

PACWEST BANCORP
Form 10-Q
May 09, 2011

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2011

OR

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

**For the transition period from _____ to _____
Commission File Number: 00-30747**

PACWEST BANCORP

(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

33-0885320
(I.R.S. Employer
Identification Number)

10250 Constellation Blvd., Suite 1640
Los Angeles, California
(Address of principal executive offices)

90067
(Zip Code)

(310) 286-1144

(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "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 Smaller reporting company
(Do not check if a smaller reporting company)

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

As of May 4, 2011, there were 35,461,802 shares of the registrant's common stock outstanding, excluding 1,756,104 shares of unvested restricted stock.

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PACWEST BANCORP AND SUBSIDIARIES

MARCH 31, 2011 FORM 10-Q

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Table of Contents**PART I FINANCIAL INFORMATION****ITEM 1. Condensed Consolidated Financial Statements (Unaudited)****PACWEST BANCORP AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS****(Dollars in Thousands, Except Par Value Data)****(Unaudited)**

	March 31, 2011	December 31, 2010
ASSETS		
Cash and due from banks	\$ 88,634	\$ 82,170
Interest-earning deposits in financial institutions	104,925	26,382
Total cash and cash equivalents	193,559	108,552
Securities available-for-sale, at fair value (\$52,132 and \$50,437 covered by FDIC loss share at March 31, 2011 and December 31, 2010, respectively)	887,154	874,016
Federal Home Loan Bank stock, at cost	52,857	55,040
Total investment securities	940,011	929,056
Non-covered loans, net of unearned income	3,057,654	3,161,055
Allowance for loan losses	(98,564)	(98,653)
Total non-covered loans, net	2,959,090	3,062,402
Covered loans, net	859,433	908,576
Total loans	3,818,523	3,970,978
Other real estate owned (\$42,117 and \$55,816 covered by FDIC loss share at March 31, 2011 and December 31, 2010, respectively)	90,484	81,414
Premises and equipment, net	22,343	22,578
FDIC loss sharing asset	116,081	116,352
Cash surrender value of life insurance	66,560	66,182
Core deposit and customer relationship intangibles	23,536	25,843
Goodwill	46,751	47,301
Other assets	152,669	160,765
Total assets	\$ 5,470,517	\$ 5,529,021
LIABILITIES		
Noninterest-bearing deposits	\$ 1,606,182	\$ 1,465,562
Interest-bearing deposits	2,978,557	3,184,136
Total deposits	4,584,739	4,649,698
Borrowings	225,000	225,000
Subordinated debentures	129,498	129,572
Accrued interest payable and other liabilities	39,920	45,954

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Total liabilities	4,979,157	5,050,224
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STOCKHOLDERS' EQUITY

Preferred stock, \$0.01 par value; authorized 5,000,000 shares; none issued and outstanding		
Common stock, \$0.01 par value; authorized 75,000,000 shares; 37,438,009 shares issued at March 31, 2011 and 36,880,225 at December 31, 2010 (includes 1,756,437 and 1,230,582 shares of unvested restricted stock, respectively)	374	369
Additional paid-in capital	1,086,810	1,085,364
Accumulated deficit	(596,366)	(607,042)
Treasury stock, at cost 219,962 and 207,796 shares at March 31, 2011 and December 31, 2010, respectively	(4,111)	(3,863)
Accumulated other comprehensive income	4,653	3,969
Total stockholders' equity	491,360	478,797

Total liabilities and stockholders' equity \$ 5,470,517 \$ 5,529,021

See "Notes to Condensed Consolidated Financial Statements."

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PACWEST BANCORP AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS (LOSS)

(Dollars in Thousands, Except Per Share Data)

(Unaudited)

	Three Months Ended		
	March 31, 2011	December 31, 2010	March 31, 2010
Interest income:			
Loans	\$ 66,781	\$ 70,597	\$ 63,745
Investment securities	7,819	7,222	5,121
Deposits in financial institutions	57	79	129
Total interest income	74,657	77,898	68,995
Interest expense:			
Deposits	5,956	6,028	6,889
Borrowings	1,744	2,113	2,668
Subordinated debentures	1,219	1,237	1,415
Total interest expense	8,919	9,378	10,972
Net interest income	65,738	68,520	58,023
Provision for credit losses:			
Non-covered loans	7,800	35,315	112,527
Covered loans	5,747	2,096	20,700
Total provision for credit losses	13,547	37,411	133,227
Net interest income (loss) after provision for credit losses	52,191	31,109	(75,204)
Noninterest income:			
Service charges on deposit accounts	3,558	3,305	2,729
Other commissions and fees	1,720	1,896	1,790
Increase in cash surrender value of life insurance	379	320	398
FDIC loss sharing income (expense), net	1,667	(1,277)	16,172
Other income	302	404	180
Total noninterest income	7,626	4,648	21,269
Noninterest expense:			
Compensation	21,929	23,944	19,411
Occupancy	6,983	7,233	6,958
Data processing	2,475	2,556	1,969
Other professional services	2,296	1,833	1,998
Business development	569	570	667
Communications	859	919	804
Insurance and assessments	2,337	2,369	2,274
Non-covered other real estate owned, net	703	1,093	8,441
Covered other real estate owned, net	(2,578)	699	2,169
Intangible asset amortization	2,307	2,360	2,424
Other expense	3,519	5,710	3,455
Total noninterest expense	41,399	49,286	50,570

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Earnings (loss) before income taxes	18,418	(13,529)	(104,505)
Income tax (expense) benefit	(7,742)	5,841	43,972
Net earnings (loss)	\$ 10,676	\$ (7,688)	\$ (60,533)
Earnings (loss) per share:			
Basic	\$ 0.29	\$ (0.22)	\$ (1.76)
Diluted	\$ 0.29	\$ (0.22)	\$ (1.76)
Dividends declared per share	\$ 0.01	\$ 0.01	\$ 0.01

See "Notes to Condensed Consolidated Financial Statements."

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PACWEST BANCORP AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In Thousands)

(Unaudited)

	Three Months Ended		
	March 31, 2011	December 31, 2010	March 31, 2010
Net earnings (loss)	\$ 10,676	\$ (7,688)	\$ (60,533)
Other comprehensive income (loss), net of related income taxes:			
Unrealized holding gains (losses) on securities available-for-sale arising during the period	684	(7,441)	1,225
Comprehensive income (loss)	\$ 11,360	\$ (15,129)	\$ (59,308)

See "Notes to Condensed Consolidated Financial Statements."

Table of Contents**PACWEST BANCORP AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY****(Dollars in Thousands, Except Share Data)****(Unaudited)**

	Common Stock				Treasury Stock	Accumulated Other Comprehensive	Total
	Shares	Par Value	Additional Paid-in Capital	Accumulated Deficit		Income (Loss)	
Balance, January 1, 2011	36,672,429	\$ 369	\$ 1,085,364	\$ (607,042)	\$ (3,863)	\$ 3,969	\$ 478,797
Net earnings				10,676			10,676
Tax effect from vesting of restricted stock			(188)				(188)
Restricted stock awarded and earned stock compensation, net of shares forfeited	557,784	5	1,995				2,000
Restricted stock surrendered	(12,166)				(248)		(248)
Cash dividends paid (\$0.01 per share)			(361)				(361)
Other comprehensive income increase in net unrealized gain on securities available-for-sale, net of tax effect of \$496 thousand						684	684
Balance, March 31, 2011	37,218,047	\$ 374	\$ 1,086,810	\$ (596,366)	\$ (4,111)	\$ 4,653	\$ 491,360

See "Notes to Condensed Consolidated Financial Statements."

