

PACWEST BANCORP
Form 10-K
March 02, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2014
Commission File No. 00-30747

PACWEST BANCORP
(Exact name of registrant as specified in its charter)

Delaware

(State of Incorporation)

10250 Constellation Blvd., Suite 1640
Los Angeles, CA 90067
(Address of Principal Executive Offices, Including Zip Code)
(310) 286-1144
(Registrant's Telephone Number, Including Area Code)

(Title of Each Class)

Common Stock, par value \$0.01 per share

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

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

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

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

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

Indicate by check mark 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.

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

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As of June 30, 2014, 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 30, 2014, was approximately \$4.3 billion. Registrant does not have any nonvoting common equities. As of February 9, 2015, there were 101,913,512 of registrant's common stock outstanding, excluding treasury shares and 1,108,505 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 2015 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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PART I

ITEM 1. BUSINESS

General

PacWest Bancorp, a Delaware corporation, 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 wholly-owned subsidiary, Pacific Western Bank, which we refer to as “Pacific Western” or the “Bank.” We are focused on relationship-based business banking to small and middle-market businesses nationwide. The Company offers a broad range of deposit products and services through 80 full-service branches located throughout California. The Company, through offices across the United States, provides loans to middle-market businesses, real estate investment firms, and sophisticated individual real estate investors. References to “we,” “us,” or the “Company” refer to PacWest Bancorp together with its subsidiaries on a consolidated basis. When we refer to “PacWest” or to the “holding company,” we are referring to PacWest Bancorp, the parent company, on a stand-alone basis. References to “Pacific Western Bank” include the Bank’s wholly-owned subsidiaries.

We were established nearly 16 years ago in October 1999 and have achieved strong market positions by developing and maintaining extensive local relationships in the communities we serve. By leveraging our business focus, our service-driven focus, our presence in attractive markets, and maintaining a highly efficient operating model and robust approach to risk management, we have achieved significant and profitable growth, both organically and through disciplined acquisitions. We have successfully completed 27 acquisitions since 2000, including our 2014 acquisition of CapitalSource Inc. with approximately \$9.4 billion in assets acquired.

As of December 31, 2014, we had total assets of over \$16 billion, gross loans and leases of \$11.9 billion, total deposits of \$11.8 billion and stockholders’ equity of \$3.5 billion. Loans and leases increased \$7.6 billion during 2014 driven by the \$6.9 billion of loans acquired in the CapitalSource Inc. merger and \$682 million of organic loan growth resulting from \$3.0 billion of loan production. The Bank’s non-performing assets as of December 31, 2014, totaled \$152.6 million, or 0.9% of total assets, compared to \$102.7 million, or 1.6% of total assets at December 31, 2013.

Our corporate headquarters is located in Los Angeles, California, and we have 80 full-service, retail bank branches located primarily in southern and central California and three branches in northern California. Our loan origination efforts are conducted nationwide with key offices located in Chevy Chase, Maryland, Southern California, including Los Angeles, St. Louis, Missouri, Denver, Colorado, Chicago, Illinois, New York, New York, and Midvale, Utah. We also maintain a number of smaller lending offices throughout the country.

For the year ended December 31, 2014, we operated as two business segments: Community Banking and National Lending. The Community Banking segment is focused on the lending and deposit gathering activities conducted primarily through our California-based branch offices and our treasury management function. The National Lending segment comprises our CapitalSource Division through which we offer a broad range of specialized senior secured commercial loan products to small and middle-market businesses on a nationwide basis. For additional information, see “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations-Business Segments.”

Current Developments

CapitalSource Inc. Merger

On April 7, 2014, PacWest merged with CapitalSource Inc. As part of the merger, CapitalSource Bank (“CSB”), a wholly-owned subsidiary of CapitalSource Inc., merged with and into Pacific Western. The assets and liabilities, both tangible and intangible, were recorded at their estimated fair values as of the merger date. The application of the acquisition method of accounting resulted in goodwill of \$1.5 billion. We completed this merger in order to increase our loan and lease generation capabilities and to diversify our loan portfolio.

First California Financial Group Acquisition

On May 31, 2013, we acquired First California Financial Group, Inc. ("FCAL"). As part of this acquisition, First California Bank, a wholly-owned subsidiary of FCAL, merged with and into Pacific Western. The assets and liabilities, both tangible and intangible, were recorded at their estimated fair values as of the merger date. The application of the acquisition method of accounting resulted in goodwill of \$129.1 million. We completed this acquisition to expand our presence in Southern California.

Our Business Strategy

General Overview

We believe that stable, long-term growth and profitability are the result of building strong customer relationships while maintaining disciplined underwriting standards. We continue to focus on originating high-quality loans and growing our low-cost deposit base through our relationship-based business lending. We believe that focusing on our core strengths will enable us to continue to maintain our operational efficiency and increase profitability, increase our core deposits and grow loans and leases in a sound manner.

Our loan portfolio consists primarily of commercial real estate loans, or "CRE" loans, commercial and industrial loans and leases, or "C&I" loans and leases, and, to a lesser extent, consumer loans. We pursue attractive growth opportunities to expand and enter new markets aligned with our business model and strategic plans. We will continue to opportunistically consider growth opportunities we believe exist in growing economies in and adjacent to our existing markets.

Our reputation, expertise and relationship-based banking model enable us to deepen our relationships with our customers. We look to leverage our relationships with existing customers by cross-selling our products and services, including attracting deposits from, and offering alternative cash management solutions to, our CapitalSource Division customers.

Focusing on operational efficiency is critical to our profitability and future growth. We intend to carefully manage our cost structure and continuously refine and implement internal processes and systems to create further efficiencies and enhance our earnings. We are also continuing our efforts to shift our deposit base from certificates of deposit to lower cost core deposits, a strategic initiative that was undertaken following the CapitalSource Inc. merger.

Our management team has extensive expertise and a successful track record in evaluating, executing and integrating attractive, franchise-enhancing acquisitions. We have successfully completed 27 acquisitions since 2000, including the \$9.4 billion CapitalSource Inc. acquisition in 2014. We will continue to consider acquisitions that are consistent with our business strategy and financial model as opportunities arise.

The following chart summarizes the acquisitions completed since our inception:

	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⁾
(27)	April 2014	CapitalSource Inc.

(1)FDIC assisted.

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

Depository Products and Services

Deposits are our primary source of funds to support our revenue-generating assets, and our bank branch offices provide a source of low-cost funds and deposit-related fee income to support our continued operations. We offer traditional deposit products to businesses and other customers with a variety of rates and terms, including demand, money market, and time deposits. We also provide international banking services, multi-state deposit services and investment services, and out-of-service area services, as well as product offerings through other correspondent banks. The Bank's deposits are insured by the Federal Deposit Insurance Corporation, or "FDIC," up to statutory limits. Our branch network enhances our ability to gather deposits, expand our brand presence, service our customers' needs, originate loans and leases and maintain our lending relationships. In addition, as the banking industry continues to experience broader customer acceptance of on-line and mobile banking tools for conducting basic banking functions, and which allows us to attract new depositors without a commensurate increase in branch traffic, we also serve our customers through a wide range of non-branch channels, including on-line and telephone banking platforms. At December 31, 2014, we had ATMs at 62 of our branches and had another two company-owned ATMs at off-site locations located in California. We are part of the MoneyPass network, enabling our customers to take out cash surcharge-free and service charge-free at over 25,000 ATM locations across the country. We provide access to customer accounts via a 24 hour seven-day-a-week, toll-free, automated telephone customer service and secure on-line

banking services.

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We price our deposit products with a view to maximizing our share of each customer's financial services business and prudently managing our cost of funds. At December 31, 2014, our total deposits consisted of \$6.1 billion in core deposits, \$5.5 billion in time deposits and \$0.2 billion in brokered non-maturity deposits. Core deposits represent 52% of total deposits at December 31, 2014, and are comprised of \$2.9 billion in noninterest-bearing deposits, \$0.7 billion in checking accounts, \$1.7 billion in money market accounts and \$0.8 billion in savings accounts. Our deposit base is also diversified by client type. As of December 31, 2014, no individual depositor represented more than 1.1% of our total deposits, and our top ten depositors represented 6.9% of our total deposits.

The composition of our deposit mix changed as a result of the CapitalSource Inc. merger with a lowered proportion of core deposits and a higher proportion of more expensive time deposits. This shift in deposit mix has been largely responsible for the recent increase in overall deposit cost. As a result of the CapitalSource Inc. merger and our ongoing deposit transformation initiatives, we established a dedicated team of professionals focused solely on growing our low-cost, customer deposit base by attracting deposits from our business customers and offering alternative cash management solutions intended to help retain business customers.

We face strong competition in gathering deposits. Our most direct competition for deposits comes from nationwide, regional, and local banks, savings banks and associations, credit unions, insurance companies, money market funds, brokerage firms, other non-bank financial services companies and service-focused community banks that target the same customers we do. We compete actively for deposits and emphasize solicitation of noninterest-bearing deposits. We seek to provide a higher level of personal service than is generally offered by our larger competitors, many of whom have more assets, capital and resources than we do and may be able to conduct more intensive and broader based promotional efforts to reach both commercial and retail customers. We also compete based on interest rates. Our cost of funds fluctuates with market interest rates and may be affected by higher rates being offered by other financial institutions. In certain interest rate environments, additional significant competition for deposits may be expected to arise from corporate and government debt securities and money market mutual funds. Competition for deposits is also affected by the ease with which customers can transfer deposits from one institution to another.

Lending Activities

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

Real Estate Loans

Commercial and Industrial Loans and Leases

Consumer Loans

The Bank's lending activity is governed by its comprehensive credit policies which consider lending regulations and prudent credit acceptance standards by loan product. The Bank prices its loans to preserve our interest spread and maintain our net interest margin ("NIM") for our various lending lines. While individual loans may be below the target based on risk or other factors, the lending lines are expected to meet NIM targets on an aggregate basis. The Bank strives for consistency in pricing similar transactions.

Real Estate Loans

The Bank provides real estate loans for the acquisition, refinancing and construction of commercial real estate to professional developers and real estate investors. The majority of the real estate loans are mini-perm loans collateralized by first deeds of trust on specific commercial properties. To a lesser extent, mini-perm loans may otherwise be collateralized by junior deeds of trust on specific commercial properties. Mini-perm 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. Mini-perm loans may also have an initial interest-only period followed by an amortization schedule with a lump sum balloon payment due in one to ten years. The Bank prices its loans to preserve our interest spread and maintain our net interest margin. Loan interest rates may be floating throughout the term or fixed. The rate on fixed-rate loans typically resets after the fifth year.

Construction loans finance from 50% to 70% of the costs to construct commercial or residential properties. The terms are generally two years. Home equity lines of credit are revolving lines of credit collateralized by junior deeds of trust on residential real estate properties.

The properties collateralizing real estate loans are located throughout the United States primarily in central business districts. However, our primary market areas for real estate loans are in California.

The Bank also makes real estate secured loans under the Small Business Administration's 7(a) Program and 504 Program. Compliant Small Business Administration (or "SBA") 7(a) loans have an SBA guaranty for 75% of the loan. SBA 504 loans are 50% loan-to-value first deed of trust mortgage loans on owner-occupied commercial real estate where a second deed of trust is also provided by a nonprofit certified development company.

The Bank's real estate portfolio is subject to certain risks including, but not limited to, the following:

- the economic conditions of the United States and Southern California;
- interest rate increases;
- decreased real estate values in the markets where we lend;
- increased competition in pricing and loan structure;
- the borrower's ability to refinance or payoff our loan upon maturity; and
- various environmental risks, including natural disasters.

In addition to the foregoing, construction loans are also subject to project specific risks including, but not limited to, the following:

- construction costs being more than anticipated;
- construction taking longer than anticipated;
- failure by developers and contractors to meet project specifications;
- disagreement between contractors, subcontractors and developers;
- demand for completed projects being less than anticipated;
- buyers of the completed projects not being unable to secure financing; and
- loss of our loan principal stemming from a collateral foreclosure.

The risks related to buyer inability to secure financing and loss through foreclosure are not controllable. When considering the markets in which to pursue real estate loans, we consider the market conditions, our current loan portfolio concentrations by property type and by market, and our past experience with the borrower, the specific market, and the property type.

When underwriting loans, we seek to mitigate risk by using the following framework:

- reviewing each loan request and renewal individually;
- using a credit committee approval process for the approval of each loan request over a certain dollar amount;
- adhering to written loan policies including, among other factors, minimum collateral requirements, maximum loan to value ratio requirements, cash flow requirements and full or partial guaranty requirements;
- obtaining independent third-party appraisals which are reviewed by the Bank's appraisal department;
- obtaining preliminary environmental risk assessments; and
- obtaining seismic studies where appropriate.

With respect to construction loans, in addition to the foregoing, we attempt to mitigate project specific risks by:

- implementing a controlled disbursement process for loan proceeds in accordance with an agreed upon schedule;
- conducting project site visits; and
- monitoring the construction costs compared to the budgeted costs and the remaining costs to complete.

SBA 7(a) and 504 program loans are subject to the risks outlined above and the risk that an SBA guaranty may be invalid if SBA specific procedures are not followed. We seek to mitigate this risk by maintaining and following additional policies specific to SBA loans which align with SBA requirements.

