inputs other than Level 1, including quoted prices for similar assets and liabilities in active markets, quoted prices in less active markets, or other observable inputs that can be corroborated by observable market data, either directly or indirectly, for substantially the full term of the financial instrument. This category generally includes U.S. government and agency securities.

Level 3: Inputs to a valuation methodology that are unobservable, supported by little or no market activity, and significant to the fair value measurement. These valuation methodologies generally include pricing models, discounted cash flow models, or a determination of fair value that requires significant management judgment or estimation. This category also includes observable inputs from a pricing service not corroborated by observable market data, such as pricing covered private label CMOs.

We use fair value to measure certain assets on a recurring basis, primarily securities available for sale; we have no liabilities being measured at fair value. For assets and liabilities measured at the lower of cost or fair value, the fair value measurement criteria may or may not be met during a reporting period and such measurements are therefore considered "nonrecurring" for purposes of disclosing our fair value measurements. Fair value is used on a nonrecurring basis to adjust carrying values for impaired loans and other real estate owned and also to record impairment on certain assets, such as goodwill, core deposit intangibles and other long-lived assets.

The following tables present information on the assets measured and recorded at fair value on a recurring and nonrecurring basis at and for the quarter ended March 31, 2010.

		Fair Value Measurement Using		
	Balance as of March 31, 2010	Quoted Prices in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
	(Dollars in thousands)			
Measured on a Recurring Basis				
Securities available-for-sale:				
Government-sponsored entity debt securities	$ 16,094	$	$ 16,094	$
Municipal securities	8,326	$	8,326	
Government and government-sponsored entity mortgage-backed securities	361,472	$	361,472	
Other securities	2,288	$	2,288	
Covered private label CMOs	51,061			51,061
	$ 439,241	$	$ 388,180	$ 51,061
Measured on a Nonrecurring Basis				
Impaired loans	$ 65,465	$	$ 20,364	$ 45,101
Other real estate owned	22,902		8,539	14,363
SBA loan servicing asset	1,926			1,926
	$ 90,293	$	$ 28,903	$ 61,390

18

Table of Contents

NOTE 9 FAIR VALUE MEASUREMENTS (Continued)

There were no significant transfers of assets between Level 1 and Level 2 of the fair value hierarchy during the quarter ended March 31, 2010.

Total gains and (losses) recognized in the three months ended March 31, 2010:

	Three Months Ended March 31, 2010
	(Dollars in thousands)
Impaired loans	$ (7,338)
Other real estate owned	(8,009)
Servicing asset	140
	$ (15,207)

For assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3), the activity for the three month period ended March 31, 2010 is summarized in the following table:

	Covered Securities Available-for-sale
	(Dollars in thousands)
Beginning as of January 1, 2010	$ 52,125
Total realized in interest on investment securities	501
Total unrealized in comprehensive income	339
Net settlements subsequent to acquisition	(1,904)
Balance as of March 31, 2010	$ 51,061

ASC Topic 825, *Financial Instruments*, requires disclosure of the estimated fair value of certain financial instruments and the methods and significant assumptions used to estimate such fair values. Additionally, certain financial instruments and all nonfinancial instruments are excluded from the applicable disclosure requirements. The following table is a summary of the carrying values and fair value estimates of certain financial instruments as of March 31, 2010 and December 31, 2009.

	March 31, 2010		December 31, 2009	
	Carrying or Contract Amount	Fair Value Estimates	Carrying or Contract Amount	Fair Value Estimates
	(Dollars in thousands)			
Financial Assets:				
Cash and due from banks	$ 87,510	$ 87,510	$ 93,915	$ 93,915
Interest-bearing deposits in financial institutions	431,211	431,211	117,133	117,133
Investment in Federal Home Loan Bank Stock	50,429	50,429	50,429	50,429
Securities available-for-sale	439,241	439,241	423,700	423,700
Loans, net	3,759,340	3,751,823	4,210,352	4,195,805
FDIC loss sharing asset	87,140	87,140	112,817	112,817
Financial Liabilities:				
Deposits	4,154,237	4,161,477	4,094,569	4,102,467
Borrowings	406,550	417,296	542,763	557,363
Subordinated debentures	129,750	132,050	129,798	146,413

Table of Contents

NOTE 9 FAIR VALUE MEASUREMENTS (Continued)

The following is a description of the valuation methodologies used to measure our assets recorded at fair value (under ASC Topic 820) and for estimating fair value for financial instruments not recorded at fair value (under ASC Topic 825).