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March 31,****2011 2010**

Cash flows from operating activities:		
Net earnings (loss)	\$ 10,676	\$ (60,533)
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:		
Depreciation and amortization	4,482	2,317
Provision for credit losses	13,547	133,227
Gain on sale of other real estate owned	(3,944)	(1,047)
Provision for losses on other real estate owned	1,272	10,458
(Gain) loss on sale of premises and equipment	(17)	(4)
Restricted stock amortization	2,000	2,254
Tax effect included in stockholders' equity of restricted stock vesting	188	664
Increase (decrease) in accrued and deferred income taxes, net	7,741	(43,983)
Decrease in FDIC loss sharing asset	271	25,677
Increase in other assets	(117)	(3,995)
Decrease in accrued interest payable and other liabilities	(6,983)	(11,513)
Net cash provided by operating activities	29,116	53,522
Cash flows from investing activities:		
Net cash and cash equivalents acquired in acquisitions	26	
Net decrease in net loans outstanding	108,562	94,001
Proceeds from sale of loans	1,168	200,609
Securities available-for-sale:		
Proceeds from maturities and paydowns	58,172	53,465
Purchases	(71,060)	(66,856)
Net redemptions of FHLB stock	2,183	
Proceeds from sales of other real estate owned	23,663	24,528
Capitalized costs to complete other real estate owned		(545)
Purchases of premises and equipment, net	(1,087)	(850)
Proceeds from sales of premises and equipment	20	6
Net cash provided by investing activities	121,647	304,358
Cash flows from financing activities:		
Net increase (decrease) in deposits:		
Noninterest-bearing	140,620	85,672
Interest-bearing	(205,579)	(26,004)
Net proceeds from issuance of common stock		26,587
Restricted stock surrendered	(248)	(437)
	(188)	(664)

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Tax effect included in stockholders' equity of restricted stock vesting		
Net decrease in borrowings	(135,000)	
Cash dividends paid	(361)	(361)
Net cash used in financing activities	(65,756)	(50,207)
Net increase in cash and cash equivalents	85,007	307,673
Cash and cash equivalents, beginning of period	108,552	211,048
Cash and cash equivalents, end of period	\$ 193,559	\$ 518,721

Supplemental disclosures of cash flow information:

Cash paid for interest	\$ 9,322	\$ 12,041
Cash paid for income taxes	(9)	
Loans transferred to other real estate owned	29,112	17,826

See "Notes to Condensed Consolidated Financial Statements."

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PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

NOTE 1 BASIS OF PRESENTATION

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

Pacific Western is a full-service commercial bank offering a broad range of banking products and services including: accepting time, money market, and demand deposits; originating loans, including commercial, real estate construction, SBA-guaranteed and consumer loans; and providing other business-oriented products. Although our operations are primarily located in Southern California, we expanded our presence in California's Central Coast with the FDIC-assisted acquisition of Los Padres Bank on August 20, 2010. The Bank focuses on conducting business with small to medium-sized businesses in our marketplace and the owners and employees of those businesses. The majority of our loans are secured by the real estate collateral of such businesses. We acquired through FDIC-assisted acquisitions three banking offices in the San Francisco Bay area and one office in Arizona. Our asset-based lending function operates in Arizona, California, Texas, and the Pacific Northwest.

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

We have completed 22 acquisitions since May 2000.

Basis of Presentation

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

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

Use of Estimates

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

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PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

NOTE 1 BASIS OF PRESENTATION (Continued)

owned, the carrying value of intangible assets, the carrying value of the FDIC loss sharing asset and the realization of deferred tax assets.

In August 2010, Pacific Western acquired assets and assumed liabilities of the former Los Padres Bank ("Los Padres") in an FDIC-assisted transaction, which we refer to as the Los Padres acquisition. The acquired assets and assumed liabilities were measured at their estimated fair values. Management made significant estimates and exercised significant judgment in estimating fair values and accounting for the acquisition of Los Padres.

Reclassifications

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

NOTE 2 GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill arises from business combinations and represents the excess of the purchase price over the fair value of the net assets and other identifiable intangible assets acquired. Goodwill and other intangible assets deemed to have indefinite lives generated from purchase business combinations are not subject to amortization and are instead tested for impairment no less than annually. Impairment is determined in accordance with ASC 350, "*Intangibles Goodwill and Other*" and is based on the reporting unit. Impairment exists when the carrying value of goodwill exceeds its implied fair value. An impairment loss would be recognized in an amount equal to that excess and would be included in noninterest expense in the consolidated statement of earnings (loss).

Goodwill in the amount of \$46.8 million was recorded in the Los Padres acquisition. Such goodwill includes \$9.5 million related to the FDIC's settlement accounting for a wholly-owned subsidiary of Los Padres. We disagree with the FDIC's accounting for this item and are in process of negotiating with the FDIC to resolve this matter. A successful resolution in any amount would result in goodwill being reduced by that amount. No assurance can be given, however, that we will be successful in our efforts.

Our intangible assets with definite lives are core deposit intangibles, or CDI, and customer relationship intangibles, or CRI. These intangible assets are amortized over their useful lives to their estimated residual values and reviewed for impairment at least quarterly. The amortization expense represents the estimated decline in the value of the underlying deposits or loan customers acquired.

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

	Three Months Ended		
	March 31, 2011	December 31, 2010	March 31, 2010
	(In thousands)		
Gross amount of CDI and CRI:			
Balance, beginning of period	\$ 76,319	\$ 78,338	\$ 75,911
Adjustment to Los Padres Bank			
CDI		(238)	
Fully amortized		(1,781)	
Balance, end of period	76,319	76,319	75,911
Accumulated amortization:			
Balance, beginning of period	(50,476)	(49,897)	(42,615)
Amortization	(2,307)	(2,360)	(2,424)
Fully amortized		1,781	
Balance, end of period	(52,783)	(50,476)	(45,039)
Net CDI and CRI, end of period	\$ 23,536	\$ 25,843	\$ 30,872

The aggregate amortization expense related to the intangible assets is expected to be \$8.4 million for 2011. The estimated aggregate amortization expense related to these intangible assets for each of the subsequent four years is \$6.1 million for 2012, \$4.5 million for 2013, \$2.9 million for 2014, and \$2.7 million for 2015.

NOTE 3 INVESTMENT SECURITIES*Securities Available-for-Sale*

The amortized cost, gross unrealized gains and losses and estimated fair values of securities available-for-sale are presented in the tables below as of the dates indicated. The private label collateralized mortgage obligations were acquired in the FDIC-assisted acquisition of Affinity Bank ("Affinity") in August 2009 and are covered by a FDIC loss sharing agreement. Other securities include

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an investment in overnight money market funds at a financial institution. See Note 9 for information on fair value measurements and methodology.