Commercial and Industrial Loans and Leases

Commercial and industrial loans and leases can be extended with a wide range of purposes, terms and maturities. The primary commercial and industrial loans and leases made by the Bank are in the form of working capital loans, loans to finance companies secured by finance receivables, equipment financings, term business loans, or loans to entities in conjunction with equity contributions from private equity groups to purchase businesses. The primary source of repayment of these loans and leases is the borrowers' cash flow from operations. Our underwriting practices assess the levels of the past, current, and budgeted cash flows from operations relative to a borrower's total debt service obligations which would include the full repayment of our loan principal and interest.

More specifically, within our commercial and industrial loan and lease activities are asset secured loans, cash flow secured loans, and equipment secured loans and leases. Asset secured loans are first liens on or interests in readily quantifiable collateral that the Bank believes can be liquidated. This collateral includes, but is not limited to, trade accounts receivable, loans receivable, or inventory. Cash flow secured loans are provided to sophisticated buyers and private equity groups, financial investors, strategic companies and sponsors to finance the acquisition or recapitalization of a business. Equipment secured loans and leases fund capital expenditures and are secured by equipment that is essential to the operations of the borrowers or lessees.

The Bank's portfolio of commercial loans and leases is subject to certain risks including, but not limited to, the following:

- the economic conditions of the United States;
- interest rate increases;
- deterioration of the value of the underlying collateral;
- increased competition in pricing and loan structure;
- the deterioration of a borrower's or guarantor's financial capabilities; and
- various environmental risks, including natural disasters, which can negatively affect a borrower's business.

When considering the types of businesses with which to pursue commercial and industrial loans and leases, we consider the prospects for the borrower's industry, our current loan portfolio concentration by loan type and collateral type, and our past experience with the borrower, the borrower's industry, and the collateral type. When underwriting loans, we attempt to mitigate risk by reviewing each loan request and renewal individually; using our credit committee approval process for the approval of each loan request over a certain dollar amount; and adhering to written loan underwriting policies and procedures.

We also, to a lesser extent, make SBA 7(a) loans secured by the value of a business and its equipment. These loans are subject to the risks outlined above and the risk that an SBA guaranty may be invalid if SBA specific procedures are not followed. We attempt to mitigate this risk by maintaining and following additional policies specific to SBA loans which align with SBA requirements.

Consumer Loans

Consumer loans include personal loans, auto loans, home equity lines of credit, 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 purchased 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 have terms that fully amortize the debt over five, ten or fifteen years.

The Bank's consumer loan portfolio is subject to certain risks, including: amount of credit offered to consumers in the market; interest rate increases; and (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 the ability of the sub-servicer to service the loans in accordance with the terms of the loan purchase agreement; and compliance with consumer lending regulations, additional regulations and oversight by the Consumer Financial Protection Bureau ("CFPB").

We seek to mitigate the exposure to such risks through the direct approval of all internally originated consumer loans by reviewing each loan request and renewal individually and adhering to written credit policies. For all purchased student loan participation interests, we monitor the performance of the originator and the enforcement of our rights

under the loan purchase agreement.

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Business Concentrations

The following table presents the composition of our loan portfolio as of the dates indicated:

	December 31, 2014		December 31, 2013		
	Amount	% of Total	Amount	% of Total	
(Dollars in thousands)					
Real estate mortgage:					
Hospitality	\$570,634	5 %	\$181,735	4 %	
SBA	380,890	3 %	45,166	1 %	
Other	4,645,478	39 %	2,566,340	60 %	
Total real estate mortgage	5,597,002	47 %	2,793,241	65 %	
Real estate construction:					
Residential	96,749	1 %	58,898	1 %	
Commercial	217,297	2 %	159,308	4 %	
Total real estate construction	314,046	3 %	218,206	5 %	
Total real estate	5,911,048	50 %	3,011,447	70 %	
Commercial:					
Collateralized	439,567	4 %	587,326	13 %	
Unsecured	131,939	1 %	153,881	4 %	
Asset-based	1,794,907	15 %	202,428	5 %	
Cash flow	2,486,411	21 %	—	— %	
Equipment finance	969,489	8 %	273,483	6 %	
SBA	47,304	— %	28,641	1 %	
Total commercial	5,869,617	49 %	1,245,759	29 %	
Consumer	101,767	1 %	55,146	1 %	
Total gross loans and leases ⁽¹⁾	\$11,882,432	100 %	\$4,312,352	100 %	

(1) Includes purchased credit impaired ("PCI") loans of \$290.8 million and \$382.8 million at December 31, 2014 and 2013, of which the majority are included in the Real Estate Mortgage - "Other" category in this table.

Real estate mortgage loans and real estate construction loans (which are predominantly commercial real estate loans) together comprised 50% and 70% of our total portfolio at December 31, 2014 and December 31, 2013. The decline in real estate loans as a percentage of total loans was attributable to commercial loans acquired in connection with the CapitalSource Inc. merger and net loan originations and repayment activity throughout 2014.

The commercial real estate mortgage loans are diversified among various property types. At December 31, 2014, our largest property type concentration was healthcare property, totaling \$1.0 billion or 19% of real estate mortgage loans. Healthcare property types include skilled nursing facilities, hospitals, assisted living facilities, independent living facilities, and owner-occupied medical office facilities. At December 31, 2013, healthcare property totaled \$189.7 million and comprised 7% of real estate mortgage loans. The increase in healthcare real estate mortgage loans from December 31, 2013 to December 31, 2014 is attributable to loans acquired in the CapitalSource Inc. merger and loans originated during 2014.

Other significant real estate concentrations were office properties at 14% and 16% of real estate mortgage loans at December 31, 2014 and December 31, 2013, and multi-family properties at 14% and 12% of real estate mortgage loans at December 31, 2014 and December 31, 2013.

Commercial loans and leases comprised 49% and 29% of our total portfolio at December 31, 2014 and December 31, 2013. The increase in the commercial loan and lease portfolio composition from 29% to 49% is attributable to commercial loans acquired in connection with the CapitalSource Inc. merger and net loan originations and repayment activity throughout 2014.

The commercial loans and leases are diversified among various loan types and industries. At December 31, 2014, our largest commercial loan type concentration was cash flow loans, totaling \$2.5 billion or 21% of our total portfolio. Cash flow secured loans are provided to sophisticated buyers and private equity groups, financial investors, strategic companies and sponsors to finance the acquisition or recapitalization of a business. The cash flow loans outstanding at December 31, 2014 are attributable to loans acquired in the CapitalSource Inc. merger and loans originated by the CapitalSource Division during 2014. Other significant commercial concentrations were asset-based loans at 15% and 5% of the total portfolio at December 31, 2014 and December 31, 2013, and equipment finance at 8% and 6% of the total portfolio at December 31, 2014 and December 31, 2013. Asset-based loans are first liens on or interests in readily quantifiable collateral. This collateral includes, but is not limited to, trade accounts receivable, loans receivable, or inventory.

Financing

We depend on deposits and external financing sources to fund our operations. We employ a variety of financing arrangements, including term debt, subordinated debt and equity. As a member of the Federal Home Loan Bank of San Francisco ("FHLB"), the Bank had financing availability with the FHLB as of December 31, 2014 of \$2.4 billion, or 15% of the Bank's total assets, subject to pledging adequate collateral.

Information Technology Systems

We devote significant resources to maintain stable, reliable, efficient and scalable information technology systems. Where possible, we utilize third-party software systems that are hosted and supported by nationally recognized vendors. We selectively employ proprietary software systems to support our specialty lending products. We work with our third-party vendors to monitor and maximize the efficiency of our use of their applications. We use integrated systems to originate and process loans and deposit accounts, which reduces processing time, improves customer experiences and reduces costs. Most customer records are maintained digitally. We are also currently executing several initiatives to enhance our on-line and telephone banking services to further improve the overall client experience.

Protecting our systems to ensure the safety of our customers' information is critical to our business. We use multiple layers of protection to control access and reduce risk, including conducting a variety of audits and vulnerability and penetration tests on our platforms, systems and applications to reduce the risk that any attacks are successful. To protect against disasters, we have a backup offsite core processing system and recovery plans.

We invested in an enterprise data warehouse system in order to capture, analyze and report key metrics associated with customer and product profitability. Data that previously was arduous to collect across multiple systems is now available daily through standard and ad hoc reports to assist with managing our business and competing effectively in the marketplace.

Risk Oversight and Management

We believe risk management is another core competency of our business. We have a comprehensive risk management process that monitors, evaluates and manages the risks we assume in conducting our activities. Our oversight of this risk management process is conducted through the responsibilities of certain of the Company's Board of Directors (the "Board") standing committees. The committees each report to the Board and the Board has overall oversight responsibility with respect to risk awareness and risk management.

Our risk framework is structured to guide decisions regarding the appropriate balance between risk and return considerations in our business. Our risk framework is informed by our strategy, risk appetite and financial plans approved by our Board. This framework includes risk policies, procedures, measured and reported limits and targets, and reporting. Our Board approves our risk appetite statement, which sets forth the amount and type of risks we are willing to accept in pursuit of achieving our strategic, business and financial objectives. Our risk appetite statement provides the context for our risk management tools, including, among others, risk policies, delegated authorities, limits, portfolio composition, underwriting standards and operational processes.

Competition

The banking business in California, and specifically in the Bank's primary service areas and lending markets, is highly competitive. The Bank competes for loans, deposits and customers nationwide with other commercial banks and financial services institutions. Some of these competitors are larger in total assets and capitalization, with more offices over a wider geographic area and offer a broader range of financial services than the Bank. Our most direct competition for loans comes from larger regional and national banks, savings banks and associations, credit unions, insurance companies and service-focused community banks that target the same customers we do. 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.

We compete for loans principally through the quality of service we provide to borrowers while maintaining competitive interest rates, loan fees and other loan terms. We emphasize personalized relationship banking services and the local and efficient decision-making of our banking businesses. Because of economies of scale, our larger, nationwide competitors may offer loan pricing that is more attractive than what we can offer.

Competition is based on a number of factors, including: interest rates charged on loans and paid on deposits, the scope and type of banking and financial services offered, convenience of our branch locations, customer service, technological changes and regulatory constraints. Many of our competitors are large companies that have substantial capital, technological and marketing resources. Some of our competitors have substantial market positions and have access to a lower cost of capital or a less expensive source of funds. We principally compete based on:

- in-depth knowledge of our borrowers' industries and their business needs based upon information received from our borrowers' key decision-makers, analysis by our experienced professionals and interaction between these two groups;
- our breadth of loan product offerings and flexible and creative approach to structuring products that meet our borrowers' business and timing needs; and
- our dedication to superior client service.

Employees

As of January 30, 2015, we had 1,443 full time equivalent employees.

Financial and Statistical Disclosure

Certain of our statistical information is 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 Company is subject to extensive regulation under federal and state banking laws that establish a comprehensive framework for our operations. 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. Our business is also influenced by the monetary and fiscal policies of the federal and state governments in those states in which we operate. In addition, we adhere to the policies of the Board of Governors of the Federal Reserve System (the "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.

The events of the past several years have led to numerous new laws for financial institutions in the United States and internationally. 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 landscape 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, mandating risk management requirements, requiring banks to pay increased fees to regulatory agencies, establishing the CFPB, and establishing numerous other provisions aimed at strengthening the sound operation of the financial services sector. As discussed further throughout this section, some 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 the Company or across the industry.

The Dodd-Frank Act and the FRB's implementing regulations impose increasingly stringent regulatory requirements on financial institutions as their size and scope of activities increases. With the April 7, 2014 CapitalSource Inc. merger, the Company's total consolidated assets exceeded \$15 billion, which subjects the Company to additional regulatory requirements for financial institutions with over \$10 billion in total consolidated assets. This substantially increased the regulations we are required to meet, particularly with respect to risk management, capital planning, and stress testing in various parts of the Company and the Bank. In addition, the Company and the Bank are now subject to the examination and supervision of the CFPB.

Bank Holding Company Regulation

As a bank holding company, PacWest is registered with and subject to supervision, regulation and examination by the FRB under the Bank Holding Company Act of 1956, as amended, or "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 be in our, or our stockholders' or creditors', best interest to 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, or "FDIA," 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. 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 the 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. Pursuant to the Bank Merger Act, the prior approval of the FDIC is required for our bank to merge with another bank or purchase all or substantially all of the assets or assume any of the deposits of another FDIC-insured depository institution. In reviewing applications seeking approval of merger and acquisition transactions, bank regulators consider, among other things, the competitive effect and public benefits of the transactions, the capital position and managerial resources of the combined organization, the risks to the stability of the U.S. banking or financial system, the applicant's performance record under the Community Reinvestment Act of 1977, or "CRA," the applicant's compliance with fair housing and other consumer protection laws, and the effectiveness of all organizations involved in combating money laundering activities. In addition, failure to implement or maintain adequate compliance programs could cause bank regulators not to approve an acquisition where regulatory approval is required or to prohibit an acquisition even if approval is not required. Our ability to engage in certain merger or acquisition transactions, whether or not any regulatory approval is required, will be dependent upon our regulators' assessment of the foregoing factors. 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.

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 have not elected to be treated as a financial holding company. and currently have no plans to make a financial holding company election.

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. 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.

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 Common Equity Tier 1 capital, 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 or repurchase our shares. 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."

Transactions between the Bank and its subsidiaries, on the one hand, or PacWest and any subsidiary, on the other hand, are regulated under federal banking law. 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 guaranty, accept letters of credit on behalf of an affiliate, or enter into derivative transactions with credit exposures with 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 and at least as favorable to our bank as if the transaction were conducted with an unaffiliated third party. A bank 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 institution subsidiaries represents an unsafe or unsound practice or violation of law. The FRB has the power to order any bank holding company or its subsidiaries to terminate any activity or to terminate its ownership or control of any subsidiary when the FRB has reasonable grounds to believe that continuing such activity, ownership or control constitutes a serious risk to the financial soundness, safety or stability of any bank subsidiary of the bank holding company.