Cash and Due from Banks and Federal Funds Sold. The carrying amount is assumed to be the fair value because of the liquidity of these instruments.

Interest-bearing Deposits in Financial Institutions. The carrying amount is assumed to be the fair value given the short-term nature of these deposits.

FHLB stock. The fair value of FHLB stock is based on our recorded investment. In January 2009, the FHLB announced it suspended excess FHLB stock redemptions and dividend payments. Since the announcement, the FHLB has paid two dividends, though at a reduced rate when compared to prior dividends. As a result of these actions, we evaluated the carrying value of our FHLB stock investment. Based on the FHLB's most recent publicly available financial results, its capital position and its bond ratings, we concluded such investment was not impaired at either March 31, 2010 or December 31, 2009.

Securities available-for-sale. Securities available-for-sale are measured and carried at fair value on a recurring basis. Unrealized gains and losses on available-for-sale securities are reported as a component of accumulated other comprehensive income in the consolidated balance sheets. Also see note 4 for further information on unrealized gains and losses on securities available-for-sale.

In determining the fair value of the securities categorized as Level 2, we obtain a report from a nationally recognized broker-dealer detailing the fair value of each investment security we hold as of each reporting date. The broker-dealer uses observable market information to value our fixed income securities, with the primary source being a nationally recognized pricing service. The fair value of the municipal securities is based on a proprietary model maintained by the broker-dealer. We review the market prices provided by the broker-dealer for our securities for reasonableness based on our understanding of the marketplace and we consider any credit issues related to the bonds. As we have not made any adjustments to the market quotes provided to us and they are based on observable market data, they have been categorized as Level 2 within the fair value hierarchy.

Our covered private label collateralized mortgage obligation securities, which were refer to as private label CMOs, are categorized as Level 3 due in part to the inactive market for such securities. There is a wide range of prices quoted for private label CMOs among independent third party pricing services and this range reflects the significant judgment being exercised over the assumptions and variables that determine the pricing of such securities. We consider this subjectivity to be a significant unobservable input and have concluded the private label CMOs should be categorized as a Level 3 measured asset. While the private label CMOs may be based on significant unobservable inputs, our fair value was based on prices provided to us by a nationally recognized pricing service which we also use to determine the fair value of the majority of our securities portfolio. We determined the reasonableness of the fair values by reviewing assumptions at the individual security level about prepayment, default expectations, estimated severity loss factors, projected cash flows and estimated collateral performance, all of which are not directly observable in the market.

Non-covered loans. As non-covered loans are not measured at fair value, the following discussion relates to estimating the fair value disclosures under ASC Topic 825. Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type and further segmented into fixed and adjustable rate interest terms and by credit risk categories. The fair value estimates do not take into consideration the value of the loan portfolio in the event the loans are sold

NOTE 9 FAIR VALUE MEASUREMENTS (Continued)

outside the parameters of normal operating activities. The fair value of performing fixed rate loans is estimated by discounting scheduled cash flows through the estimated maturity using estimated market prepayment speeds and estimated market discount rates that reflect the credit and interest rate risk inherent in the loans. The estimated market discount rates used for performing fixed rate loans are the Company's current offering rates for comparable instruments with similar terms. The fair value of performing adjustable rate loans is estimated by discounting scheduled cash flows through the next repricing date. As these loans reprice frequently at market rates and the credit risk is not considered to be greater than normal, the market value is typically close to the carrying amount of these loans.