	March 31, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In thousands)			
Municipal securities	\$ 7,435	\$ 124	\$ (1)	\$ 7,558
Residential mortgage-backed securities:				
Government and government-sponsored entity pass through securities	787,815	9,338	(8,816)	788,337
Government and government-sponsored entity collateralized mortgage obligations	37,216	329	(705)	36,840
Covered private label collateralized mortgage obligations	44,378	8,697	(943)	52,132
Other securities	2,287			2,287
Total securities available-for-sale	\$ 879,131	\$ 18,488	\$ (10,465)	\$ 887,154

	December 31, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In thousands)			
Government-sponsored entity debt securities	\$ 10,014	\$ 15		\$ 10,029
Municipal securities	7,437	129		7,566
Residential mortgage-backed securities:				
Government and government-sponsored entity pass through securities	754,149	9,282	(7,366)	756,065
Government and government-sponsored entity collateralized mortgage obligations	47,416	565	(352)	47,629
Covered private label collateralized mortgage obligations	45,867	6,653	(2,083)	50,437
Other securities	2,290			2,290
Total securities available-for-sale	\$ 867,173	\$ 16,644	\$ (9,801)	\$ 874,016

Mortgage-backed securities have contractual terms to maturity and require periodic payments to reduce principal. In addition, expected maturities may differ from contractual maturities because obligors and/or issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

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The following table presents the contractual maturity distribution of our available-for-sale securities portfolio based on amortized cost and fair value as of the date indicated:

	March 31, 2011	
	Amortized Cost	Estimated Fair Value
	(In thousands)	
Due in one year or less	\$ 4,723	\$ 4,744
Due after one year through five years	10,160	10,600
Due after five years through ten years	44,219	45,384
Due after ten years	820,029	826,426
Total securities available-for-sale	\$ 879,131	\$ 887,154

At March 31, 2011, the estimated fair value of debt securities and residential mortgage-backed debt securities issued by the Federal National Mortgage Association ("Fannie Mae") and the Federal Home Loan Mortgage Corporation ("Freddie Mac") was approximately \$740.4 million. We do not own any equity securities issued by Fannie Mae or Freddie Mac.

As of March 31, 2011, securities available-for-sale with an estimated fair value of \$97.4 million were pledged as collateral for borrowings, public deposits and other purposes as required by various statutes and agreements.

The following table presents the estimated fair values and the gross unrealized losses on securities by length of time the securities have been in an unrealized loss position at the dates indicated:

	March 31, 2011					
	Less Than 12 Months		12 months or Longer		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
	(In thousands)					
Municipal securities	\$ 684	\$ (1)	\$	\$	\$ 684	\$ (1)
Residential mortgage-backed securities:						
Government and government-sponsored entity pass through securities	331,455	(8,816)			331,455	(8,816)
Government and government-sponsored entity collateralized mortgage obligations	15,516	(519)	1,412	(186)	16,928	(705)
Covered private label collateralized mortgage obligations	1,666	(51)	4,913	(892)	6,579	(943)
Total	\$ 349,321	\$ (9,387)	\$ 6,325	\$ (1,078)	\$ 355,646	\$ (10,465)

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	December 31, 2010					
	Less Than 12 Months		12 months or Longer		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
	(In thousands)					
Residential mortgage-backed securities:						
Government and government-sponsored entity pass through securities	\$ 321,537	\$ (7,366)	\$	\$	\$ 321,537	\$ (7,366)
Government and government-sponsored entity collateralized mortgage obligations	15,690	(327)	1,553	(25)	17,243	(352)
Covered private label collateralized mortgage obligations	1,579	(472)	4,980	(1,611)	6,559	(2,083)
Total	\$ 338,806	\$ (8,165)	\$ 6,533	\$ (1,636)	\$ 345,339	\$ (9,801)

We reviewed the securities that were in a continuous loss position less than 12 months and longer than 12 months at March 31, 2011, and concluded that their losses were a result of the level of market interest rates relative to the types of securities and not a result of the underlying issuers' abilities to repay. Accordingly, we determined that the securities were temporarily impaired. Additionally, we have no plans to sell these securities and believe that it is more likely than not we would not be required to sell these securities before recovery of their amortized cost. Therefore, we did not recognize the temporary impairment in the consolidated statements of earnings (loss).

FHLB Stock

At March 31, 2011, the Company had a \$52.9 million investment in Federal Home Loan Bank of San Francisco (FHLB) stock carried at cost. In January 2009, the FHLB announced that it suspended excess FHLB stock redemptions and dividend payments. Since this announcement, the FHLB has declared and paid cash dividends in 2010 and 2011, though at rates less than that paid in the past, and repurchased certain amounts of our excess stock. We evaluated the carrying value of our FHLB stock investment at March 31, 2011 and determined that it was not impaired. Our evaluation considered the long-term nature of the investment, the liquidity position of the FHLB, the actions being taken by the FHLB to address its regulatory situation, and our intent and ability to hold this investment for a period of time sufficient to recover our recorded investment.

NOTE 4 LOANS***Non-Covered Loans***

When we refer to non-covered loans we are referring to loans not covered by our FDIC loss sharing agreements.

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

Loan Category	March 31,	December 31,
	2011	2010
	(In thousands)	
Real estate mortgage	\$ 2,172,923	\$ 2,274,733
Commercial	667,401	663,557
Real estate construction	176,758	179,479
Consumer	21,815	25,058
Foreign	23,296	22,608
Total gross non-covered loans	3,062,193	3,165,435
Less:		
Unearned income	(4,539)	(4,380)
Allowance for loan losses	(98,564)	(98,653)
Total net non-covered loans	\$ 2,959,090	\$ 3,062,402

The following table presents a summary of the activity in the allowance for credit losses on non-covered loans for the periods indicated:

	Components		Total Allowance for Credit Losses
	Allowance for Loan Losses	Reserve for Unfunded Loan Commitments	
	(In thousands)		
Balance, January 1, 2011	\$ 98,653	\$ 5,675	\$ 104,328
Loans charged-off	(9,138)		(9,138)
Recoveries on loans charged-off	1,249		1,249
Provision	7,800		7,800
Balance, March 31, 2011	\$ 98,564	\$ 5,675	\$ 104,239

	Components		Total Allowance for Credit Losses
	Allowance for Loan Losses	Reserve for Unfunded Loan Commitments	
	(In thousands)		
Balance, January 1, 2010	\$ 118,717	\$ 5,561	\$ 124,278
Loans charged-off	(203,222)		(203,222)
Recoveries on loans charged-off	4,280		4,280
Provision	178,878	114	178,992

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Balance, December 31, 2010	\$	98,653	\$	5,675	\$	104,328
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Table of Contents**PACWEST BANCORP AND SUBSIDIARIES****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited)****NOTE 4 LOANS (Continued)**

The following tables present a summary of the activity in the allowance for loan losses on non-covered loans by portfolio segment for the periods indicated:

	Three Months Ended March 31, 2011						Total
	Real Estate Mortgage	Real Estate Construction	Commercial	Consumer	Foreign		
(In thousands)							
Allowance for Loan Losses on Non-Covered Loans:							
Beginning balance	\$ 51,657	\$ 8,766	\$ 33,229	\$ 4,652	\$ 349		\$ 98,653
Charge-offs	(1,212)	(4,645)	(3,121)	(160)			(9,138)
Recoveries	97	92	617	411	32		1,249
Provision (reversal)	1,316	6,840	839	(1,448)	253		7,800
Ending balance	\$ 51,858	\$ 11,053	\$ 31,564	\$ 3,455	\$ 634		\$ 98,564
The ending balance of the allowance is composed of amounts applicable to loans:							
Individually evaluated for impairment	\$ 4,913	\$ 3,113	\$ 9,524	\$ 1,049			\$ 18,599
Collectively evaluated for impairment	\$ 46,945	\$ 7,940	\$ 22,040	\$ 2,406	\$ 634		\$ 79,965
Non-Covered Loan Balances:							
Ending balance	\$ 2,172,923	\$ 176,758	\$ 667,401	\$ 21,815	\$ 23,296		\$ 3,062,193
The ending balance of the non-covered loan portfolio is composed of loans:							
Individually evaluated for impairment	\$ 90,394	\$ 32,757	\$ 23,573	\$ 1,794			\$ 148,518
Collectively evaluated for impairment	\$ 2,082,529	\$ 144,001	\$ 643,828	\$ 20,021	\$ 23,296		\$ 2,913,675

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PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

NOTE 4 LOANS (Continued)