In October 2012, as required by the Dodd-Frank Act, the FRB and FDIC published final rules regarding company-run stress testing. The rules require institutions, such as the Company and the Bank, with average total consolidated assets greater than \$10 billion to conduct an annual company-run stress test of capital, consolidated earnings and losses under one base scenario and at least two stress scenarios provided by the federal bank regulators. Stress test results must be reported to the regulatory agencies, and the stress testing rules require the public disclosure of a summary of the stress test results. The Company's and Bank's capital ratios reflected in the stress test calculations will be an important factor considered by the FRB and FDIC in evaluating the capital adequacy of the Company and the Bank, respectively, and whether any proposed payments of dividends or stock repurchases may be deemed an unsafe or unsound practice. The Company will be required to publish its first stress test results in July 2016.

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 (hedge funds and private equity funds, defined as "covered 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, in connection with the final Volcker Rule, the FRB granted a blanket one year extension of the Volcker Rule conformance period so that banking organizations had until July 21, 2015 to fully comply with most requirements of the Volcker Rule. On December 18, 2014, the FRB granted a second one-year extension of the Volcker Rule conformance period to July 21, 2016 for existing investments in and relationships with covered funds (relationships existing prior to December 31, 2013). A similar one-year extension by the FRB is expected to further extend the Volcker Rule conformance period to July 21, 2017. We do not currently anticipate that the Volcker Rule will have a material effect on our operations. 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.

Dividends

The ability of the Company to pay dividends on its common stock, and the ability of the Bank to pay dividends to the Company, may be restricted due to several factors including: (a) the Delaware General Corporation Law, (b) covenants contained in our subordinated debentures and borrowing agreements, and (c) the regulatory authority of the FRB and the California Department of Business Oversight, or "DBO."

Our ability to pay dividends to our stockholders is subject to the restrictions set forth in the Delaware General Corporation Law, or "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 cash dividends to our stockholders may be 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 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.

The unsecured borrowing facility at the parent company may also limit our ability to pay cash dividends to our stockholders if an Event of Default (as defined in the credit agreement) has occurred and is continuing. 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 may 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. 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. During 2014, 2013, and 2012, the Company paid \$114.3 million, \$41.0 million, and \$28.8 million 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.

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 and FDIC under their 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 and FDIC 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 2014, 2013, and 2012, the Bank paid \$137.0 million, \$48.0 million, and \$50.0 million in dividends to the Company. For the foreseeable future, any further cash dividends from the Bank to the Company will require DBO and FDIC approval.

See "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.

Capital Requirements

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.

General Risk Based Capital Rules. Prior to January 1, 2015, the FDIC and FRB risk-based capital guidelines were 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 that apply.

Under the general risk-based capital rules, applicable through December 31, 2014, 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 two tiers relevant to us, 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) minus 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.

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 the FDIC’s 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.”

The Company and the Bank 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, 2014 for Pacific Western Bank 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. The amount of subordinated debentures totaled \$433.6 million at December 31, 2014 and includes \$300.4 million of debentures assumed in connection with the CapitalSource Inc. merger. 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, 2014, the amount of trust preferred securities included in Tier I capital was \$131.0 million. The acquired CapitalSource Inc. trust preferred securities are ineligible for inclusion in Tier 1 capital but are included in Tier 2 capital. The \$131.0 million of trust preferred securities are currently grandfathered as Tier 1 capital under the Dodd-Frank Act. However, under new capital rules approved by the FRB and FDIC in July 2013, described below under “-Basel III Capital Rules,” as a result of the Company having exceeded \$15 billion in consolidated total assets, beginning in 2015 only 25% of the Company’s \$131.0 million of trust preferred securities currently outstanding 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. Further, under such rules, trust preferred securities no longer included in the Company’s Tier 1 capital may be included as a component of Tier 2 capital on a permanent basis without phase-out. If the \$131.0 million of trust preferred securities are excluded from regulatory capital, we remain “well capitalized” at December 31, 2014.

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’s 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 ratio calculations. The New Capital Rules also address asset risk weights and other matters affecting the denominator in banking institutions’ regulatory capital ratio calculations 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. The New Capital Rules also implement the requirements of Section 939A of the Dodd Frank Act to remove references to credit ratings from the federal regulators’ rules. The New Capital Rules were effective for the Company and the Bank as of January 1, 2015, subject to phase in periods for certain of their components and other provisions.

The New Capital Rules, among other things, (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 are 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 regulatory 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. 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. When fully phased in, the Company and the Bank will be required to maintain such additional capital conservation buffer of 2.5% of CET1, 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 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.

Implementation of the deductions and other adjustments to CET1 commenced 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). With respect to the Bank, the New Capital Rules revised 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, resulting in higher risk weights for a variety of asset classes.

We are continuing to evaluate the impact of the New Capital Rules on our capital ratios and related calculations. We believe that, as of December 31, 2014, the Company and the Bank would remain "well-capitalized" under the New Capital Rules as if such requirements had been in effect.

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, then 25% of its expected total cash outflow) under an acute liquidity stress scenario. 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 other sovereign debt as a component of assets and increase the use of long-term debt as a funding source.

In September 2014, the federal banking agencies approved final rules implementing the LCR for advanced approaches banking organizations (i.e., banking organizations with \$250 billion or more in total consolidated assets or \$10 billion or more in total on-balance sheet foreign exposure) 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 banking organizations, neither of which apply to the Company or the Bank. 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. A bank's category is determined solely for the purpose of applying prompt corrective action regulations, and the capital category may not constitute an accurate representation of the bank's overall financial condition or prospects for other purposes.

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 (under the New Capital Rules a 5% leverage ratio is required for an institution to be well capitalized and a 4% leverage ratio is required to be adequately capitalized). The New Capital Rules do not change the total risk based capital requirement for any PCA category. 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 its federal bank regulator, and the holding company must guarantee the performance of that plan. The obligation of a controlling bank holding company to fund a capital restoration plan is limited to the lesser of 5% of an undercapitalized subsidiary’s assets or the amount required to meet regulatory capital requirements.

In addition to measures taken under the prompt corrective action provisions, commercial banking organizations, such as the Bank, 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.

Safety and Soundness Standards

The FDIA requires the federal bank regulators to prescribe standards, by regulations or guidelines, relating to internal controls, information systems and internal audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, asset quality, earnings, stock valuation and compensation, fees and benefits, and such other operational and managerial standards as the agencies deem appropriate. Guidelines adopted by the federal bank regulatory agencies establish general standards relating to internal controls and information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth and compensation, fees and benefits. In general, these guidelines require, among other things, appropriate systems and practices to identify and manage the risk and exposures specified in the guidelines. These guidelines also prohibit excessive compensation as an unsafe and unsound practice and describe compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director or principal stockholder. In addition, the agencies adopted regulations that authorize, but do not require, an agency to order an institution that has been given notice by an agency that it is not satisfying any of such safety and soundness standards to submit a compliance plan. If, after being so notified, an institution fails to submit an acceptable compliance plan or fails in any material respect to implement an acceptable compliance plan, the bank regulator must issue an order directing action to correct the deficiency and may issue an order directing other actions of the types to which an undercapitalized institution may be subject under the FDIA. If an institution fails to comply with such an order, the bank regulator may seek to enforce such order in judicial proceedings and to impose civil money penalties.

Deposit Insurance

The Bank is a state chartered, “non member” bank and therefore is regulated by the 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.

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. The FDIC has established a long-term target for the reserve ratio of 2.0%. 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.

The Bank, as is the case with all FDIC insured banks, is subject to deposit insurance assessments as determined by the FDIC. Each institution's assessments are based on the average consolidated total assets less the average tangible equity of the insured depository institution during the assessment period (the "assessment base"). As a result of the April 7, 2014 CapitalSource Inc. merger, the Bank's total consolidated assets exceeded \$15 billion, which categorizes the Bank as a "large institution" under the FDIC's deposit assessment rules. For large institutions, such as the Bank, the FDIC uses a performance score and a loss-severity score that are used to calculate an initial assessment rate. In calculating these scores, the FDIC uses a bank's capital level and supervisory ratings (its "CAMELS ratings") and certain financial measures to assess an institution's ability to withstand asset-related stress and funding-related stress. The FDIC has the ability to make discretionary adjustments to the total score based upon significant risk factors that are not adequately captured in the calculations.

Under the FDIA, the FDIC may terminate deposit insurance upon a finding that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC.

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 having at least \$1 billion in total assets, such as the Company and the Bank, 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 addition to the proposed rules, 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.

Consumer Regulation

We are subject to a number of federal and state consumer protection laws that extensively govern our relationship with our customers. These laws include the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Truth in Lending Act, the Truth in Savings Act, the Electronic Fund Transfer Act, the Expedited Funds Availability Act, the Home Mortgage Disclosure Act, the Fair Housing Act, the Real Estate Settlement Procedures Act, the Fair Debt Collection Practices Act, the Service Members Civil Relief Act and these laws' respective state-law counterparts, as well as state usury laws and laws regarding unfair and deceptive acts and practices. These and other federal laws, among other things, require disclosures of the cost of credit and terms of deposit accounts, provide substantive consumer rights, prohibit discrimination in credit transactions, regulate the use of credit report information, provide financial privacy protections, prohibit unfair, deceptive and abusive acts and practices, restrict our ability to raise interest rates and subject us to substantial regulatory oversight. Violations of applicable consumer protection laws can result in significant potential liability from litigation brought by customers, including actual damages, restitution and attorneys' fees. Federal bank regulators, state attorneys general and state and local consumer protection agencies may also seek to enforce consumer protection requirements and obtain these and other remedies, including regulatory sanctions, customer rescission rights, action by the state and local attorneys general in each jurisdiction in which we operate and civil money penalties. Failure to comply with consumer protection requirements may also result in our failure to obtain any required bank regulatory approval for merger or acquisition transactions we may wish to pursue or our prohibition from engaging in such transactions even if approval is not required.

The Dodd Frank Act established the CFPB with broad rulemaking, supervisory and enforcement powers under various federal consumer financial protection laws. The CFPB is also authorized to engage in consumer financial education, track consumer complaints, request data and promote the availability of financial services to underserved consumers and communities. Banking organizations with more than \$10 billion in assets, such as the Bank, are subject to direct oversight and examination by the CFPB.

The consumer protection provisions of the Dodd-Frank Act and the examination, supervision and enforcement of those laws and implementing regulations by the CFPB have created a more intense and complex environment for consumer finance regulation. The CFPB has significant authority to implement and enforce federal consumer finance laws, including the Truth in Lending Act, the Equal Credit Opportunity Act and new requirements for financial services products provided for in the Dodd-Frank Act, as well as the authority to identify and prohibit unfair, deceptive or abusive acts and practices. The review of products and practices to prevent such acts and practices is a continuing focus of the CFPB, and of banking regulators more broadly. The ultimate impact of this heightened scrutiny is uncertain but could result in changes to pricing, practices, products and procedures. It could also result in increased costs related to regulatory oversight, supervision and examination, additional remediation efforts and possible penalties. In addition, the Dodd-Frank Act provides the CFPB with broad supervisory, examination and enforcement authority over various consumer financial products and services, including the ability to require reimbursements and other payments to customers for alleged legal violations and to impose significant penalties, as well as injunctive relief that prohibits lenders from engaging in allegedly unlawful practices. The CFPB also has the authority to obtain cease and desist orders providing for affirmative relief or monetary penalties. The Dodd-Frank Act does not prevent states from adopting stricter consumer protection standards. State regulation of financial products and potential enforcement actions could also adversely affect our business, financial condition or results of operations.

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 "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 and prospective 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 enhance 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 and result in material fines and sanctions.

Bank Secrecy Act/Anti-Money Laundering

The Bank Secrecy Act, which applies to all financial institutions, was enacted on October 26, 1970, as a means to detect incidents of money laundering for any of a multitude of illegal, illicit and suspicious activities. Money laundering is the process of making illegally-gained funds (i.e. "dirty money") appear legal (i.e. "clean"). There are a variety of ways this can take place and against which the Bank must guard. Money laundering can facilitate crimes such as drug trafficking and terrorism, and can adversely impact the global economy. We regularly monitor account activities of all customers to ensure they are not using the Bank for these activities and take appropriate steps as we detect such activities.

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 designated 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 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. In the case of a bank holding company, such as the Company, when applying to acquire a bank, savings association, or a bank holding company, the FRB will assess the CRA record of each depository institution of the applicant bank holding company in considering the application.

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 non-public 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 non-public 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 20, 2015. 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 Securities Exchange Act of 1934, as amended (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 website. 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 SEC 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, our Compensation, Nominating and Governance Committee, and our Risk 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.