Non-covered impaired loans. Non-covered impaired loans are measured and recorded at fair value on a non-recurring basis. All of our non-covered nonaccrual loans and restructured loans are considered impaired and are reviewed individually for the amount of impairment, if any. Most of our loans are collateral dependent and, accordingly, we measure impaired loans based on the estimated fair value of such collateral. The fair value of each loan's collateral is generally based on estimated market prices from an independently prepared appraisal, which is then adjusted for the cost related to liquidating such collateral; such valuation inputs result in a nonrecurring fair value measurement that is categorized as a Level 2 measurement. When adjustments are made to an appraised value to reflect various factors such as the age of the appraisal or known changes in the market or the collateral, such valuation inputs are considered unobservable and the fair value measurement is categorized as a Level 3 measurement. The impaired loans categorized as Level 3 also include unsecured loans and other secured loans whose fair values are based significantly on unobservable inputs such as the strength of a guarantor, including an SBA government guarantee, cash flows discounted at the effective loan rate, and management's judgment. The loan balances shown in the above tables represent those nonaccrual and restructured loans for which impairment was recognized during 2010. The amounts shown as losses represent, for the loan balances shown, the impairment recognized during 2010. Of the $99.9 million of nonaccrual loans at March 31, 2010, loans totaling $18.1 million were written down to their fair values through charge-offs in 2010.

Covered loans. Covered loans were measured at estimated fair value on the date of acquisition. Thereafter, the fair value of covered loans is measured using the same methodology as that for non-covered loans. The above discussion for non-covered loans and non-covered impaired loans is applicable to covered loans following their acquisition date.

Other real estate owned. The fair value of foreclosed real estate, both non-covered and covered, is generally based on estimated market prices from independently prepared current appraisals or negotiated sales prices with potential buyers; such valuation inputs result in a fair value measurement that is categorized as a Level 2 measurement on a nonrecurring basis. As a matter of policy, appraisals are required annually and may be updated more frequently as circumstances require in the opinion of management. With the deterioration of real estate values during this economic downturn, appraisals have been obtained more regularly and as a result our Level 2 measurement is based on appraisals that are generally less than 9 months old. When a current appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value as a result of known changes in the market or the collateral and there is no observable market price, such valuation inputs result in a fair value measurement that is categorized as a Level 3 measurement. To the extent a negotiated sales price or reduced listing price represents a significant discount to an observable market price, such valuation input would result in a fair value measurement that is also considered a Level 3 measurement. The OREO losses shown above are write-downs based on either a recent appraisal obtained after foreclosure or an accepted purchase offer by an independent third party received after foreclosure.

Table of Contents

NOTE 9 FAIR VALUE MEASUREMENTS (Continued)

SBA servicing asset. In accordance with ASC Topic 860, *Accounting for Servicing of Financial Assets*, the SBA servicing asset, included in other assets in the balance sheet, is carried at its implied fair value of $1.9 million. The fair value of the servicing asset is estimated by discounting future cash flows using market-based discount rates and prepayment speeds. The discount rate is based on the current US Treasury yield curve, as published by the Department of the Treasury, plus a spread for the marketplace risk associated with these assets. We utilize estimated prepayment vectors using SBA prepayment information provided by Bloomberg for pools of similar assets to determine the timing of the cash flows. These nonrecurring valuation inputs are considered to be Level 3 inputs.

FDIC loss sharing asset. The FDIC loss sharing asset was measured at estimated fair value on the date of acquisition. The fair value was determined by discounting estimated future cash flows using the long-term risk free rate plus a premium. Subsequent additions to the asset are valued at par as it is anticipated that these amounts will be shortly received.

Deposits. Deposits are carried at historical cost. The fair value of deposits with no stated maturity, such as noninterest bearing demand deposits, savings and checking accounts, is equal to the amount payable on demand as of the balance sheet date. The fair value of time deposits is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits of similar remaining maturities. No value has been separately assigned to the Company's long-term relationships with its deposit customers, such as a core deposit intangible.

Borrowings. Borrowings are carried at amortized cost. The fair value of adjustable rate borrowings is estimated to be the carrying amount because rates paid are the same as rates currently offered for borrowings with similar remaining maturities and characteristics. The fair value of fixed rate borrowings is calculated by discounting scheduled cash flows through the estimated maturity or call dates using estimated market discount rates that reflect current rates offered for borrowings with similar remaining maturities and characteristics.

Subordinated debentures. Subordinated debentures are carried at amortized cost. In accordance with ASC Topic 825, the fair value of the subordinated debentures is based on the discounted value of contractual cash flows for fixed rate securities. The discount rate is estimated using the rates currently offered for similar securities of similar maturity. The fair value of subordinated debentures with variable rates is deemed to be the carrying value.

Commitments to extend credit and standby letters of credit. The majority of our commitments to extend credit carry current market interest rates if converted to loans. Because these commitments are generally unassignable by either the borrower or us, they only have value to the borrower and us. The estimated fair value approximates the recorded deferred fee amounts and is excluded from the table above because it is not material.