	Year Ended December 31, 2010						Total
	Real Estate Mortgage	Real Estate Construction	Commercial	Consumer	Foreign		
(In thousands)							
Allowance for Loan Losses on Non-Covered Loans:							
Beginning balance	\$ 58,241	\$ 39,934	\$ 17,710	\$ 2,021	\$ 811	\$	\$ 118,717
Charge-offs	(117,029)	(63,590)	(18,548)	(3,749)	(306)		(203,222)
Recoveries	1,222	708	1,652	565	133		4,280
Provision (reversal)	109,223	31,714	32,415	5,815	(289)		178,878
Ending balance	\$ 51,657	\$ 8,766	\$ 33,229	\$ 4,652	\$ 349	\$	\$ 98,653
The ending balance of the allowance is composed of amounts applicable to loans:							
Individually evaluated for impairment	\$ 3,893	\$ 1,125	\$ 8,911	\$ 1,049	\$	\$	\$ 14,978
Collectively evaluated for impairment	\$ 47,764	\$ 7,641	\$ 24,318	\$ 3,603	\$ 349	\$	\$ 83,675
Non-Covered Loan Balances:							
Ending balance	\$ 2,274,733	\$ 179,479	\$ 663,557	\$ 25,058	\$ 22,608	\$	\$ 3,165,435
The ending balance of the non-covered loan portfolio is composed of loans:							
Individually evaluated for impairment	\$ 94,171	\$ 47,350	\$ 39,820	\$ 1,951	\$ 163	\$	\$ 183,455
Collectively evaluated for impairment	\$ 2,180,562	\$ 132,129	\$ 623,737	\$ 23,107	\$ 22,445	\$	\$ 2,981,980

Table of Contents**PACWEST BANCORP AND SUBSIDIARIES****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited)****NOTE 4 LOANS (Continued)**

The following tables present the credit risk rating categories for non-covered loans by portfolio segment and class as of the dates indicated. Nonclassified loans are those with a credit risk rating of either pass or special mention, while classified loans are those with a credit risk rating of either substandard or doubtful.

Our federal and state banking regulators, as an integral part of their examination process, periodically review the Company's loan risk rating classifications. Our regulators may require the Company to recognize rating downgrades based on their judgments related to information available to them at the time of their examinations. Risk rating downgrades generally result in higher provisions for credit losses.

	March 31, 2011		
	Nonclassified	Classified	Total
	(In thousands)		
Real estate mortgage:			
Hospitality	\$ 129,715	\$ 20,213	\$ 149,928
SBA 504	55,436	9,279	64,715
Other	1,860,361	97,919	1,958,280
Total real estate mortgage	2,045,512	127,411	2,172,923
Real estate construction:			
Residential	36,048	5,980	42,028
Commercial	106,187	28,543	134,730
Total real estate construction	142,235	34,523	176,758
Commercial:			
Collateralized	348,195	20,057	368,252
Unsecured	104,993	10,273	115,266
Asset-based	149,850	2,658	152,508
SBA 7(a)	21,185	10,190	31,375
Total commercial	624,223	43,178	667,401
Consumer	19,915	1,900	21,815
Foreign	23,296		23,296
Total non-covered loans	\$ 2,855,181	\$ 207,012	\$ 3,062,193

Table of Contents**PACWEST BANCORP AND SUBSIDIARIES****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited)****NOTE 4 LOANS (Continued)**

	December 31, 2010		
	Nonclassified	Classified	Total
	(In thousands)		
Real estate mortgage:			
Hospitality	\$ 137,952	\$ 18,700	\$ 156,652
SBA 504	55,774	13,513	69,287
Other	1,956,905	91,889	2,048,794
Total real estate mortgage	2,150,631	124,102	2,274,733
Real estate construction:			
Residential	39,644	25,399	65,043
Commercial	82,291	32,145	114,436
Total real estate construction	121,935	57,544	179,479
Commercial:			
Collateralized	342,607	15,820	358,427
Unsecured	119,326	10,417	129,743
Asset-based	141,813	1,354	143,167
SBA 7(a)	29,557	2,663	32,220
Total commercial	633,303	30,254	663,557
Consumer	22,949	2,109	25,058
Foreign	22,608		22,608
Total non-covered loans	\$ 2,951,426	\$ 214,009	\$ 3,165,435

Table of Contents**PACWEST BANCORP AND SUBSIDIARIES****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited)****NOTE 4 LOANS (Continued)**

The following table presents an aging analysis of our non-covered loans by portfolio segment and class as of the date indicated:

	March 31, 2011					
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total
(In thousands)						
Real estate mortgage:						
Hospitality	\$ 865	\$	\$	\$ 865	\$ 149,063	\$ 149,928
SBA 504	188		2,328	2,516	62,199	64,715
Other	4,111	677	17,129	21,917	1,936,363	1,958,280
Total real estate mortgage	5,164	677	19,457	25,298	2,147,625	2,172,923
Real estate construction:						
Residential			3,966	3,966	38,062	42,028
Commercial	1,484		666	2,150	132,580	134,730
Total real estate construction	1,484		4,632	6,116	170,642	176,758
Commercial:						
Collateralized	753	1,217	1,049	3,019	365,233	368,252
Unsecured	400		6,444	6,844	108,422	115,266
Asset-based					152,508	152,508
SBA 7(a)	815	1,196	732	2,743	28,632	31,375
Total commercial	1,968	2,413	8,225	12,606	654,795	667,401
Consumer	327	32	1,048	1,407	20,408	21,815
Foreign					23,296	23,296
Total non-covered loans	\$ 8,943	\$ 3,122	\$ 33,362	\$ 45,427	\$ 3,016,766	\$ 3,062,193

Table of Contents**PACWEST BANCORP AND SUBSIDIARIES****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited)****NOTE 4 LOANS (Continued)**

	December 31, 2010					
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total
	(In thousands)					
Real estate mortgage:						
Hospitality	\$	\$	\$	\$	\$ 156,652	\$ 156,652
SBA 504	799	462	6,235	7,496	61,791	69,287
Other	426	2,566	13,936	16,928	2,031,866	2,048,794
Total real estate mortgage	1,225	3,028	20,171	24,424	2,250,309	2,274,733
Real estate construction:						
Residential			24,004	24,004	41,039	65,043
Commercial		667	2,145	2,812	111,624	114,436
Total real estate construction		667	26,149	26,816	152,663	179,479
Commercial:						
Collateralized	725	883	1,457	3,065	355,362	358,427
Unsecured		5,966	600	6,566	123,177	129,743
Asset-based					143,167	143,167
SBA 7(a)	1,254	494	751	2,499	29,721	32,220
Total commercial	1,979	7,343	2,808	12,130	651,427	663,557
Consumer	407	1,048		1,455	23,603	25,058
Foreign			163	163	22,445	22,608
Total non-covered loans	\$ 3,611	\$ 12,086	\$ 49,291	\$ 64,988	\$ 3,100,447	\$ 3,165,435

At March 31, 2011 and December 31, 2010, the Company had no loans that were greater than 90 days past due and still accruing interest. It is the Company's policy to discontinue accruing interest when principal or interest payments are past due 90 days or when, in the opinion of management, there is a reasonable doubt as to collectibility of a loan in the normal course of business. At March 31, 2011, nonaccrual loans totaled \$76.8 million. Nonaccrual loans include \$5.5 million of loans 30 to 89 days past due and \$38.0 million of current loans which have been placed on nonaccrual status based on management's judgment regarding the collectibility of such loans. Nonaccrual loans totaled \$94.2 million at December 31, 2010, of which \$12.0 million were 30 to 89 days past due and \$32.9 million were current.