Our Investor Relations Department can be contacted at PacWest Bancorp, 130 S. State College 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 Form 10-K contains certain “forward-looking statements” about the Company and its subsidiaries within the meaning of the Private Securities Litigation Reform Act of 1995, including certain plans, strategies, goals, and projections and including statements about our expectations regarding our operating expenses, profitability, allowance for loan and lease losses, net interest margin, deposit growth, loan and lease portfolio growth and production, future acquisitions, maintaining capital adequacy, liquidity, goodwill, interest rate risk management, and realization of our deferred tax asset. All statements contained in this Form 10-K that are not clearly historical in nature are forward-looking, and the words “anticipate,” “assume,” “intend,” “believe,” “forecast,” “expect,” “estimate,” “plan,” “continue,” “should,” “look forward” and similar expressions are generally intended to identify forward-looking statements. All forward-looking statements involve risks, uncertainties and contingencies, many of which are beyond our control, which may cause actual results, performance, or achievements to differ materially from results, performance or achievements expressed or implied by these forward-looking statements. Actual results could differ materially from those contained or implied by such forward-looking statements for a variety of factors, including without limitation:

- change in interest rates and lending spreads;
- compression of interest rate spreads on newly originated loans or due to changes in our loan product mix;
- unfavorable changes in asset mix;
- changes in economic or competitive market conditions could negatively impact investment or lending opportunities or product pricing and services;
- credit quality deterioration or pronounced and sustained reduction in market values or other economic factors which adversely affect our borrowers' ability to repay loans and leases;
- continued, worsening or higher than anticipated credit losses or charge-offs;
- higher than anticipated increases in operating expenses;
 - higher compensation costs and professional fees;
- increased costs to manage and sell foreclosed assets;
- 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;
- higher than anticipated delinquencies and reserves;
- a change in the interest rate environment reduces interest margins;
- asset/liability repricing risks and liquidity risks reduce interest margins and the value of investments;
- pending legal matters may take longer or cost more to resolve or may be resolved adversely to the Company;
- a deterioration in the overall macroeconomic conditions or the state of the banking industry that could warrant further analysis of the carrying value of goodwill and could result in an adjustment to its carrying value resulting in a non-cash charge to net income;
- general economic conditions, either nationally or in the market areas in which the Company does or anticipates doing business, are less favorable than expected;
- our inability to grow deposits and access wholesale funding sources;
- legislative or regulatory requirements or changes adversely affecting the Company's business, including an increase to capital requirements;
- loan repayments higher than expected;
- reduced demand for our services due to strategic or regulatory reasons;
- the success and timing of other business strategies and asset sales;
- lower than expected taxable income which adversely affects the value of deferred tax assets;
- lower than expected dividends paid from Pacific Western Bank to the holding company;
- changes in tax laws or regulations affecting our business;
- our inability to generate sufficient earnings;
- tax planning or disallowance of tax benefits by tax authorities;
- changes in the forward yield curve;
- changes in the relationship between yields on investments and loans repaid and yields on assets reinvested; and

other risk factors described in our audited consolidated financial statements, and other risk factors described in this Form 10-K and other documents filed or furnished by PacWest with the SEC.

All forward-looking statements included in this Form 10-K are based on information available at the time the statement is made. We are under no obligation to (and expressly disclaim any such obligation to) update or alter our forward-looking statements, whether as a result of new information, future events or otherwise except as required by law.

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.

The U.S. economic recession in 2007 through 2009, and the sluggish economic recovery since then, has had an adverse effect on our business. In addition, the global financial markets have undergone and may continue to experience pervasive and fundamental disruptions, which also have an adverse effect on our business. 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 economic activity continues to face difficulties due to cautious business spending, the variable rate of U.S. economic growth, weak commodity prices, low wage growth offsetting the improved levels of unemployment, currency exchange rate volatility and its effect on export growth, and the slowing and negative economic growth and other continuing economic developments in Europe and Asia.

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 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 delinquencies, bankruptcies or defaults could result in a higher level of nonperforming assets, net charge-offs and provisions for credit losses.

Unfavorable changes in economic conditions generally have 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.

Our concentration of loans to privately owned small and medium-sized companies and to a limited number of clients within a particular industry or region could expose us to greater lending risk if the market sector, industry or region were to experience economic difficulties or changes in the regulatory environment.

Our portfolio consists primarily of commercial loans to small and medium-sized, privately owned businesses in a limited number of industries and regions primarily throughout the United States.

As of December 31, 2014, real estate mortgage loans (which are predominately commercial real estate loans) comprised 47.1% of our total portfolio. At December 31, 2014, our largest property type concentration was healthcare property, totaling 18.4% of real estate mortgage loans. Other significant real estate mortgage loan property type concentrations were office properties at 13.9% and multi-family properties at 13.8% at December 31, 2014. In addition, 52.7% of our loans secured by real estate were in California at December 31, 2014.

Commercial loans and leases comprised 49.4% of our total portfolio at December 31, 2014. At December 31, 2014, our largest commercial loan type concentration was cash flow loans, totaling 20.9% of our total portfolio. Cash flow secured loans are provided to sophisticated buyers and private equity groups, financial investors, strategic companies and sponsors to finance the acquisition or recapitalization of a business. Other significant commercial concentrations were asset-based loans at 15.1% and equipment finance at 8.2% of the total portfolio at December 31, 2014.

If any particular industry or geographic region were to experience economic difficulties, the overall timing and amount of collections on our loans to clients operating in those industries or geographic regions may differ from what we expected, which could have a material adverse impact on our financial condition or results of operations.

Additionally, compared to larger, publicly owned firms, privately owned small and medium-sized companies generally have limited access to capital and higher funding costs, may be in a weaker financial position and therefore more susceptible to economic downturns or volatility and may need more capital to expand or compete. These financial challenges may make it difficult for our clients to make scheduled payments of interest or principal on our loans. Accordingly, loans made to these types of clients entail higher risks than loans made to companies that are able to access a broader array of credit sources. The concentration of our portfolio in loans to these types of clients could amplify these risks.

Further, there is generally no publicly available information about the small and medium-sized privately owned companies to which we lend. Therefore, we underwrite our loans based on detailed financial information and projections provided to us by our clients and we must rely on our clients and the due diligence efforts of our employees to obtain the information relevant to making our credit decisions. We rely upon the management of these companies to provide full and accurate disclosure of material information concerning their business, financial condition and prospects. We may not have access to all of the material information about a particular client's business, financial condition and prospects, or a client's accounting records may be poorly maintained or organized. The client's business, financial condition and prospects may also change rapidly in the current economic environment. In such instances, we may not make a fully informed credit decision which may lead, ultimately, to a failure or inability to recover our loan in its entirety.

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.

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.

Liquidity risk would impair our ability to fund operations and jeopardize our financial condition.

Liquidity is essential to our business. An inability to raise funds through deposits, borrowings, the sale of loans and other sources could have a material adverse effect on our liquidity. Our access to funding sources in amounts adequate to finance our activities could be impaired by factors that affect us specifically or the financial services industry in general. Factors that could detrimentally impact our access to liquidity sources include a decrease in the level of our

business activity due to a market downturn or adverse regulatory action against us. Our ability to acquire deposits or borrow could also be impaired by factors that are not specific to us, such as a severe disruption of the financial markets or negative views and expectations about the prospects for the financial services industry as a whole as a result of conditions faced by banking organizations in the domestic and worldwide credit markets.

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 community 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 or no 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 as a result.

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 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 from these agencies 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 be adversely affected by changes in the actual or perceived soundness or condition of other financial institutions.

Financial services institutions that deal with each other are interconnected as a result of trading, investment, liquidity management, clearing, counterparty and other relationships. Within the financial services industry, loss of public confidence, including through default by any one institution, could lead to liquidity challenges or to defaults by other institutions. Concerns about, or a default by, one institution could lead to significant liquidity problems and losses or defaults by other institutions, as the commercial and financial soundness of many financial institutions is closely related as a result of these credit, trading, clearing and other relationships. Even the perceived lack of creditworthiness of, or questions about, a counterparty may lead to market-wide liquidity problems and losses or defaults by various institutions. This systemic risk may adversely affect financial intermediaries, such as clearing agencies, banks and exchanges with which we interact on a daily basis or key funding providers such as the Federal Home Loan Banks, any of which could have a material adverse effect on our access to liquidity or otherwise have a material adverse effect on our business, financial condition or results of operations.

We may not recover all amounts that are contractually owed to us by our borrowers.

The Company is dependent primarily on loan and lease principal, interest, and fee collections to fund its operations. A shortfall in collections and proceeds may impair our ability to fund our operations or to repay our existing debt.

When we loan money, commit to loan money or enter into a letter of credit or other contract with a counterparty, we incur credit risk. The credit quality of our portfolio can have a significant impact on our earnings. We expect to experience charge-offs and delinquencies on our loans in the future. Our clients' actual operating results may be worse than our underwriting indicated when we originated the loans, and in this circumstance, if timely corrective action is not taken, we could incur a substantial impairment or loss of the value on such loans. We may fail to identify problems because our client did not report them in a timely manner or, even if the client did report the problem, we may fail to address it quickly enough or at all. Even if clients provide us with full and accurate disclosure of all material information concerning their businesses, we may misinterpret or incorrectly analyze this information.

Mistakes may cause us to make loans that we otherwise would not have made, to fund advances that we otherwise would not have funded, result in losses on one or more of our loans, or necessitate that we significantly increase our allowance for loans losses. As a result, we could suffer loan losses and have nonperforming loans, which could have a material adverse effect on our revenues, net income and results of operations and financial condition, to the extent the losses exceed our allowance for loan and lease losses.

The collateral securing a loan or lease may not be sufficient to protect us if we have not properly obtained or perfected a lien on such collateral or if the collateral value does not cover the loan or lease.

Most of our loans are secured by a lien on specified collateral of the client and we may not obtain or properly perfect our liens or the value of the collateral securing any particular loan may not protect us from suffering a partial or complete loss if the loan becomes non-performing and we move to foreclose on the collateral. In such event, we could suffer loan losses, which could have a material adverse effect on our revenue, net income, financial condition and results of operations.

In particular, cash flow lending involves lending money to a client based primarily on the expected cash flow, profitability and enterprise value of a client rather than on the value of its assets. As of December 31, 2014, approximately 20.9% of our portfolio was comprised of cash flow loans. Although the value of the enterprise is significantly in excess of our loan balance, the value of the stand-alone assets which we hold as collateral for these loans is typically substantially less than the amount of money we advance to a client under these loans. When a cash flow loan becomes non-performing, our primary recourse to recover some or all of the principal of our loan is to force the sale of the entire company as a going concern or restructure the company in a way we believe would enable it to generate sufficient cash flow over time to repay our loan. Neither of these alternatives may be an available or viable option or generate enough proceeds to repay the loan.

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, regulatory requirements, 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. Deterioration in 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 Federal Reserve Bank of San Francisco ("FRBSF").

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. Further, if we need to raise capital in the future, we may have to do so when many other financial institutions are also seeking to raise capital and would then have to compete with those institutions for investors. An inability to raise additional capital on acceptable terms when needed could have a materially adverse effect on our business, financial condition or results of operations.

The value of our securities in our investment portfolio may decline in the future.

As of December 31, 2014, we owned \$1.6 billion of investment securities. The fair value of our investment securities may be adversely affected by market conditions, including changes in interest rates, and the occurrence of any events adversely affecting the issuer of particular securities in our investments portfolio. We analyze our securities on a quarterly basis to determine if an other-than-temporary impairment has occurred. The process for determining whether impairment is other-than-temporary usually requires complex, subjective judgments about the future financial performance of the issuer in order to assess the probability of receiving all contractual principal and interest payments on the security. Because of changing economic and market conditions affecting issuers, we may be required to recognize other-than-temporary impairment in future periods, which could have a material adverse effect on our business, financial condition or results of operations.

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

The banking industry is extensively regulated and supervised under both federal and state laws and regulations that are intended primarily for the protection of depositors, customers, federal deposit insurance funds and the banking system as a whole, not for the protection of our stockholders and creditors. The Company is subject to regulation and supervision by the FRB, and the Bank is subject to regulation and supervision by the FDIC, DBO and CFPB. The laws and regulations applicable to us govern a variety of matters, including permissible types, amounts and terms of loans and investments we make, the maximum interest rate that may be charged, consumer disclosures on the products and services we offer, the amount of reserves our bank must hold against deposits it takes, the types of deposits our bank may accept and the rates it may pay on such deposits, maintenance of adequate capital and liquidity, changes in control of us and the Bank, restrictions on dividends and establishment of new offices by the Bank. We must obtain approval from our regulators before engaging in certain activities, including certain acquisitions, and there can be no assurance that any regulatory approvals we may require will be obtained, or obtained without conditions, either in a timely manner or at all. Our regulators have the ability to compel us to, or restrict us from, taking certain actions entirely, such as actions that our regulators deem to constitute unsafe or unsound banking practice. Our failure to comply with any applicable laws or regulations, or regulatory policies and interpretations of such laws and regulations, could result in orders from our regulators, civil monetary penalties, or damage to our reputation, all of which could have a material adverse effect on our business, financial condition or results of operation.

The Dodd-Frank Act significantly revised and expanded the rulemaking, supervisory and enforcement authority of federal bank regulators. 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 any future 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;
- subject us to new and/or higher fees paid to various regulatory entities, including but not limited to deposit insurance fees to the FDIC;
- subject us to annual stress tests;
- 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 supervision of the CFPB, with its very broad rule-making and enforcement authorities; and
- subject us to new and different litigation and regulatory enforcement risks.

The full impact of the Dodd-Frank Act on us, our business strategies, and financial performance cannot be known at this time, and may not be known for a number of years, because this legislation requires many studies to be conducted and hundreds of regulations to be written in order for it to be fully implemented. However, these impacts are expected to be substantial and some of them may 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 or desired changes, and could therefore also adversely affect our business, financial condition and results of operations.