Limitations

Fair value estimates are made at a specific point in time and are based on relevant market information and information about the financial instrument. These estimates do not reflect income taxes or any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. Because no market exists for a portion of the Company's financial instruments, fair value estimates are based on what management believes to be conservative judgments regarding expected future cash flows, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimated fair values are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates. Since the

Table of Contents

NOTE 9 FAIR VALUE MEASUREMENTS (Continued)

fair values have been estimated as of March 31, 2010, the amounts that will actually be realized or paid at settlement or maturity of the instruments could be significantly different.

NOTE 10 NET EARNINGS (LOSS) PER SHARE

The following is a summary of the calculation of basic and diluted net earnings (loss) per share for the periods indicated:

	Quarter Ended		
	3/31/10	12/31/09	3/31/09
	(In thousands except per share data)		
Basic earnings (loss) per share			
Net earnings (loss)	$ (60,533)	$ (7,780)	$ 1,445
Less: earnings allocated to unvested restricted stock[a]	(8)	(5)	(227)
Net earnings (loss) allocated to common shares	$ (60,541)	$ (7,785)	$ 1,218
Total weighted-average basic shares and unvested restricted stock outstanding	35,607.8	35,018.4	31,782.4
Less: weighted-average unvested restricted stock outstanding	(1,245.7)	(1,130.5)	(1,287.2)
Total weighted-average basic shares outstanding	34,362.1	33,887.9	30,495.2
Basic earnings (loss) per share	$ (1.76)	$ (0.23)	$ 0.04
Diluted earnings (loss) per share			
Net earnings (loss) allocated to common shares	$ (60,541)	$ (7,785)	$ 1,218
Total weighted-average basic shares and unvested restricted stock outstanding	35,607.8	35,018.4	31,782.4
Add: stock options and warrants outstanding			0.5
Less: weighted-average unvested restricted stock outstanding	(1,245.7)	(1,130.5)	(1,287.2)
Total weighted-average diluted shares outstanding	34,362.1	33,887.9	30,495.7
Diluted earnings (loss) per share	$ (1.76)	$ (0.23)	$ 0.04

(a) Represents cash dividends paid to holders of unvested restricted stock, net of estimated forfeitures, plus undistributed earnings amounts available to holders of unvested restricted stock, if any.

On January 1, 2009, the *Earnings per Share* topic of the Codification under the section regarding *Special Issues Affecting Basic and Diluted EPS* (ASC 260-10-45) became effective for us. This pronouncement clarified that all outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends are considered participating securities and are included in the two-class method of determining basic and diluted earnings per shares. All our unvested restricted stock participates with our common stockholders in dividends. Application of the new standard results in a reduction of net earnings available to common stockholders and lower earnings per share when compared to the previous requirements.

NOTE 11 STOCK COMPENSATION PLANS

Restricted Stock

At March 31, 2010, there were outstanding 904,574 shares of unvested time-based restricted common stock and 520,000 shares of unvested performance-based restricted common stock. The

NOTE 11 STOCK COMPENSATION PLANS (Continued)

awarded shares of time-based restricted common stock vest over a service period of three to five years from date of the grant. The awarded shares of performance-based restricted common stock vest in full on the date the Compensation, Nominating and Governance, or CNG, Committee of the Board of Directors, as Administrator of the Company's 2003 Stock Incentive Plan, or the 2003 Plan, determines that the Company achieved certain financial goals established by the CNG Committee as set forth in the grant documents. Both time-based and performance-based restricted common stock vest immediately upon a change in control of the Company as defined in the 2003 Plan and upon death of the employee.

Compensation expense related to awards of restricted stock is based on the fair value of the underlying stock on the award date and is recognized over the vesting period using the straight-line method. The vesting of performance-based restricted stock awards and recognition of related compensation expense may occur over a shorter vesting period if financial performance targets are achieved earlier than anticipated. In 2007, the amortization of certain performance-based restricted stock awards was suspended. In 2008 we concluded it was improbable that the financial targets would be met for the performance-based stock awards and we reversed the accumulated amortization on those awards. If and when the attainment of such performance targets is deemed probable in future periods, a catch-up adjustment will be recorded and amortization of such performance-based restricted stock will begin again. The total amount of unrecognized compensation expense related to the performance-based restricted stock for which amortization was suspended totaled $27.7 million at March 31, 2010. The unvested performance-based restricted stock awarded in 2006 expires in 2013. The unvested performance-based restricted stock awarded in 2007 and 2008 expires in 2017. Restricted stock amortization totaled $2.3 million and $2.2 million for the quarters ended March 31, 2010, and 2009. Such amounts are included in compensation expense in the accompanying consolidated statements of earnings.