Table of Contents**PACWEST BANCORP AND SUBSIDIARIES****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited)****NOTE 4 LOANS (Continued)**

The following tables present our nonaccrual and performing non-covered loans by portfolio segment and class as of the dates indicated:

	March 31, 2011		
	Nonaccrual	Performing	Total
	(In thousands)		
Real estate mortgage:			
Hospitality	\$ 4,109	\$ 145,819	\$ 149,928
SBA 504	5,138	59,577	64,715
Other	31,596	1,926,684	1,958,280
Total real estate mortgage	40,843	2,132,080	2,172,923
Real estate construction:			
Residential	4,586	37,442	42,028
Commercial	8,620	126,110	134,730
Total real estate construction	13,206	163,552	176,758
Commercial:			
Collateralized	5,748	362,504	368,252
Unsecured	9,009	106,257	115,266
Asset-based	15	152,493	152,508
SBA 7(a)	6,234	25,141	31,375
Total commercial	21,006	646,395	667,401
Consumer	1,794	20,021	21,815
Foreign		23,296	23,296
Total non-covered loans	\$ 76,849	\$ 2,985,344	\$ 3,062,193

Table of Contents**PACWEST BANCORP AND SUBSIDIARIES****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited)****NOTE 4 LOANS (Continued)**

	December 31, 2010		
	Nonaccrual	Performing	Total
	(In thousands)		
Real estate mortgage:			
Hospitality	\$ 4,151	\$ 152,501	\$ 156,652
SBA 504	9,346	59,941	69,287
Other	27,452	2,021,342	2,048,794
Total real estate mortgage	40,949	2,233,784	2,274,733
Real estate construction:			
Residential	24,004	41,039	65,043
Commercial	5,238	109,198	114,436
Total real estate construction	29,242	150,237	179,479
Commercial:			
Collateralized	6,241	352,186	358,427
Unsecured	9,104	120,639	129,743
Asset-based	15	143,152	143,167
SBA 7(a)	6,518	25,702	32,220
Total commercial	21,878	641,679	663,557
Consumer	1,951	23,107	25,058
Foreign	163	22,445	22,608
Total non-covered loans	\$ 94,183	\$ 3,071,252	\$ 3,165,435

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PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

NOTE 4 LOANS (Continued)

The following tables present information regarding our non-covered impaired loans by portfolio segment and class as of the dates indicated:

	Recorded Investment	Unpaid Principal Balance	March 31, 2011 Related Allowance	Average Recorded Investment	Interest Income Recognized
(In thousands)					
With An Allowance Recorded:					
Real estate mortgage:					
Hospitality	\$ 17,776	\$ 17,875	\$ 901	\$ 17,173	\$ 198
SBA 504	5,138	6,387	156	5,138	
Other	66,279	73,493	3,856	49,829	334
Real estate construction:					
Residential	5,980	7,941	243	5,980	(21)
Other	26,766	30,525	2,870	18,147	144
Total real estate	121,939	136,221	8,026	96,267	655
Commercial:					
Collateralized	5,849	7,651	1,602	5,196	21
Unsecured	9,390	15,406	7,661	9,331	6
SBA 7(a)	6,408	7,200	261	6,177	20
Consumer	1,357	2,418	1,049	1,356	
Total other	23,004	32,675	10,573	22,060	47
With No Related Allowance Recorded:					
Real estate mortgage:					
Hospitality	\$	\$	\$	\$	\$
Other	1,201	1,320		1,118	(4)
Real estate construction:					
Residential	11	12		11	
Other					
Total real estate	1,212	1,332		1,129	(4)
Commercial:					
Collateralized	913	966		777	4
Unsecured	98	107		98	
Asset-based	15	15		15	
SBA 7(a)	900	1,583		828	(2)
Consumer	437	482		371	
Foreign					
Total other	2,363	3,153		2,089	2

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Total:

Real estate mortgage	\$	90,394	\$	99,075	\$	4,913	\$	73,258	\$	528
Real estate construction		32,757		38,478		3,113		24,138		123
Commercial		23,573		32,928		9,524		22,422		49
Consumer		1,794		2,900		1,049		1,727		
Foreign										
Total non-covered loans	\$	148,518	\$	173,381	\$	18,599	\$	121,545	\$	700

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PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

NOTE 4 LOANS (Continued)

	December 31, 2010		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
With An Allowance Recorded:			
Real estate mortgage:			
Hospitality	\$ 15,081	\$ 15,138	\$ 564
SBA 504	9,346	12,500	280
Other	67,923	74,884	3,049
Real estate construction:			
Residential	30,965	35,152	673
Other	16,213	18,130	452
Total real estate	139,528	155,804	5,018
Commercial:			
Collateralized	20,038	20,270	1,174
Unsecured	9,427	9,512	7,696
SBA 7(a)	4,081	4,786	41
Consumer	1,361	1,372	1,049
Total other	34,907	35,940	9,960
With No Related Allowance Recorded:			
Real estate mortgage:			
Hospitality	\$ 667	\$ 667	\$
Other	1,154	1,650	
Real estate construction:			
Residential	12	12	
Other	160	174	
Total real estate	1,993	2,503	
Commercial:			
Collateralized	2,673	2,761	
Unsecured	157	169	
Asset-based	15	15	
SBA 7(a)	3,429	4,576	
Consumer	590	631	
Foreign	163	238	
Total other	7,027	8,390	
Total:			
Real estate mortgage	\$ 94,171	\$ 104,839	\$ 3,893

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Real estate construction	47,350	53,468	1,125
Commercial	39,820	42,089	8,911
Consumer	1,951	2,003	1,049
Foreign	163	238	
Total non-covered loans	\$ 183,455	\$ 202,637	\$ 14,978

Table of Contents**PACWEST BANCORP AND SUBSIDIARIES****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited)****NOTE 4 LOANS (Continued)*****Covered Loans***

We refer to the loans acquired in the Los Padres and Affinity acquisitions subject to loss sharing agreements with the FDIC as "covered loans" as we will be reimbursed for a substantial portion of any future losses on them under the terms of the agreements.

The following table reflects the carrying values of covered loans as of the dates indicated:

Loan Category	March 31, 2011	December 31, 2010
	(In thousands)	
Multi-family	\$ 299,832	\$ 321,650
Commercial real estate	430,160	444,244
Single family	151,281	157,424
Construction and land	82,992	87,301
Commercial and industrial	24,583	34,828
Home equity lines of credit	5,811	5,916
Consumer	724	1,378
Total gross covered loans	995,383	1,052,741
Less: discount	(106,512)	(110,901)
Covered loans, net of discount	888,871	941,840
Less: allowance for loan losses	(29,438)	(33,264)
Covered loans, net	\$ 859,433	\$ 908,576

The following table summarizes the changes in the carrying amount of covered acquired impaired loans and accretable yield on those loans for the period indicated:

	Covered Acquired Impaired Loans	
	Carrying Amount	Accretable Yield
	(In thousands)	
Balance, January 1, 2011	\$ 879,486	\$ (290,665)
Accretion	17,344	17,344
Payments received	(59,721)	
Increase in expected cash flows		(11,190)
Provision for credit losses	(5,747)	
Balance, March 31, 2011	\$ 831,362	\$ (284,511)

The table above excludes the covered loans from the Los Padres acquisition which are accounted for as non-impaired loans and total \$28.1 million at March 31, 2011.

The following table presents the credit risk rating categories for covered loans by portfolio segment as of the dates indicated. Nonclassified loans are those with a credit risk rating of either pass or special

Table of Contents**PACWEST BANCORP AND SUBSIDIARIES****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited)****NOTE 4 LOANS (Continued)**

mention, while classified loans are those with a credit risk rating of either substandard or doubtful. It should be noted, however, that these loans are covered by loss sharing agreements with the FDIC.