Additionally, on December 10, 2013, five financial regulatory agencies, including our primary federal regulator, the FRB, adopted the final rules implementing the Volcker Rule embodied in Section 13 of the Bank Holding Company Act, which was added by Section 619 of the Dodd-Frank Act. The final rules prohibit banking entities from, among other things, (i) engaging in short-term proprietary trading for their own accounts, and (ii) having certain ownership interests in and relationships with hedge funds or private equity funds. The final rules are intended to provide greater clarity with respect to both the extent of those primary prohibitions and of the related exemptions and exclusions. The final rules also require each regulated entity to establish an internal compliance program that is consistent with the extent to which it engages in activities covered by the Volcker Rule, which must include (for the largest entities) making regular reports about those activities to regulators. The final rules are effective April 1, 2014, but the conformance period has been extended from its statutory end date of July 21, 2014 until July 21, 2016. Because many of the effects of the Volcker Rule may become apparent only over the next several years as the federal financial regulatory agencies apply the rules in practice, the precise financial impact of the rule on the Company, its customers, or the financial industry more generally cannot currently be determined.

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 New Capital Rules are in the process of being phased-in. As a result of the New Capital Rules, 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 New Capital Rules, or potentially even greater capital requirements, sooner than expected. While we expect to meet the requirements of the New Capital Rules, inclusive of the capital conservation buffer, as phased in by the FRB, 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 dividends or share repurchases. Maintaining higher capital levels could also result in a lower return on equity, which may 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

ratings. Pursuant to the Dodd-Frank Act, the FDIC amended its regulations to base insurance assessments on average consolidated assets less 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 ability to maintain, attract and retain customer relationships is highly dependent on our reputation. Our customers expect us to deliver superior, personalized financial services with the highest standards of ethics, performance, professionalism and compliance. Damage to our reputation could undermine the confidence of our current and potential customers in our ability to provide high-quality financial services. Such damage could also impair the confidence of our counterparties and vendors and ultimately affect our ability to effect transactions. Maintenance of our reputation depends not only on our success in maintaining our service-focused culture and controlling and mitigating the various risks described herein, but also on our success in identifying and appropriately addressing issues that may arise in areas such as potential conflicts of interest, anti-money laundering, client personal information and privacy issues, customer and other third party fraud, record-keeping, technology-related issues including but not limited to cyber fraud, regulatory investigations and any litigation that may arise from the failure or perceived failure to comply with legal and regulatory requirements. Maintaining our reputation also depends on our ability to successfully prevent third parties from infringing on our brands and associated trademarks and our other intellectual property. Defense of our reputation, trademarks and other intellectual property, including through litigation, could result in costs that could have a material adverse effect on our business, financial condition or results of operations.

Our information and customer systems may experience an interruption or security breach.

Our communications, information, technology and customer systems supporting our operations are important to our efficiency and vulnerable to unforeseen problems. Our operations depend on our ability, as well as that of third party service providers, to protect computer systems and network infrastructure against damage from fires, other natural disasters and pandemics, power or telecommunications failures, acts of terrorism or wars or other catastrophic events, or other physical failures. Any damage or failure, interruption or breach in security of these systems, including, but not limited to, denial-of-service attacks, unauthorized access, computer viruses, phishing schemes and other security breaches, could result in loss of customer information and/or 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 and customer 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 communications, information, technology and customer systems could result in liability to clients or loss of customer business, subject us to additional regulatory scrutiny or expose us to civil litigation and possible financial liability, any of which could have an adverse effect on our business, financial condition, reputation, or results of operations. In addition, recovery from any of the mentioned areas of concern may be costly in terms of employee attention and out-of-pocket expenses.

Our controls and procedures may fail or be circumvented.

We regularly review and update our internal controls, disclosure controls and procedures, compliance monitoring activities and corporate governance policies and procedures. Any system of controls, however well-designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of our controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on our business, results of operations, reputation and financial condition. In addition, if we identify material weaknesses in our internal control over financial reporting or are required to restate our financial statements, we could be required to implement expensive and time-consuming remedial measures. We could lose investor confidence in the accuracy and completeness of our financial reports and potentially subject us to litigation. Any material weaknesses in our internal control over financial reporting or restatement of our financial statements could have a material adverse effect on our business, results of operations, reputation, and financial condition.

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. Environmental liabilities may require the Company to incur substantial expenses and may materially reduce the affected property's value or limit the Company's ability to use or sell the affected property. 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.

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 2. 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 27 acquisitions since May 2000. 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 increased costs or give assurances that our investigation or mitigation efforts will be sufficient to protect against any such loss or increased costs.

Our ability to execute strategic activities successfully will depend on a variety of factors. These factors likely will vary on the nature of the activity but may include our success in integrating the operations, services, products, personnel and systems of an acquired company into our business, operating effectively with any partner with whom we elect to do business, retaining key employees, achieving anticipated synergies, meeting expectations and otherwise realizing the undertaking's anticipated benefits. Our ability to address these matters successfully cannot be assured. In addition, our strategic efforts may divert resources or management's attention from ongoing business operations and may subject us to additional regulatory scrutiny. If we do not successfully execute a strategic undertaking, it could adversely affect our business, financial condition, results of operations, reputation, regulatory relationships and growth prospects. In addition, if we were able to conclude that the value of an acquired business had decreased and that the related goodwill had been impaired, that conclusion would result in an impairment of goodwill charge to us, which would adversely affect our results of operations. To the extent we issue capital stock in connection with additional transactions, these transactions and related stock issuances may have a dilutive effect on earnings per share and share

ownership.

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A natural disaster could harm the Company's business.

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. California, in which a substantial portion of our business is located and a substantial portion of our loan collateral is located, is susceptible to natural disasters such as earthquakes, floods, droughts and wild fires, and is currently in the midst of an ongoing drought. Such natural disasters could negatively impact our business operations, the values of collateral securing our loans and/or interrupt our borrowers' abilities to conduct their business in a manner to support their debt obligations, which could result in losses and increased provisions for credit losses.

Our decisions regarding the fair value of assets acquired 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 acquisitions that include loss sharing agreements with the FDIC, 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.

The change of control rules under Section 382 of the Internal Revenue Code may limit our ability to use net operating loss carryovers and other tax attributes to reduce future tax payments or our willingness to issue equity.

We have net operating loss carryforwards for federal and state income tax purposes that can be utilized to offset future taxable income. If we were to undergo a change in ownership of more than 50% of our capital stock over a three-year period as measured under Section 382 of the Internal Revenue Code, our ability to utilize our net operating loss carryforwards and other tax attributes after the ownership change generally would be limited. The annual limit would equal the product of the applicable long term tax exempt rate and the value of the relevant taxable entity's capital stock immediately before the ownership change. These change of ownership rules generally focus on ownership changes involving stockholders owning directly or indirectly 5% or more (the "5-Percent Shareholders") 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, which may limit our willingness and ability to issue new equity. The determination of whether an ownership change occurs is complex and not entirely within our control. No assurance can be given as to whether we have undergone, or in the future will undergo, an ownership change under Section 382 of the Internal Revenue Code.

In April 2014, the Board of Directors adopted a tax benefit preservation plan (the "Tax Plan") which was designed to preserve the net operating loss carryforwards and other tax attributes of the Company. The Tax Plan is intended to discourage persons from becoming 5-Percent Shareholders and existing 5-Percent Shareholders from increasing their beneficial ownership of shares.

Although the Tax Plan is intended to reduce the likelihood of an ownership change that could adversely affect the 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 the Company could utilize the net operating losses to offset future taxable income. Additionally, because the Tax Plan 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 our common stock might suffer.

The Company and its subsidiaries are subject to examinations and challenges by taxing authorities.

In the normal course of business, the Company and its subsidiaries are routinely subjected to examinations and challenges from federal and state taxing authorities regarding tax positions taken by the Company and the determination of the amount of tax due. These examinations may relate to income, franchise, gross receipts, payroll, property, sales and use, or other tax returns filed, or not filed, by the Company. The challenges made by taxing authorities may result in adjustments to the amount of taxes due, and may result in the imposition of penalties and interest. If any such challenges are not resolved in the Company's favor, they could have a material adverse effect on the Company's financial condition, results of operations, and liquidity.

The Company and its subsidiaries are subject to changes in federal and state tax laws and changes in interpretation of existing laws.

The Company's financial performance is impacted by federal and state tax laws. Given the current economic and political environment, and ongoing budgetary pressures, the enactment of new federal or state tax legislation may occur. The enactment of such legislation, or changes in the interpretation of existing law, including provisions impacting income tax rates, apportionment, consolidation or combination, income, expenses, and credits, may have a material adverse effect on the Company's financial condition, results of operations, and liquidity.

We are subject to claims and litigation which could adversely affect our cash flows, financial condition and results of operations, or cause significant reputational harm to us.

We may be involved, from time to time, in litigation pertaining to our business activities. If such claims and legal actions, whether founded or unfounded, are not resolved in a manner favorable to us they may result in significant financial liability. Although we establish accruals for legal matters when and as required by generally accepted accounting principles and certain expenses and liabilities in connection with such matters may be covered by insurance, the amount of loss ultimately incurred in relation to those matters may be substantially higher than the amounts accrued and/or insured. Substantial legal liability could adversely affect our business, financial condition, results of operations and reputation.

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 our subordinated debentures and borrowing agreements. 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. 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 future 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 our business, including 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 our business, including on the market price of our common stock.

The price of our common stock may be volatile or may decline.

The trading price of our common stock may fluctuate as a result of a number of factors, many of which are outside our control. In addition, the stock market is subject to fluctuations in the share prices and trading volumes that affect the market prices of the shares of many companies. These broad market fluctuations could adversely affect the market price of our common stock. Among the factors that could affect our stock price are:

- actual or anticipated quarterly fluctuations in our operating results and financial condition;
- changes in revenue or earnings estimates or publication of research reports and recommendations by financial analysts;
- failure to meet analysts' revenue or earnings estimates;
- cyber security breaches;
- speculation in the press or investment community;
- strategic actions by us or our competitors, such as acquisitions or restructurings;
- actions by institutional stockholders;
- fluctuations in the stock price and operating results of our competitors;
- general market conditions and, in particular, developments related to market conditions for the financial services industry;
- proposed or adopted regulatory changes or developments;
- anticipated or pending investigations, proceedings or litigation that involve or affect us; or
- domestic and international economic factors unrelated to our performance.

The stock market and, in particular, the market for financial institution stocks, has experienced significant volatility during the past several years and the future performance of the stock market is inherently uncertain. As a result, the stock market generally and the market price of our common stock specifically may be volatile. In addition, the trading volume in our common stock may fluctuate more than usual and cause significant price variations to occur. The trading price of the shares of our common stock and the value of our other securities will depend on many factors, which may change from time to time, including, without limitation, our financial condition, performance, creditworthiness and prospects, and future sales of our equity or equity-related securities. 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. A significant decline in our stock price could result in substantial losses for individual stockholders and could lead to costly and disruptive securities litigation.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTY

As of January 31, 2015, we had a total of 142 properties consisting of 80 full-service branch offices and 62 other offices. We own eight locations and the remaining properties are leased. Our properties are located throughout the United States, however, approximately 80% are located in California. The Company'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, would not have a material adverse effect on the Company's financial statements or operations.

ITEM 4. MINE SAFETY DISCLOSURE

Not applicable.

PART II

ITEM MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND
5. 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	
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
2014			
First quarter	\$46.08	\$37.70	\$0.25
Second quarter	\$47.37	\$38.04	\$0.25
Third quarter	\$44.80	\$39.50	\$0.25
Fourth quarter	\$48.03	\$37.63	\$0.50

As of February 9, 2015, the closing price of our common stock on Nasdaq was \$46.34 per share. As of that date, based on the records of our transfer agent, there were approximately 1,704 record holders of our common stock.

Dividends

Set forth in the table above are the dividends declared and paid by the Company during the two most recent fiscal years. For a discussion of dividend restrictions on the Company's common stock, or of dividends from the Company's subsidiaries to the Company, see "Item 1. Business-Supervision and Regulation - 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."

Securities Authorized for Issuance Under Equity Compensation Plans

The following table provides information as of December 31, 2014, regarding securities issued and to be issued under our equity compensation plans in effect during fiscal year 2014:

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) —	13,531,719 (3)
Equity compensation plans not approved by security holders	None	—	—	—

The PacWest Bancorp 2003 Stock Incentive Plan (the "Incentive Plan") was last approved by the stockholders of the Company at our 2014 Special Stockholders Meeting. 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. Upon

(1) consummation of the CapitalSource Inc. merger on April 7, 2014, an additional 10,686,565 shares were added to the Incentive Plan. Such shares were available for grant under the former CapitalSource Inc. Equity Incentive Plan and remain available for: (a) former employees of CapitalSource Bank who remain employed with the Company, and (b) newly hired employees of the Company.

(2) Amount does not include the 1,108,505 shares of unvested time-based restricted stock outstanding with a zero exercise price as of December 31, 2014.

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

(3) The amount includes 10,107,039 shares related to those added to the Incentive Plan from the CapitalSource Inc. merger.

Recent Sales of Unregistered Securities and Use of Proceeds

None.

Repurchases of Common Stock

None.

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, 2014, 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, 2009, 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. The Company's total cumulative gain was 151.6% over the five year period ending December 31, 2014 compared to gains of 123.7% and 66.9% for the NASDAQ Composite Index and KBW Regional Banking Index.

* \$100 invested on December 31, 2009 in stock or index, including reinvestment of dividends.