The Company's 2003 Plan permits stock based compensation awards to officers, directors, key employees and consultants. The 2003 Plan authorizes grants of stock-based compensation instruments to purchase or issue up to 5,000,000 shares of authorized but unissued Company common stock, subject to adjustments provided by the 2003 Plan. As of April 29, 2010, there were 1,190,568 shares available for grant under the 2003 Plan.

NOTE 12 RECENT ACCOUNTING PRONOUNCEMENTS

FASB ASC 810 Consolidation ("ASC 810") became effective for us on January 1, 2010, and was amended to change how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a company is required to consolidate an entity is based on, among other things, an entity's purpose and design and a company's ability to direct the activities of the entity that most significantly impact the entity's economic performance. The new authoritative accounting guidance requires additional disclosures about the reporting entity's involvement with variable-interest entities and any significant changes in risk exposure due to that involvement as well as its affect on the entity's financial statements. The new authoritative accounting guidance under ASC 810 was effective January 1, 2010 and did not have an impact on our financial statements.

FASB ASC 860 Transfers and Servicing ("ASC 860") was amended to enhance reporting about transfers of financial assets, including securitizations, and where companies have continuing exposure to the risks related to transferred financial assets. The new authoritative accounting guidance eliminates the concept of a "qualifying special-purpose entity" and changes the requirements for derecognizing financial assets. The new authoritative accounting guidance also requires additional disclosures about

Table of Contents

NOTE 12 RECENT ACCOUNTING PRONOUNCEMENTS (Continued)

all continuing involvements with transferred financial assets including information about gains and losses resulting from transfers during the period. The new authoritative accounting guidance under ASC 860 was effective January 1, 2010 and did not have an impact on our financial statements.

In January 2010, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") 2010-06, "*Improving Disclosures about Fair Value Measurements*". ASU 2010-06 requires additional disclosures about fair value measurements including transfers in and out of Levels 1 and 2 and a higher level of disaggregation for the different types of financial instruments. For the reconciliation of Level 3 fair value measurements, information about purchases, sales, issuances and settlements are presented separately. This standard is effective for interim and annual reporting periods beginning after December 15, 2009 with the exception of revised Level 3 disclosure requirements which are effective for interim and annual reporting periods beginning after December 15, 2010. Comparative disclosures are not required in the year of adoption. We adopted the provisions of the standard on January 1, 2010, which did not have a material impact on our financial statements

NOTE 13 COMMON STOCK

On December 22, 2009, PacWest Bancorp filed a registration statement with the SEC to offer to sell, from time to time, shares of common stock, preferred stock, and other equity linked securities for an aggregate initial offering price of up to $350.0 million. The registration statement was declared effective on January 8, 2010. Proceeds from the offering are anticipated to be used to fund future acquisitions of banks and financial institutions and for general corporate purposes.

On March 1, 2010 holders of 1,348,040 warrants to acquire PacWest Bancorp common stock exercised such warrants for net proceeds of $26.6 million. The warrants, which had a strike price of $20.20 per share, represented 99% of the 1,361,656 six-month warrants issued in August 2009. An additional 1,361,657 million warrants issued in August 2009 with a strike price of $20.20 remain outstanding, of which 1,348,040 expire on August 27, 2010 and 13,617 expire on August 30, 2010.

NOTE 14 SUBSEQUENT EVENTS

We have evaluated events that have occurred subsequent to March 31, 2010 and have concluded there are no subsequent events that would require recognition in the accompanying consolidated financial statements.

On April 21, 2010, we prepaid $125.0 million of our outstanding FHLB advances. See note 7.