	March 31, 2011		
	Nonclassified	Classified	Total
	(In thousands)		
Real estate mortgage	\$ 580,237	\$ 185,833	\$ 766,070
Real estate construction	19,393	46,998	66,391
Commercial	12,415	13,681	26,096
Consumer	340	536	876
Total covered loans	\$ 612,385	\$ 247,048	\$ 859,433

	December 31, 2010		
	Nonclassified	Classified	Total
	(In thousands)		
Real estate mortgage	\$ 622,837	\$ 180,944	\$ 803,781
Real estate construction	21,370	51,729	73,099
Commercial	14,630	16,219	30,849
Consumer	722	125	847
Total covered loans	\$ 659,559	\$ 249,017	\$ 908,576

Our federal and state banking regulators, as an integral part of their examination process, periodically review the Company's loan risk rating classifications. Our regulators may require the Company to recognize rating downgrades based on their judgments related to information available to them at the time of their examinations.

NOTE 5 OTHER REAL ESTATE OWNED (OREO)

The following tables summarize OREO by property type at the dates indicated:

	March 31, 2011		
Property Type	Non-Covered OREO	Covered OREO	Total OREO
	(In thousands)		
Commercial real estate	\$ 18,674	\$ 8,397	\$ 27,071
Construction and land development	27,191	19,036	46,227
Multi-family		4,343	4,343
Single family residence	2,502	10,341	12,843
Total OREO, net	\$ 48,367	\$ 42,117	\$ 90,484

Table of Contents**PACWEST BANCORP AND SUBSIDIARIES****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited)****NOTE 5 OTHER REAL ESTATE OWNED (OREO) (Continued)**

Property Type	December 31, 2010		
	Non-Covered OREO	Covered OREO	Total OREO
	(In thousands)		
Commercial real estate	\$ 18,205	\$ 21,658	\$ 39,863
Construction and land development	4,650	19,205	23,855
Multi-family		10,393	10,393
Single family residence	2,743	4,560	7,303
Total OREO, net	\$ 25,598	\$ 55,816	\$ 81,414

The following table presents a rollforward of OREO, net of the valuation allowance, for the period indicated:

OREO Activity:	Non-Covered OREO	Covered OREO	Total OREO
	(In thousands)		
Balance, January 1, 2011	\$ 25,598	\$ 55,816	\$ 81,414
Foreclosures	25,931	4,130	30,061
Provision for losses	(382)	(890)	(1,272)
Reductions related to sales	(2,780)	(16,939)	(19,719)
Balance, March 31, 2011	\$ 48,367	\$ 42,117	\$ 90,484

The following table presents a rollforward of our OREO valuation allowance for the period indicated:

OREO Valuation Allowance Activity:	Non-Covered OREO	Covered OREO	Total OREO
	(In thousands)		
Balance, January 1, 2011	\$ 13,831	\$ 3,982	\$ 17,813
Provision for losses	382	890	1,272
Due from the SBA	108		108
Reductions due to sales	(2,511)	(1,080)	(3,591)
Balance, March 31, 2011	\$ 11,810	\$ 3,792	\$ 15,602

The following tables present the components of OREO expense (income), net for the periods indicated:

	Non-Covered OREO	Covered OREO	Total OREO
	(In thousands)		
Provision for losses	\$ 382	\$ 890	\$ 1,272
Maintenance costs	473	324	797
(Gain) loss on sale	(152)	(3,792)	(3,944)

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Total OREO expense (income), net	\$	703	\$	(2,578)	\$	(1,875)
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	Three Months Ended December 31, 2010		
	Non-Covered OREO	Covered OREO	Total OREO
	(In thousands)		
Provision for losses	\$ 910	\$ 1,973	\$ 2,883
Maintenance costs	182	208	390
(Gain) loss on sale	1	(1,482)	(1,481)
 Total OREO expense, net	 \$ 1,093	 \$ 699	 \$ 1,792

	Three Months Ended March 31, 2010		
	Non-Covered OREO	Covered OREO	Total OREO
	(In thousands)		
Provision for losses	\$ 8,312	\$ 2,145	\$ 10,457
Maintenance costs	1,075	125	1,200
(Gain) loss on sale	(946)	(101)	(1,047)
 Total OREO expense, net	 \$ 8,441	 \$ 2,169	 \$ 10,610

NOTE 6 FDIC LOSS SHARING ASSET

The FDIC loss sharing asset was initially recorded at fair value, which represented the present value of the estimated cash payments from the FDIC for future losses on covered assets. The ultimate collectibility of this asset is dependent upon the performance of the underlying covered assets, the passage of time and claims paid by the FDIC. The following table presents the changes in the FDIC loss sharing asset for the period indicated:

	FDIC Loss Sharing Asset
	(In thousands)
Balance, January 1, 2011	\$ 116,352
FDIC share of additional losses	4,841
FDIC share of recoveries	(5,803)
Net accretion	251
Reclassification to claims receivable	(8,761)
 Subtotal	 106,880
Filed claims receivable ⁽¹⁾	9,201

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Balance, March 31, 2011 \$ 116,081

(1) Represents fourth quarter 2010 claim filed with the FDIC for losses on covered assets related to the Affinity acquisition. We received payment from the FDIC in April 2011.

Table of Contents**PACWEST BANCORP AND SUBSIDIARIES****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited)****NOTE 7 BORROWINGS, SUBORDINATED DEBENTURES AND BROKERED DEPOSITS*****Borrowings***

The following table summarizes our FHLB advances by their maturity dates outstanding as of the date indicated:

Maturity Date	March 31, 2011		Next Date Callable by FHLB
	Amount (In thousands)	Interest Rate	
December 11, 2017	\$ 200,000	3.16%	June 11, 2011 ⁽¹⁾
January 11, 2018	25,000	2.61%	July 11, 2011 ⁽¹⁾
Total FHLB advances	\$ 225,000	3.10%	

⁽¹⁾ Callable quarterly thereafter by FHLB.

The FHLB advances outstanding at March 31, 2011 are both term and callable advances. The maturities shown are the contractual maturities for the advances. The callable advances have all passed their initial call dates and are currently callable on a quarterly basis by the FHLB. While the FHLB may call the advances to be repaid for any reason, they are likely to be called if market interest rates, for borrowings of similar remaining term, are higher than the advances' stated rates on the call dates. We may repay the advances at any time with a prepayment penalty. Our aggregate remaining borrowing capacity under the FHLB secured lines of credit was \$1.2 billion at March 31, 2011. As of March 31, 2011, approximately \$3.0 billion of real estate and commercial loans and securities with a carrying value of \$48.9 million were pledged to secure our FHLB advances. Additionally, the Bank had secured borrowing capacity from the Federal Reserve discount window of \$380.3 million at March 31, 2011. The Bank also maintains unsecured lines of credit of \$92.0 million with correspondent banks for the purchase of overnight funds; these lines are subject to availability of funds.

Subordinated Debentures

The Company had an aggregate amount of \$129.5 million in subordinated debentures outstanding at March 31, 2011. These subordinated debentures were issued in seven separate series. Each issuance had a maturity of thirty years from its date of issue. The subordinated debentures were issued to trusts established by us or entities we have acquired, which in turn issued trust preferred securities, which totaled \$123.0 million at March 31, 2011. These trust preferred securities are considered Tier 1 capital for regulatory purposes.