Index	Year Ended December 31,					
	2009	2010	2011	2012	2013	2014
PacWest Bancorp	\$100.00	\$106.32	\$95.30	\$128.90	\$226.87	\$251.64
NASDAQ Composite	100.00	117.61	118.70	139.00	196.83	223.74
KBW Regional Banking	100.00	113.54	100.52	113.33	162.82	166.89

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, 2014. This data should be read in conjunction with our audited consolidated financial statements as of December 31, 2014 and 2013, and for each of the years in the three year period ended December 31, 2014 and related Notes to Consolidated Financial Statements contained in "Item 8. Financial Statements and Supplementary Data."

	At or For the Year Ended December 31,				
	2014	2013	2012	2011	2010
	(In thousands, except per share amounts and percentages)				
Results of Operations ⁽¹⁾ :					
Interest income	\$704,775	\$309,914	\$296,115	\$295,284	\$290,284
Interest expense	(42,398)	(12,201)	(19,648)	(32,643)	(40,957)
Net interest income	662,377	297,713	276,467	262,641	249,327
Total (provision) negative provision for credit losses ⁽²⁾	(11,499)	4,210	12,819	(26,570)	(212,492)
Gain on securities	4,841	5,359	1,239	—	—
FDIC loss sharing (expense) income, net	(31,730)	(26,172)	(10,070)	7,776	22,784
Other noninterest income	69,076	25,057	24,703	23,650	20,454
Total noninterest income	42,187	4,244	15,872	31,426	43,238
Foreclosed assets (expense) income, net	(5,401)	1,503	(10,931)	(10,676)	(14,770)
Acquisition, integration and reorganization costs	(101,016)	(40,812)	(4,089)	(600)	(732)
Debt termination expense	—	—	(22,598)	—	(2,660)
Other noninterest expense	(302,327)	(191,378)	(174,044)	(168,717)	(170,641)
Total noninterest expense	(408,744)	(230,687)	(211,662)	(179,993)	(188,803)
Earnings (loss) from continuing operations before income tax (expense) benefit	284,321	75,480	93,496	87,504	(108,730)
Income tax (expense) benefit	(113,853)	(30,003)	(36,695)	(36,800)	46,714
Net earnings (loss) from continuing operations	170,468	45,477	56,801	50,704	(62,016)
Loss from discontinued operations before income tax benefit	(2,677)	(620)	—	—	—
Income tax benefit	1,114	258	—	—	—
Net loss from discontinued operations	(1,563)	(362)	—	—	—
Net earnings (loss)	\$168,905	\$45,115	\$56,801	\$50,704	\$(62,016)
Adjusted net earnings (loss) ⁽³⁾	\$220,403	\$77,466	\$62,520	\$43,650	\$(76,851)
Per Common Share Data:					
Basic and diluted earnings (loss) per share (EPS):					
Net earnings (loss) from continuing operations	\$1.94	\$1.09	\$1.54	\$1.37	\$(1.77)
Net earnings (loss)	\$1.92	\$1.08	\$1.54	\$1.37	\$(1.77)
Dividends declared during year	\$1.25	\$1.00	\$0.79	\$0.21	\$0.04
Book value per share ⁽³⁾⁽⁴⁾	\$34.04	\$17.66	\$15.74	\$14.66	\$13.06
Tangible book value per share ⁽³⁾⁽⁴⁾	\$17.17	\$12.73	\$13.22	\$13.14	\$11.06
Shares outstanding at year-end ⁽⁴⁾	103,022	45,823	37,421	37,254	36,672
Average shares outstanding for basic and diluted EPS	86,853	40,823	35,685	35,491	35,108

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	At or For the Year Ended December 31,					
	2014	2013	2012	2011	2010	
	(In thousands, except per share amounts and percentages)					
Balance Sheet Data:						
Total assets	\$16,234,800	\$6,533,363	\$5,463,658	\$5,528,237	\$5,529,021	
Cash and cash equivalents	313,226	147,422	164,404	295,617	108,552	
Investment securities	1,607,786	1,522,684	1,392,511	1,372,464	929,056	
Non-purchased credit impaired (Non-PCI) loans and leases	11,613,832	3,930,539	3,074,947	2,841,071	3,196,881	
Allowance for credit losses, Non-PCI loans and leases	76,767	67,816	72,119	93,783	104,328	
Purchased credit impaired (PCI) loans	290,852	382,796	517,885	705,332	910,394	
FDIC loss sharing asset	18,734	45,524	57,475	95,187	116,352	
Goodwill	1,720,479	208,743	79,866	39,141	47,301	
Core deposit and customer relationship intangibles	17,204	17,248	14,723	17,415	25,843	
Deposits	11,755,128	5,280,987	4,709,121	4,577,453	4,649,698	
Borrowings	383,402	113,726	12,591	225,000	225,000	
Subordinated debentures	433,583	132,645	108,250	129,271	129,572	
Stockholders' equity	3,506,425	809,093	589,121	546,203	478,797	
Performance Ratios:						
Return on average assets	1.27	% 0.74	% 1.04	% 0.92	% (1.14))%
Return on average equity	6.11	% 6.28	% 10.01	% 9.92	% (12.56))%
Return on average tangible equity ⁽³⁾	11.88	% 8.25	% 11.76	% 11.33	% (14.15))%
Net interest margin	5.95	% 5.37	% 5.52	% 5.26	% 5.02	%
Efficiency ratio ⁽³⁾	58.01	% 76.40	% 72.40	% 61.21	% 64.53	%
Adjusted efficiency ratio ⁽³⁾	44.74	% 60.55	% 69.05	% 63.28	% 70.50	%
Stockholders' equity to total assets ratio ⁽³⁾	21.60	% 12.38	% 10.78	% 9.88	% 8.66	%
Tangible common equity ratio ⁽³⁾	12.20	% 9.24	% 9.21	% 8.95	% 7.44	%
Average equity to average assets	20.74	% 11.75	% 10.36	% 9.32	% 9.10	%
Dividend payout ratio ⁽⁵⁾	67.66	% 90.89	% 50.68	% 15.04	% NM	%
Tier 1 leverage capital ratio ⁽⁶⁾	12.34	% 11.22	% 10.53	% 10.42	% 8.54	%
Tier 1 risk-based capital ratio ⁽⁶⁾	13.16	% 15.12	% 15.17	% 15.97	% 12.68	%
Total risk-based capital ratio ⁽⁶⁾	16.07	% 16.38	% 16.43	% 17.25	% 13.96	%
Non-PCI Credit Quality Metrics:						
Non-PCI nonaccrual loans and leases	\$83,621	\$46,774	\$41,762	\$61,619	\$95,509	
Foreclosed assets	43,721	55,891	56,414	81,918	81,414	
Total nonperforming assets	\$127,342	\$102,665	\$98,176	\$143,537	\$176,923	
Non-PCI nonaccrual loans to Non-PCI loans and leases	0.91	% 1.19	% 1.36	% 2.17	% 2.99	%
Nonperforming assets to Non-PCI loans and leases and foreclosed assets	1.28	% 2.58	% 3.14	% 4.91	% 5.40	%

Allowance for credit losses to Non-PCI nonaccrual loans and leases	91.80	% 144.99	% 172.69	% 152.20	% 109.20	%
Allowance for credit losses to Non-PCI loans and leases	0.66	% 1.73	% 2.35	% 3.30	% 3.26	%
Net charge-offs to average Non-PCI loans and leases ⁽²⁾	0.02	% 0.12	% 0.33	% 0.80	% 5.88	%

Operating results of acquired companies are included from the respective acquisition dates. See Note 4,

(1) Acquisitions, of the Notes to Consolidated Financial Statements contained in “Item 8. Financial Statements and Supplementary Data.”

During 2010, the Bank executed two sales of adversely classified loans totaling \$398.5 million that included (2) \$128.1 million in nonaccrual loans. The sales resulted in \$144.6 million of charge-offs to the allowance for credit losses.

(3) For information regarding this calculation, see “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations-Non GAAP Measurements.”

(4) Includes 1,108,505 shares, 1,216,524 shares, 1,698,281 shares, 1,675,730 shares, and 1,230,582 shares of unvested restricted stock outstanding at December 31, 2014, 2013, 2012, 2011, and 2010.

(5) Not meaningful for 2010.

(6) Capital ratios presented are for the consolidated Company.

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

Overview

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." References to "we," "us," or the "Company" refer to PacWest Bancorp together with its subsidiaries on a consolidated basis. When we refer to "PacWest" or to the "holding company," we are referring to PacWest Bancorp, the parent company, on a stand-alone basis. References to "Pacific Western Bank" include the Bank's wholly-owned subsidiaries.

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 and originating loans and leases, including an array of commercial real estate loans and commercial lending products. The Bank has a foundation of locally generated and relationship based deposits, with 80 full-service branches located primarily in southern and central California. Our branch operations are located primarily in Southern California extending from San Diego County to California's Central Coast, and we operate three bank branches in the San Francisco Bay area and four bank branches in the Central Valley. Our targeted collateral for our real estate loan offerings includes healthcare properties, office properties, industrial properties, multifamily properties, hospitality properties, and retail properties. Our commercial loan products, available on a nationwide basis, include equipment loans and leases, asset based loans, loans to finance companies, and loans secured by borrower future cash flows, as well as other business oriented products.

As a result of the CapitalSource Inc. merger, Pacific Western Bank established the CapitalSource Division, which we also refer to as the National Lending segment. The CapitalSource Division lends throughout the United States, providing middle-market businesses asset-secured loans, equipment-secured loans and leases, and cash flow loans and providing real estate investment firms real estate loans secured by various property types. Pacific Western's leasing operation, Pacific Western Equipment Finance, and its group specializing in asset-based lending, CapitalSource Business Finance Group (formerly BFI Business Finance and First Community Financial), also became part of the CapitalSource Division. The CapitalSource Division's loan and lease origination efforts are conducted through key offices located in Chevy Chase, Maryland; Los Angeles and San Jose, California; St. Louis, Missouri; Denver, Colorado; Chicago, Illinois; New York, New York; and Midvale, Utah. When we refer to "CapitalSource Inc." we are referring to the company acquired on April 7, 2014 and when we refer to the "CapitalSource Division" we are referring to a division of Pacific Western Bank that specializes in middle-market lending on a nationwide basis. Pacific Western competes actively for deposits, and emphasizes solicitation of noninterest bearing deposits. In managing the top line of our business, we focus on loan growth, loan yield, deposit cost, and net interest margin. Net interest income accounted for 94.0% of our net revenues (net interest income plus noninterest income) during 2014. At December 31, 2014, we had total assets of \$16.2 billion, including gross loans and leases of \$11.9 billion; this compares to \$6.5 billion of total assets and \$4.3 billion of gross loans and leases at December 31, 2013. The year-over-year increases in total assets and gross loans and leases of \$9.7 billion and \$7.6 billion are due mostly to the CapitalSource Inc. merger. Excluding the acquired balances, organic loan and lease growth totaled \$684.0 million during 2014, and was driven by \$3.0 billion in originations during 2014.

At December 31, 2014 we had total liabilities of \$12.7 billion, including total deposits of \$11.8 billion; this compares to \$5.7 billion of total liabilities and \$5.3 billion of total deposits at December 31, 2013. The year-over-year increase in total deposits of \$6.5 billion, including \$1.5 billion in core deposits and \$4.8 billion in time deposits, is due mainly to the CapitalSource Inc. merger. Excluding the acquired balances, organic core deposit growth totaled \$700.3 million during 2014. At December 31, 2014, core deposits totaled \$6.1 billion or 52% of total deposits and time deposits totaled \$5.5 billion or 48% of total deposits.

At December 31, 2014 we had total stockholders' equity of \$3.5 billion. During 2014, stockholders' equity increased \$2.7 billion, due mainly to the issuance of \$2.6 billion in common stock in connection with the CapitalSource Inc. merger, net of \$114.3 million in dividends paid. Stockholders' equity remained strong with Tier 1 risk based capital and total risk based capital ratios of 12.34% and 16.07% at December 31, 2014.

Net earnings for the year ended December 31, 2014 were \$168.9 million, or \$1.92 per diluted share, compared to net earnings for 2013 of \$45.1 million, or \$1.08 per diluted share. When certain income and expense items are excluded, adjusted net earnings were \$220.4 million for the year ended December 31, 2014 compared to \$77.5 million for 2013. The \$123.8 million increase in net earnings and the \$142.9 million increase in adjusted net earnings were due mostly to the Company's growth driven by our acquisitions.

CapitalSource Inc. Merger

On April 7, 2014, we completed the merger with CapitalSource Inc. As part of the merger, CapitalSource Bank ("CSB"), a wholly-owned subsidiary of CapitalSource Inc., merged with and into Pacific Western Bank. We completed the merger in order to increase our loan and lease generation capabilities and to diversify our loan portfolio. Upon closing, we created the CapitalSource Division of the Bank. The CapitalSource Division lends throughout the United States, providing middle-market businesses asset-secured loans, equipment-secured loans and leases, and cash flow loans and providing real estate investment firms real estate loans secured by various property types. For further information, see Note 4, Acquisitions, in the Notes to Consolidated Financial Statements contained in "Item 8. Financial Statements and Supplementary Data."

First California Financial Group Acquisition

On May 31, 2013, we completed the acquisition of First California Financial Group, Inc. ("FCAL"). As part of the acquisition, First California Bank ("FCB"), a wholly-owned subsidiary of FCAL, merged with and into Pacific Western. We completed this acquisition in order to expand our presence in Southern California. For further information, see Note 4, Acquisitions, in the Notes to Consolidated Financial Statements contained in "Item 8. Financial Statements and Supplementary Data."