Table of Contents

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

Forward-Looking Information

This Quarterly Report on Form 10-Q contains certain forward-looking information about the Company and its subsidiaries, 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 could cause 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 and to successfully integrate such acquired entities or achieve expected benefits, synergies and/or operating efficiencies within expected time-frames or at all;
- 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 in Iraq, Afghanistan, and neighboring countries;
- legislative or regulatory requirements or changes adversely affecting the Company's business;

- changes in the securities markets; and

- regulatory approvals for any capital activities cannot be obtained on the 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. The Company assumes no obligation to update such forward-looking statements.

Table of Contents

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 subsidiary bank, Pacific Western Bank, which we refer to as Pacific Western or the Bank.

Pacific Western is a full-service community bank offering a broad range of banking products and services including: accepting time and demand deposits; originating loans, including commercial, real estate construction, SBA-guaranteed, consumer, and international loans; and providing other business-oriented products. Our operations are primarily located in Southern California and the Bank focuses on conducting business with small to medium-sized businesses and the owners and employees of those businesses in our marketplace. Through our asset-based lending operation we also operate in Arizona, Northern California, the Pacific Northwest, and Texas. At March 31, 2010, our assets totaled $5.2 billion, of which total loans totaled $3.9 billion, of which $591.7 million are covered loans. At that date, the loan portfolio was broken down as follows: approximately 70% were real estate mortgage loans, 20% were commercial loans, 10% were real estate construction loans, and less than 1% were consumer and other loans. These percentages include some foreign loans, primarily to individuals or entities with business in Mexico, representing 1% of total non-covered loans. Our portfolio's value and credit quality is affected in large part by real estate trends in Southern California, which have been negative over the last several quarters.

Pacific Western competes actively for deposits, and emphasizes solicitation of noninterest-bearing deposits. In managing the top line of our business, we focus on quality loan growth and loan yield, deposit cost, and net interest margin, as net interest income, on a year-to-date basis, accounts for 73% of our net revenues (net interest income plus noninterest income).

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. The low market interest rate environment that continued during 2009 and 2010 has reduced our net interest margin relative to our historical performance. Our balance sheet structure resulted in the yield on our earning assets decreasing more rapidly and significantly than the cost of our funding sources during 2009 compared to prior years. However, for the first quarter of 2010 our net interest margin expanded compared to the prior quarter and the first quarter of 2009 due to lowering the cost of our funding sources more significantly than the yield on our earning assets. Nonetheless, a sustained low interest rate environment combined with tight marketplace liquidity and low loan growth may lower both our net interest income and net interest margin going forward.

Our primary interest-earning asset is loans. Our primary interest-bearing liabilities include deposits, borrowings, and subordinated debentures. We attribute our high net interest margin to our loan-to-deposit ratio which was well over 100% for the last 4 years and a high level of noninterest-bearing 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, which have no expectation of yield. At March 31, 2010, approximately 33% of our total deposits were noninterest-bearing.

The disruptions in the financial credit and liquidity markets have resulted in increased competition from financial institutions seeking to maintain liquidity. In addition to deposits, we have borrowing capacity under various credit lines which we use for liquidity needs such as funding loan demand, managing deposit flows and interim acquisition financing. This borrowing capacity is relatively flexible and has become one of the least expensive sources of funds. However, our borrowing lines are considered a secondary source of liquidity as we serve our local markets and customers with our deposit products.

Loan Growth

We generally seek new lending opportunities in the $500,000 to $10 million range, try to limit loan maturities for commercial loans to one year, for construction loans up to 18 months, and for commercial real estate loans up to ten years, and to price lending products so as to preserve our interest spread and net interest margin. We sometimes encounter strong competition in pursuing lending opportunities such that potential borrowers obtain loans elsewhere at lower rates than those we offer. We have continued to reduce our exposure to residential construction and foreign loans, including limiting the amount of new loans in these categories. Our ability to make new loans is dependent on economic factors in our market area, borrower qualifications, competition, and liquidity, among other items. Considering the current state of the economy in Southern California and the competition among banks for liquidity, loan growth was not a focus area for us in 2009 and we expect the same for 2010.