With the exception of Trust I and Trust CI, the subordinated debentures are callable at par, only by the issuer, five years from the date of issuance, subject to certain exceptions. We were permitted to call the debentures in the first five years if the prepayment election related to one of the following three events: (i) a change in the tax treatment of the debentures stemming from a change in the IRS laws; (ii) a change in the regulatory treatment of the underlying trust preferred securities as Tier 1 capital; and (iii) a requirement to register the underlying trust as a registered investment company. However, redemption in the first five years was subject to a prepayment penalty. Trust I and Trust CI may not be called for 10 years from the date of issuance unless one of the three events described above has occurred and then a prepayment penalty applies. In addition, there is a prepayment penalty if

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PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

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

either of these debentures is called 10 to 20 years from the date of their issuance and they may be called at par after 20 years.

The proceeds of the subordinated debentures we originated were used primarily to fund several of our acquisitions and to augment regulatory capital. Interest payments made by the Company on subordinated debentures are considered dividend payments by the Federal Reserve Bank, or FRB. As such, notification to the FRB is required prior to our intent to pay such interest during any period in which our cumulative net earnings for previous four quarters are not sufficient to fund the interest payments due for those periods and the current period. Should the FRB object to payment of interest on the subordinated debentures, we would not be able to make the payments until approval is received.

The following table summarizes the terms of each issuance of the subordinated debentures outstanding as of March 31, 2011:

Series	Date Issued	March 31, 2011 Amount (In thousands)	Maturity Date	Earliest Call Date by Company Without Penalty	Fixed or Variable Rate	Rate Index	Current Rate ⁽²⁾	Next Reset Date
Trust CI	3/23/00	\$ 10,310	3/8/30	3/8/20	Fixed	N/A	11.00%	N/A
Trust I	9/7/00	8,248	9/7/30	9/7/20	Fixed	N/A	10.60%	N/A
Trust V	8/15/03	10,310	9/17/33	(1)	Variable	LIBOR + 3.10 3 month	3.41%	6/15/11
Trust VI	9/3/03	10,310	9/15/33	(1)	Variable	LIBOR + 3.05 3 month	3.36%	6/13/11
Trust CII	9/17/03	5,155	9/17/33	(1)	Variable	LIBOR + 2.95 3 month	3.26%	6/15/11
Trust VII	2/5/04	61,856	4/23/34	(1)	Variable	LIBOR + 2.75 3 month	3.02%	7/28/11
Trust CIII	8/15/05	20,619	9/15/35	(1)	Variable	LIBOR + 1.69 3 month	2.00%	6/13/11
Gross subordinated debentures		126,808						
Unamortized premium ⁽³⁾		2,690						
Net subordinated debentures		\$ 129,498						

(1) These debentures may be called without prepayment penalty.

(2)

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As of April 28, 2011; excludes debt issuance costs.

(3)

This amount represents the fair value adjustment on trusts of acquired companies.

As previously mentioned, the subordinated debentures were issued to trusts established by us, or entities we acquired, which in turn issued \$123.0 million of trust preferred securities. These securities are included in our Tier I capital for purposes of determining the Company's Tier I and total risk-based capital ratios. The Board of Governors of the Federal Reserve System, which is the holding company's banking regulator, promulgated a modification of the capital regulations affecting trust preferred securities that was effective March 31, 2011. According to the modification, the Company was

PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

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

allowed to include 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. The regulations in effect through December 31, 2010 limited the amount of trust preferred securities that could be included in Tier I capital to 25% of the sum of core capital elements, without a deduction for permitted intangibles. As of March 31, 2011, all of the Company's capital ratios remained above the well-capitalized level after application of this regulatory change.

Brokered Deposits

Brokered deposits totaled \$43.7 million at March 31, 2011 and are included in the interest-bearing deposits balance on the accompanying condensed consolidated balance sheets. Such amount represented customer deposits that were subsequently participated with other FDIC-insured financial institutions through the CDARS program as a means to provide FDIC deposit insurance coverage for the full amount of our customers' deposits.

NOTE 8 COMMITMENTS AND CONTINGENCES

Lending Commitments

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

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Commitments to extend credit totaled \$690.0 million and \$723.1 million at March 31, 2011 and December 31, 2010, respectively.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support private borrowing arrangements. Most guarantees expire within one year from the date of issuance. The Company generally requires collateral or other security to support financial instruments with credit risk. Standby letters of credit totaled \$26.9 million and \$23.7 million at March 31, 2011 and December 31, 2010, respectively.

The Company has investments in low income housing project partnerships which provide the Company income tax credits, and in several small business investment companies. As of March 31, 2011, the Company had commitments to contribute capital to these entities totaling \$7.4 million.

PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

NOTE 8 COMMITMENTS AND CONTINGENCES (Continued)

Legal Matters

In the ordinary course of our business, we are party to various legal actions, which we believe are incidental to the operation of our business. The outcome of such legal actions and the timing of ultimate resolution are inherently difficult to predict. Because of these factors, the Company cannot provide a meaningful estimate of the range of reasonably possible outcomes of claims in the aggregate or by individual claim. In the opinion of management, based upon information currently available to us, any resulting liability is not likely to have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

NOTE 9 FAIR VALUE MEASUREMENTS

ASC 820, *Fair Value Measurements and Disclosures*, defines fair value, establishes a framework for measuring fair value including a three-level valuation hierarchy, and expands disclosures about fair value measurements. Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date reflecting assumptions that a market participant would use when pricing an asset or liability. The hierarchy uses three levels of inputs to measure the fair value of assets and liabilities as follows:

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

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

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

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

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PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

NOTE 9 FAIR VALUE MEASUREMENTS (Continued)

The following tables present information on the assets measured and recorded at fair value on a recurring and nonrecurring basis as of the date indicated:

	Fair Value Measurement as of March 31, 2011			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In thousands)			
Measured on a Recurring Basis:				
Securities available-for-sale:				
Municipal securities	\$ 7,558	\$	\$ 7,558	\$
Government and government-sponsored entity residential mortgage-backed securities	825,177		825,177	
Covered private label CMOs	52,132			52,132
Other securities	2,287		2,287	
	\$ 887,154	\$	\$ 835,022	\$ 52,132
Measured on a Nonrecurring Basis:				
Non-covered impaired loans	\$ 99,644	\$	\$ 9,043	\$ 90,601
Non-covered other real estate owned	1,801		198	1,603
Covered other real estate owned	5,184		3,878	1,306
SBA loan servicing asset	1,432			1,432
	\$ 108,061	\$	\$ 13,119	\$ 94,942

There were no significant transfers of assets between Level 1 and Level 2 of the fair value hierarchy during the three months ended March 31, 2011.

The following table presents gains and (losses) on assets measured on a nonrecurring basis for the period indicated:

	Three Months Ended March 31, 2011
	(In thousands)
Non-covered impaired loans	\$ (10,694)
Non-covered other real estate owned	(382)
Covered other real estate owned	(777)
SBA loan servicing asset	(70)
Total gain (loss) on assets measured on a nonrecurring basis	\$ (11,923)

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PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

NOTE 9 FAIR VALUE MEASUREMENTS (Continued)

The following table summarizes activity for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the period indicated:

	Covered Private Label CMOs (Level 3) (In thousands)
Beginning as of January 1, 2011	\$ 50,437
Total realized in earnings	610
Total unrealized in comprehensive income	3,185
Net settlements subsequent to acquisition	(2,100)
Balance as of March 31, 2011	\$ 52,132

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

	March 31, 2011		December 31, 2010	
	Carrying or Contract Amount	Estimated Fair Value	Carrying or Contract Amount	Estimated Fair Value
	(In thousands)			
Financial Assets:				
Cash and due from banks	\$ 88,634	\$ 88,634	\$ 82,170	\$ 82,170
Interest-earning deposits in financial institutions	104,925	104,925	26,382	26,382
Securities available-for-sale	887,154	887,154	874,016	874,016
Investment in FHLB stock	52,857	52,857	55,040	55,040
Loans, net	3,818,523	3,806,968	3,970,978	3,960,244
Financial Liabilities:				
Deposits	4,584,739	4,594,751	4,649,698	4,664,575
Borrowings	225,000	241,838	225,000	243,273
Subordinated debentures	129,498	134,782	129,572	135,876

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

Cash and due from banks. The carrying amount is assumed to be the fair value because of the liquidity of these instruments.