Key Performance Indicators

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

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 put pressure on both our net interest income and net interest margin.

Our primary interest earning assets are loans and investments. Our primary interest bearing liabilities are deposits. Contributing to our high net interest margin is our 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, which have no expectation of yield. As an industrial loan bank, the former CSB funded its balance sheet with a large proportion of higher-cost time deposits and as a result, in the CapitalSource Inc. merger we added \$5.3 billion of time deposits. Our goal is to replace higher-costing time deposits with core deposits over time through a dedicated deposit transformation initiative that includes sourcing deposits from CapitalSource Division borrowers. We added \$265 million of core deposits from CapitalSource Division borrowers in 2014.

Loan and Lease Growth

We actively seek new lending opportunities under an array of commercial real estate loans and commercial and industrial ("C&I") lending products. Our targeted collateral for our real estate loan offerings includes healthcare properties, office properties, industrial properties, multifamily properties, hospitality properties, and retail properties. Our C&I loan products include equipment-secured loans and leases, asset-secured loans, loans to finance companies, and cash flow loans (which are loans secured by borrower future cash flows and borrower enterprise value). Our loan origination process emphasizes credit quality. We foster lender relationships with borrowers that have had proven loan repayment performance. Our commitment sizes vary by loan product and can range up to \$80 million for certain asset-based lending arrangements and multi-property real estate loans. We attempt to price loans to preserve our interest spread and maintain our net interest margin. Achieving net loan growth is subject to many factors, including maintaining strict credit standards, competitive pressure related to loan pricing and loan proceeds, and successful borrowers that opt to prepay loans.

The Magnitude of Credit Losses

We emphasize credit quality in originating and monitoring our loans, and we measure our success by the levels of our classified and nonperforming assets and net charge offs. 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 is based on our allowance methodology which considers various credit performance measures such as 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 overall level of outstanding loans and leases. For originated and acquired non impaired loans, a provision for credit losses may be recorded to reflect credit deterioration after the origination date or after the acquisition date, respectively. For purchased credit impaired ("PCI") 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 borrower operations or changes in collateral value or other factors which may affect collectability of our loans and leases. Changes in economic conditions, such as the rate of economic growth, the rate of inflation, the unemployment rate, increases in the general level of interest rates, declines in real estate values and adverse conditions in borrowers' businesses, could negatively impact our borrowers and cause us to adversely classify loans and leases. An increase in classified loans and leases generally results in increased provisions for credit losses and an increased allowance for credit losses. Any deterioration in the commercial real estate market may lead to increased provisions for credit losses because of our commercial 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 loan production and number of foreclosed assets. 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 excluded from net revenues are net FDIC loss sharing expense, gain (loss) on sale of assets, and accelerated discount accretion resulting from early payoffs of acquired loans and excluded from noninterest expense are covered foreclosed assets expense and acquisition, integration and reorganization costs. We present this non-GAAP financial measure and others for supplemental information purposes only in order to understand the Company's operating results and these non-GAAP financial measures should not be considered a substitute for financial information presented in accordance with United States generally accepted accounting principles ("GAAP").

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

Quarterly Period in 2014	Base Efficiency Ratio	Adjusted Efficiency Ratio
First	56.1%	57.1%
Second	84.5%	43.1%
Third	46.6%	43.4%
Fourth	44.5%	42.3%

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

Adjusted Net Earnings

Our net earnings for 2014 totaled \$168.9 million. Another measure of earnings used as an indicator of earnings generating capability, excluding non-recurring and/or volatile items, is adjusted net earnings. We calculate adjusted net earnings by excluding accelerated discount accretion resulting from the early payoff of acquired loans, net FDIC loss sharing expense, gain (loss) on sale of assets (including loans and leases, securities, and an owned building), covered foreclosed assets expense, and acquisition, integration and reorganization costs. Adjusted net earnings for 2014 totaled \$220.4 million. See “-Non GAAP Measurements” for the calculation of adjusted net earnings.

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 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 allowance for credit losses, the carrying values of intangible assets, the realization of deferred income tax assets, and the accounting for business combinations.

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 "Accrued interest payable and other liabilities." 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 PCI loans. For loans and leases acquired and measured at fair value and deemed non-impaired on the acquisition date, our allowance methodology measures deterioration in credit quality or other inherent risks related to these acquired assets that may occur after the acquisition date.

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 our continual review of the credit quality of the loan and lease portfolio, which includes loan and lease payment trends, borrowers' compliance with loan agreements, borrowers' current and budgeted financial performance, collateral valuation trends, and current economic factors and external conditions that may affect our borrowers' ability to pay. Loans and leases that 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.

The allowance for loan and lease losses contains a general reserve component for loans and leases with no credit impairment and a specific reserve component for loans and leases determined to be impaired.

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 assess our loans for impairment on an on-going basis using certain criteria such as payment performance, borrower reported financial results and budgets, and other external factors when appropriate. 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. 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. To the extent a loan or lease balance exceeds the estimated collectable value, a specific reserve or charge-off is recorded depending upon the certainty of the estimate of loss. Smaller balance loans (under \$250,000), with a few exceptions for certain loan types, are generally not individually assessed for impairment but are evaluated collectively.

The methodology we use to estimate the general reserve component of our allowance for credit losses considers both objective and subjective criteria. The objective criteria uses our actual historical loan and lease charge-off experience on pools of similar loans and leases to establish loss factors that are applied to our current loan and lease balances to estimate inherent credit losses. When estimating the general reserve component for the various pools of similar loan types, the loss factors applied to the loan pools consider the current credit risk ratings, giving greater weight to loans with more adverse credit risk ratings. 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. To ensure the accuracy of our credit risk ratings, an independent credit review function assesses the ratings assigned to loans on an on-going basis.

The subjective criteria considered when establishing the loss factors include the following:

- current economic trends and forecasts;
- current commercial real estate values, performance trends, and overall outlook in the markets where we lend;
- legal and regulatory matters that could impact our borrowers' ability to repay our loans;
- our loan portfolio composition and any loan concentrations;
- our current lending policies and the effects of any new policies or policy amendments;
- our new loan origination volume and the nature of it;
- our loan portfolio credit performance trends; and
- the results of our on-going independent credit review.

The reserve for unfunded commitments is estimated using the same loss factors as used for the allowance for loan and lease losses and is computed based only on the expected usage of the unfunded commitments.

The credit risk ratings assigned to every loan and lease are either "pass," "special mention," "substandard" or "doubtful" and defined as follows:

• **Pass:** Loans and leases classified as "pass" are not adversely classified and collection and repayment in full is expected.

• **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.

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."

Management believes that the allowance for credit losses is appropriate for the known and inherent risks in our Non-PCI loan and lease portfolio and 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 result in a significant impact to the Company's financial statements. In addition, current credit risk ratings are subject to change as we continue to monitor our loans and leases. 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 that adversely affect our borrowers, our classified loans and leases may increase. Higher levels of classified loans and leases generally result in increased provisions for credit losses and an increased allowance for credit losses. Although we have established an allowance for credit losses that we consider appropriate, there can be no assurance that the established allowance will be sufficient to absorb related losses in the future.

Allowance for Credit Losses on Purchased Credit Impaired Loans

The purchased credit impaired ("PCI") loans are subject to our internal and external credit review. 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. If deterioration in the expected cash flows results in a reserve requirement, a provision for credit losses is charged to earnings.

Business Combinations

Business combinations are accounted for under the acquisition method of accounting in accordance with ASC Topic 805, "Business Combinations." Under the acquisition method, the acquiring entity in a business combination recognizes 100 percent of the acquired assets and assumed liabilities, regardless of the percentage owned, at their estimated fair values as of the date of acquisition. Any excess of the purchase price over the fair value of net assets and other identifiable intangible assets acquired is recorded as goodwill. To the extent the fair value of net assets acquired, including other identifiable assets, exceeds the purchase price, a bargain purchase gain is recognized. Assets acquired and liabilities assumed which involve contingencies must also be recognized at their estimated fair value, provided such fair value can be determined during the measurement period. Acquisition-related costs, including severance, conversion and other restructuring charges, such as abandoned space accruals, are expensed. Results of operations of an acquired business are included in the statement of earnings from the date of acquisition.

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.

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.

Non-GAAP Measurements

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. The non-GAAP measures used in this Form 10-K include the following:

- **Adjusted net earnings:** To calculate adjusted net earnings, we exclude from net earnings primarily income statement items for which the related assets or liabilities have been completely resolved and are no longer on the balance sheet. As analysts and investors view this measure as an indicator of the Company's ability to generate recurring earnings, we disclose this amount in addition to net earnings.

Adjusted return on average assets, adjusted return on average equity, return on average tangible equity, adjusted return on average tangible equity, tangible common equity amounts and ratios, and tangible book value per share:

Given that the use of these measures is prevalent among banking regulators, investors and analysts, we disclose them in addition to return on average assets, return on average equity, equity-to-assets ratio, and book value per share, respectively.

Adjusted efficiency ratio: We disclose this measure in addition to the efficiency ratio as it shows the trend in recurring overhead-related noninterest expense relative to recurring net revenues.

Adjusted allowance for credit losses to loans and leases: As the allowance for credit losses takes into consideration credit deterioration on acquired loans and leases only after the purchase date and an estimate of credit losses is included 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.

The methodology for determining adjusted net earnings, adjusted return on average assets, adjusted return on average equity, return on average tangible equity, adjusted return on average tangible equity, tangible common equity amounts and ratios, tangible book value per share, adjusted efficiency ratio and adjusted allowance for credit losses to loans and leases may differ among companies.

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 Net Earnings and Related Ratios:	Year Ended December 31,			
	2014	2013	2012	
	(In thousands)			
Reported net earnings	\$ 168,905	\$ 45,115	\$ 56,801	
Subtract: Tax benefit on discontinued operations	(1,114)	(258)	—	
Add: Tax expense on continuing operations	113,853	30,003	36,695	
Reported pre-tax earnings	281,644	74,860	93,496	
Add: Acquisition, integration, and reorganization costs	101,016	40,812	4,089	
Subtract: FDIC loss sharing expense, net	(31,730)	(26,172)	(10,070)	
Gain on sale of loans and leases	601	1,791	2,767	
Gain on securities	4,841	5,359	1,239	
Covered OREO income (expense), net	1,172	1,833	(6,781)	
Gain on sale of owned office building	1,570	—	—	
Adjusted pre-tax earnings before accelerated discount accretion	406,206	132,861	110,430	
Subtract: Accelerated discount accretion resulting from payoffs of acquired loans	38,867	4,393	7,601	
Adjusted pre-tax earnings	367,339	128,468	102,829	
Tax expense ⁽¹⁾	(146,936)	(51,002)	(40,309)	
Adjusted net earnings	\$ 220,403	\$ 77,466	\$ 62,520	
Average assets	\$ 13,322,388	\$ 6,116,853	\$ 5,477,635	
Average stockholders' equity	\$ 2,763,726	\$ 718,920	\$ 567,342	
Less: Average intangible assets	1,342,286	172,096	84,545	
Average tangible common equity	\$ 1,421,440	\$ 546,824	\$ 482,797	
Annualized return on average assets ⁽²⁾	1.27	% 0.74	% 1.04	%
Annualized adjusted return on average assets ⁽³⁾	1.65	% 1.27	% 1.14	%
Annualized return on average equity ⁽⁴⁾	6.11	% 6.28	% 10.01	%
Annualized adjusted return on average equity ⁽⁵⁾	7.97	% 10.78	% 11.02	%
Annualized return on average tangible equity ⁽⁶⁾	11.88	% 8.25	% 11.76	%
Annualized adjusted return on average tangible equity ⁽⁷⁾	15.51	% 14.17	% 12.95	%

(1) Actual effective tax rate of 40.0%, 39.7% and 39.2% used in 2014, 2013 and 2012.

(2) Annualized net earnings divided by average assets.

(3) Annualized adjusted net earnings divided by average assets.

(4) Annualized net earnings divided by average stockholders' equity.

(5) Annualized adjusted net earnings divided by average stockholders' equity.

(6) Annualized net earnings divided by average tangible common equity.

(7) Annualized adjusted net earnings divided by average tangible common equity.

Adjusted Efficiency Ratio:	Year Ended December 31,			
	2014	2013	2012	
	(Dollars in thousands)			
Noninterest expense	\$408,744	\$230,687	\$211,662	
Less: Acquisition, integration, and reorganization costs	101,016	40,812	4,089	
Covered OREO expense (income), net	(1,172)	(1,833)	6,781	
Adjusted noninterest expense	\$308,900	\$191,708	\$200,792	
Net interest income	\$662,377	\$297,713	\$276,467	
Noninterest income	42,187	4,244	15,872	
Net revenues	704,564	301,957	292,339	
Less: FDIC loss sharing expense, net	(31,730)	(26,172)	(10,070)	
Gain on sale of loans and leases	601	1,791	2,767	
Gain on securities	4,841	5,359	1,239	
Gain on sale of owned office building	1,570	—	—	
Accelerated discount accretion resulting from early payoffs of acquired loans	38,867	4,393	7,601	
Adjusted net revenues	\$690,415	\$316,586	\$290,802	
Base efficiency ratio ⁽¹⁾	58.0	% 76.4	% 72.4	%
Adjusted efficiency ratio ⁽²⁾	44.7	% 60.6	% 69.0	%

(1) Noninterest expense divided by net revenues.