The Magnitude of Credit Losses

We stress credit quality in originating and monitoring the loans we make and measure our success by the levels of our nonperforming assets, net charge-offs and allowance for credit losses. Our allowance for credit losses is the sum of our allowance for loan losses and our reserve for unfunded loan commitments and relates only to our non-covered loans. Provisions for credit losses are charged to operations as and when needed for both on and off balance sheet credit exposure. Loans which are deemed uncollectible are charged off and deducted from the allowance for loan losses. Recoveries on loans previously charged off are added to the allowance for loan losses. During the three months ended March 31, 2010, we made a provision for credit losses totaling $133.2 million composed of $112.5 million on non-covered loans and $20.7 million on covered loans. The provision for credit losses on the non-covered portfolio resulted mostly from the charge-offs from the classified loan sale and other actions to promptly identify and resolve problem credits. Additionally, based on our reserve methodology, the level of classified and non-accrual loans, usage trends of unfunded loan commitments, general market conditions, and portfolio risk concentrations, among other factors, contributed to our provision for credit losses. The provision for credit losses on the covered loan portfolio reflects an increase in the covered loan allowance for credit losses resulting from credit deterioration since the acquisition date.

We regularly review our loans 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. 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 increase portfolio loss factors. An increase in classified loans 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, insurance and assessments, data processing, professional fees and communications expense. We measure success in controlling such costs through monitoring of the efficiency ratio. We calculate the efficiency ratio by dividing noninterest expense by net revenues (the sum of net interest income plus noninterest income). Accordingly, a lower percentage reflects lower

Table of Contents

operating expenses relative to net revenue. The consolidated operating efficiency ratios have been as follows:

Quarterly Period	Ratio
First quarter of 2010	63.8%
Fourth quarter 2009	53.7%
Third quarter 2009	37.1%
Second quarter 2009	85.5%
First quarter 2009	71.0%

The increase in the efficiency ratio for the first quarter of 2010 compared to the fourth quarter of 2009 was due mostly to lower net interest income and higher OREO costs. The gain from the Affinity acquisition reduced the third quarter of 2009 efficiency ratio by 4,840 basis points from 85.5% to 37.1%. The general increase in efficiency ratios over the last several quarters is caused mostly by lower interest income. Interest income levels have been negatively affected by slow loan growth and low market interest rates.

Critical Accounting Policies

The Company's accounting policies are fundamental to understanding management's discussion and analysis of results of operations and financial condition. The Company has identified several policies as being critical because they require management to make particularly difficult, subjective and/or complex judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts would be reported under different conditions or using different assumptions. These policies relate to the allowances for credit losses and the carrying values of intangible assets and deferred income tax assets. For further information, refer to our Annual Report on Form 10-K for the year ended December 31, 2009.

Results of Operations

Earnings Performance

Certain discussion in this Form 10-Q contains non-GAAP financial disclosures for tangible capital. 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. Tangible common equity is a non-GAAP financial measure used by investors, analysts, and bank regulatory agencies. Tangible common equity includes total equity, less any preferred equity, goodwill and intangible assets. The methodology of determining tangible common equity may differ among companies. Management reviews tangible common equity along with other measures of capital adequacy on a regular basis and has included this non-GAAP financial information, and the corresponding reconciliation to total equity, because of current interest in such information on the part of market participants.

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 United States generally accepted accounting principles (GAAP). The following table presents performance ratios in accordance with GAAP and a reconciliation of the non-GAAP financial measurements to the GAAP financial measurements.

Table of Contents

Non GAAP Measurements (Unaudited)

	As of the dates indicated:		
Dollars in thousands	**March 31, 2010**	**December 31, 2009**	**March 31, 2009**
End of period assets	$ 5,203,217	$ 5,324,079	$ 4,496,070
Intangibles	30,872	33,296	37,675
End of period tangible assets	$ 5,172,345	$ 5,290,783	$ 4,458,395
End of period equity	$ 474,844	$ 506,773	$ 469,006
Intangibles	30,872	33,296	37,675
End of period tangible equity	$ 443,972	$ 473,477	$ 431,331
Equity to assets ratio	9.13%	9.52%	10.43%
Tangible common equity ratio	8.58%	8.95%	9.67%
Pacific Western Bank			
End of period assets	$ 5,192,003	$ 5,313,750	$ 4,486,793
Intangibles	30,872	33,296	37,675
End of period tangible assets	$ 5,161,131	$ 5,280,454	$ 4,449,118
End of period equity	$ 559,909	$ 585,940	$ 506,694
Intangibles	30,872	33,296	37,675