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

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Tangible Common Equity:	December 31,			
	2014	2013	2012	
	(Dollars in thousands)			
PacWest Bancorp Consolidated:				
Stockholders' equity	\$3,506,425	\$809,093	\$589,121	
Less: Intangible assets	1,737,683	225,991	94,589	
Tangible common equity	\$1,768,742	\$583,102	\$494,532	
Total assets	\$16,234,800	\$6,533,363	\$5,463,658	
Less: Intangible assets	1,737,683	225,991	94,589	
Tangible assets	\$14,497,117	\$6,307,372	\$5,369,069	
Equity to assets ratio	21.60	% 12.38	% 10.78	%
Tangible common equity ratio ⁽¹⁾	12.20	% 9.24	% 9.21	%
Book value per share	\$34.04	\$17.66	\$15.74	
Tangible book value per share	\$17.17	\$12.73	\$13.22	
Shares outstanding	103,022,017	45,822,834	37,420,909	
Pacific Western Bank:				
Stockholders' equity	\$3,379,074	\$911,200	\$649,656	
Less: Intangible assets	1,737,683	225,991	94,589	
Tangible common equity	\$1,641,391	\$685,209	\$555,067	
Total assets	\$15,995,914	\$6,523,742	\$5,443,484	
Less: Intangible assets	1,737,683	225,991	94,589	
Tangible assets	\$14,258,231	\$6,297,751	\$5,348,895	
Equity to assets ratio	21.12	% 13.97	% 11.93	%
Tangible common equity ratio ⁽¹⁾	11.51	% 10.88	% 10.38	%

(1) Tangible common equity divided by tangible assets.

Adjusted Allowance for Credit Losses to Loans and Leases (Excludes PCI Loans):	December 31,			
	2014	2013	2012	
	(Dollars in thousands)			
Allowance for credit losses	\$76,767	\$67,816	\$72,119	
Less: Allowance related to acquired Non-PCI loans and leases	4,184	607	1,046	
Adjusted allowance for credit losses	\$72,583	\$67,209	\$71,073	
Gross Non-PCI loans and leases	\$11,613,832	\$3,930,539	\$3,074,947	
Less: Carrying value of acquired Non-PCI loans and leases	6,562,267	1,060,172	298,456	
Adjusted loans and leases	\$5,051,565	\$2,870,367	\$2,776,491	
Allowance for credit losses to loans and leases ⁽¹⁾	0.66	% 1.73	% 2.35	%
Adjusted allowance for credit losses to loans and leases ⁽²⁾	1.44	% 2.34	% 2.56	%

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

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

Results of Operations

Acquisitions Impact Earnings Performance

The comparability of financial information is affected by our acquisitions. We completed the following five acquisitions during the three years ended December 31, 2014: (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, (4) First California Financial Group, Inc., or FCAL, on May 31, 2013, and (5) CapitalSource Inc. on April 7, 2014. 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 revenue, 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. Net interest income is affected by changes in both interest rates and the volume of average interest earning assets and interest bearing liabilities.

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The following table presents, for the years 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:

	Year Ended December 31,								
	2014			2013			2012		
	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⁾	\$9,426,341	\$657,097	6.97%	\$3,975,337	\$272,726	6.86%	\$3,548,369	\$260,230	7.33%
Investment securities ⁽²⁾	1,574,294	47,345	3.01%	1,460,516	36,923	2.53%	1,373,640	35,657	2.60%
Deposits in financial institutions	129,920	333	0.26%	104,092	265	0.25%	87,602	228	0.26%
Total interest earning assets	11,130,555	704,775	6.33%	5,539,945	309,914	5.59%	5,009,611	296,115	5.91%
Other assets	2,191,833			576,908			468,024		
Total assets	\$13,322,388			\$6,116,853			\$5,477,635		
LIABILITIES AND STOCKHOLDERS' EQUITY									
Interest checking deposits	\$634,435	\$434	0.07%	\$582,408	\$303	0.05%	\$515,767	\$268	0.05%
Money market deposits	1,667,322	3,333	0.20%	1,400,065	2,455	0.18%	1,219,457	2,314	0.19%
Savings deposits	618,398	1,709	0.28%	194,300	63	0.03%	159,888	50	0.03%
Time deposits	4,363,819	21,856	0.50%	753,122	5,047	0.67%	889,146	10,639	1.20%
Total interest bearing deposits	7,283,974	27,332	0.38%	2,929,895	7,868	0.27%	2,784,258	13,271	0.48%
Borrowings	92,767	496	0.53%	12,979	537	4.14%	98,787	2,656	2.69%
Subordinated debentures	353,828	14,570	4.12%	122,649	3,796	3.10%	112,015	3,721	3.32%
Total interest bearing liabilities	7,730,569	42,398	0.55%	3,065,523	12,201	0.40%	2,995,060	19,648	0.66%
Noninterest bearing demand deposits	2,652,076			2,186,697			1,870,088		
Other liabilities	176,017			145,713			45,145		
Total liabilities	10,558,662			5,397,933			4,910,293		
Stockholders' equity	2,763,726			718,920			567,342		
Total liabilities and stockholders' equity	\$13,322,388			\$6,116,853			\$5,477,635		
Net interest income		\$662,377			\$297,713			\$276,467	
Net interest rate spread			5.78%			5.19%			5.25%
Net interest margin			5.95%			5.37%			5.52%
Total deposits ⁽³⁾	\$9,936,050	\$27,332	0.28%	\$5,116,592	\$7,868	0.15%	\$4,654,346	\$13,271	0.29%

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Funding sources ⁽⁴⁾ \$10,382,645 \$42,398 0.41% \$5,252,220 \$12,201 0.23% \$4,865,148 \$19,648 0.40%

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

Interest income on investment securities includes non-taxable interest of \$13.6 million, \$11.8 million, and \$5.6 million for 2014, 2013 and 2012. The tax equivalent yield on investment securities was 3.42%, 2.93% and 2.76% for 2014, 2013 and 2012.

(3) Total deposits is the sum of interest-bearing deposits and noninterest-bearing demand deposits. The cost of total deposits is calculated as annualized interest expense on deposits divided by average total deposits.

(4) Funding sources is the sum of interest-bearing liabilities and noninterest-bearing demand deposits. The cost of funding sources is calculated as annualized total interest expense divided by average funding sources.

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.

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:

	2014 Compared to 2013			2013 Compared to 2012		
	Total Increase (Decrease) (In thousands)	Increase Due to Volume	(Decrease) Due to Rate	Total Increase (Decrease)	Increase Due to Volume	(Decrease) Due to Rate
Interest Income:						
Loans and leases	\$384,371	\$379,929	\$4,442	\$12,496	\$29,998	\$(17,502)
Investment securities	10,422	3,024	7,398	1,266	2,213	(947)
Deposits in financial institutions	68	57	11	37	42	(5)
Total interest income	394,861	383,010	11,851	13,799	32,253	(18,454)
Interest Expense:						
Interest checking deposits	131	6	125	35	35	—
Money market deposits	877	577	300	141	326	(185)
Savings deposits	1,646	320	1,326	13	11	2
Time deposits	16,810	18,399	(1,589)	(5,592)	(1,443)	(4,149)
Total interest-bearing deposits	19,464	19,302	162	(5,403)	(1,071)	(4,332)
Borrowings	(41)	785	(826)	(2,119)	(3,074)	955
Subordinated debentures	10,774	9,173	1,601	75	339	(264)
Total interest expense	30,197	29,260	937	(7,447)	(3,806)	(3,641)
Net interest income	\$364,664	\$353,750	\$10,914	\$21,246	\$36,059	\$(14,813)

The net interest margin (“NIM”) and loan and lease yields are impacted by accelerated accretion of acquisition discounts resulting from early payoffs of acquired loans, which causes volatility from period to period. The effects of this item on the NIM and loan and lease yield are shown in the following table for the years indicated:

	Year Ended December 31,			
	2014	2013	2012	
NIM:				
Reported	5.95	% 5.37	% 5.52	%
Less: Accelerated accretion of acquisition discounts resulting from early payoffs of acquired loans	(0.35)	% (0.08)	% (0.16)	%
Core	5.60	% 5.29	% 5.36	%
Loan and Lease Yield:				
Reported	6.97	% 6.86	% 7.33	%
Less: Accelerated accretion of acquisition discounts resulting from early payoffs of acquired loans	(0.41)	% (0.12)	% (0.21)	%
Core	6.56	% 6.74	% 7.12	%

The impact on the NIM from all purchase accounting items is detailed in the table below for the years indicated:

	Year Ended December 31, 2014		Year Ended December 31, 2013		Year Ended December 31, 2012	
	Amount (Dollars in thousands)	Impact on NIM	Amount	Impact on NIM	Amount	Impact on NIM
Net interest income/NIM as reported	\$662,377	5.95 %	\$297,713	5.37 %	\$276,467	5.52 %
Less:						
Accelerated accretion of acquisition discounts						
from early acquired loan payoffs	(38,867)	(0.35)%	(4,393)	(0.08)%	(7,601)	(0.16)%
Remaining accretion of Non-PCI loan acquisition discounts	(48,704)	(0.44)%	(3,927)	(0.07)%	623	0.01 %
Amortization of TruPS discount	4,253	0.04 %	334	0.01 %	(49)	— %
Accretion of time deposits premium	(14,512)	(0.13)%	(837)	(0.02)%	(84)	— %
	(97,830)	(0.88)%	(8,823)	(0.16)%	(7,111)	(0.15)%
Net interest income/NIM excluding purchase accounting	\$564,547	5.07 %	\$288,890	5.21 %	\$269,356	5.37 %

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

	Year Ended December 31,		
	2014	2013	2012
	(Dollars in thousands)		
Yields:			
Non-PCI loans and leases	6.61	% 6.38	% 6.82 %
PCI loans	16.45	% 10.63	% 9.66 %
Total loans and leases	6.97	% 6.86	% 7.33 %
Average Balances:			
Non-PCI loans and leases	\$9,079,217	\$3,528,278	\$2,935,420
PCI loans	347,124	447,059	612,949
Total loans and leases	\$9,426,341	\$3,975,337	\$3,548,369

2014 Compared to 2013

Net interest income increased by \$364.7 million to \$662.4 million for the year ended December 31, 2014 compared to \$297.7 million for 2013 due to the significant increase in interest-earning assets acquired in the CapitalSource Inc. merger.

The NIM increased 58 basis points to 5.95% for the year ended December 31, 2014 compared to 5.37% for 2013 driven by the increase in interest-earning assets, which resulted from the loans and leases added with the CapitalSource Inc. merger and organic loan growth during the year. The increase in the NIM was also a result of loans and leases being a higher percentage of interest-earning assets and higher accretion of acquisition discounts on acquired loans than in the prior year. The amortization and accretion of purchase accounting marks increased net interest income \$97.8 million during 2014 and \$8.8 million during 2013. When all purchase accounting items are removed from net interest income, the resulting NIM was 5.07% for the year ended December 31, 2014 compared to 5.21% for 2013; this decrease is attributed to the current interest rate environment and funding new loans at yields which are lower than the current portfolio yield.

The yield on loans and leases increased 11 basis points to 6.97% for the year ended December 31, 2014 compared to 6.86% for 2013. This increase was due to higher accretion of acquisition discounts on acquired loans. Such accelerated accretion totaled \$38.9 million for the year ended December 31, 2014 and \$4.4 million for 2013. When accelerated accretion is excluded, the core yield on loans and leases was 6.56% for the year ended December 31, 2014 and 6.74% for 2013.

The cost of all funding sources increased in the year ended December 31, 2014 due to the addition of the higher-cost time deposits and subordinated debt from CapitalSource Inc. The cost of average funding sources increased 18 basis points to 0.41% for the year ended December 31, 2014 from 0.23% for 2013. The increase in the cost of average funding sources for 2014 was also due to noninterest-bearing deposits becoming a smaller percentage of funding liabilities than in the prior period. The cost of total interest bearing deposits increased 11 basis points to 0.38% and total interest bearing liabilities increased 15 basis points to 0.55% for the year ended December 31, 2014.

2013 Compared to 2012

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 balances for time deposits. Interest expense on borrowings declined \$2.1 million due mostly to lower average borrowings; we repaid fixed rate term Federal Home Loan Bank of San Francisco ("FHLB") advances at the end of the first quarter of 2012 and have used lower cost overnight FHLB advances as needed.

The 2013 NIM was 5.37%, a decrease of 15 basis points from 5.52% for 2012. The decrease was due to lower yields on loans and leases and investment securities, offset partially by lower funding costs.

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 2012, 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 2012, 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 2012.

All in deposit cost declined 14 basis points to 0.15% for the year ended December 31, 2013 compared to 2012. 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.

Provision for Credit Losses

The following table sets forth the details of the provision for credit losses and allowance for credit losses data for the years indicated:

	Year Ended December 31,		2013	Increase (Decrease)	2012
	2014	Increase (Decrease)			
(Dollars in thousands)					
Provision For Credit Losses:					
Addition to (reduction in) allowance for Non PCI loans and leases	\$ 11,746	\$ 13,101	\$(1,355)) \$ 8,395	\$(9,750)
Addition to (reduction in) reserve for unfunded loan commitments	(1,264)) (2,619)) 1,355	3,605	(2,250)
Total provision (negative provision) for Non PCI loans and leases	10,482	10,482	—	12,000	(12,000)
Provision (negative provision) for PCI loans	1,017	5,227	(4,210)		