Interest-earning deposits in financial institutions. The carrying amount is assumed to be the fair value given the short-term nature of these deposits.

PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

NOTE 9 FAIR VALUE MEASUREMENTS (Continued)

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

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

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

FHLB stock. The fair value of FHLB stock is based on our recorded investment. In January 2009, the FHLB announced that it had suspended excess FHLB stock redemptions and dividend payments. Since this announcement, the FHLB has declared and paid cash dividends in 2010 and 2011, though at rates less than that paid in the past, and repurchased certain amounts of our excess stock. As a result of these actions, we evaluated the carrying value of our FHLB stock investment. Based on the FHLB's most recent publicly available financial results, its capital position and its bond ratings, we concluded such investment was not impaired at either March 31, 2011 or December 31, 2010.

Non-covered loans. As non-covered loans are not measured at fair value, the following discussion relates to estimating the fair value disclosures under ASC Topic 825. Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type and further segmented into fixed and adjustable rate interest terms and by credit risk categories. The fair value estimates do not take into consideration the value of the loan portfolio in the event the loans are sold outside the parameters of normal operating activities. The fair value of performing fixed rate loans is estimated by discounting scheduled cash flows through the estimated maturity using estimated market prepayment speeds and estimated market discount rates that reflect the credit and interest rate risk inherent in the loans. The estimated market discount rates used for performing fixed rate loans are the

PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

NOTE 9 FAIR VALUE MEASUREMENTS (Continued)

Company's current offering rates for comparable instruments with similar terms. The fair value of performing adjustable rate loans is estimated by discounting scheduled cash flows through the next repricing date. As these loans reprice frequently at market rates and the credit risk is not considered to be greater than normal, the market value is typically close to the carrying amount of these loans.

Non-covered impaired loans. Non-covered impaired loans are measured and recorded at fair value on a non-recurring basis. All of our non-covered nonaccrual loans and restructured loans are considered impaired and are reviewed individually for the amount of impairment, if any. To the extent a loan is collateral dependent we measure such impaired loan based on the estimated fair value of the underlying collateral. The fair value of each loan's collateral is generally based on estimated market prices from an independently prepared appraisal, which is then adjusted for the cost related to liquidating such collateral; such valuation inputs result in a nonrecurring fair value measurement that is categorized as a Level 2 measurement. When adjustments are made to an appraised value to reflect various factors such as the age of the appraisal or known changes in the market or the collateral, such valuation inputs are considered unobservable and the fair value measurement is categorized as a Level 3 measurement. The impaired loans categorized as Level 3 also include unsecured loans and other secured loans whose fair values are based significantly on unobservable inputs such as the strength of a guarantor, including an SBA government guarantee, cash flows discounted at the effective loan rate, and management's judgment. The loan balances shown in the above tables represent those nonaccrual and restructured loans for which impairment was recognized during the three months ended March 31, 2011. The amounts shown as losses represent, for the loan balances shown, the impairment recognized during the three months ended March 31, 2011. Of the \$76.8 million of nonaccrual loans at March 31, 2011, loans totaling \$7.6 million were written down to their fair values through charge-offs during the quarter. We recorded \$1.3 million in losses on impaired loans for the three months ended March 31, 2011 for loans with a fair value of zero as of March 31, 2011. At March 31, 2011, the recorded investment in non-covered impaired loans with a related allowance was \$144.9 million and the related allowance is \$18.6 million.

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

PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

NOTE 9 FAIR VALUE MEASUREMENTS (Continued)

SBA servicing asset. In accordance with ASC Topic 860, *Accounting for Servicing of Financial Assets*, the SBA servicing asset, included in other assets in the condensed consolidated balance sheets, is carried at its implied fair value of \$1.4 million. The fair value of the servicing asset is estimated by discounting future cash flows using market-based discount rates and prepayment speeds. The discount rate is based on the current US Treasury yield curve, as published by the Department of the Treasury, plus a spread for the marketplace risk associated with these assets. We utilize estimated prepayment vectors using SBA prepayment information provided by Bloomberg for pools of similar assets to determine the timing of the cash flows. These nonrecurring valuation inputs are considered to be Level 3 inputs.

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

Borrowings. Borrowings are carried at amortized cost. The fair value of fixed rate borrowings is calculated by discounting scheduled cash flows through the estimated maturity dates or call dates, if applicable, using estimated market discount rates that reflect current rates offered for borrowings with similar remaining maturities and characteristics.

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

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

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PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

NOTE 9 FAIR VALUE MEASUREMENTS (Continued)

Limitations

Fair value estimates are made at a specific point in time and are based on relevant market information and information about the financial instrument. These estimates do not reflect income taxes or any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. Because no market exists for a portion of the Company's financial instruments, fair value estimates are based on what management believes to be conservative judgments regarding expected future cash flows, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimated fair values are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates. Since the fair values have been estimated as of March 31, 2011, the amounts that will actually be realized or paid at settlement or maturity of the instruments could be significantly different.

NOTE 10 NET EARNINGS (LOSS) PER SHARE

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

	Three Months Ended		
	March 31, 2011	December 31, 2010	March 31, 2010
(In thousands, except per share data)			
Basic Earnings (Loss) Per Share:			
Net earnings (loss)	\$ 10,676	\$ (7,688)	\$ (60,533)
Less: earnings allocated to unvested restricted stock ⁽¹⁾	(386)	(7)	(8)
Net earnings (loss) allocated to common shares	\$ 10,290	\$ (7,695)	\$ (60,541)
Weighted-average basic shares and unvested restricted stock outstanding	36,801.7	36,686.7	35,607.8
Less: weighted-average unvested restricted stock outstanding	(1,347.6)	(1,280.2)	(1,245.7)
Weighted-average basic shares outstanding	35,454.1	35,406.5	34,362.1
Basic earnings (loss) per share	\$ 0.29	\$ (0.22)	\$ (1.76)
Diluted Earnings (Loss) Per Share:			
Net earnings (loss) allocated to common shares	\$ 10,290	\$ (7,695)	\$ (60,541)
Weighted-average basic shares outstanding	35,454.1	35,406.5	34,362.1
Add: warrants outstanding			
Weighted-average diluted shares outstanding	35,454.1	35,406.5	34,362.1
Diluted earnings (loss) per share	\$ 0.29	\$ (0.22)	\$ (1.76)

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(1)

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

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PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

NOTE 11 STOCK COMPENSATION PLANS

Restricted Stock

At March 31, 2011, there were outstanding 906,437 shares of unvested time-based restricted common stock and 850,000 shares of unvested performance-based restricted common stock. The awarded shares of time-based restricted common stock vest over a service period of three to five years from date of the grant. The awarded shares of performance-based restricted common stock vest in full on the date the Compensation, Nominating and Governance, or CNG, Committee of the Board of Directors, as Administrator of the Company's 2003 Stock Incentive Plan, or the 2003 Plan, determines that the Company achieved certain financial goals established by the CNG Committee as set forth in the grant documents. Both time-based and performance-based restricted common stock vest immediately upon a change in control of the Company as defined in the 2003 Plan and upon death of the employee.

In March 2011, the CNG awarded 350,000 shares of performance-based restricted common stock, which will expire on March 31, 2016 if the net earnings performance target is not met. Such restricted stock will vest upon a change in control, however, as defined in the 2003 Incentive Plan. We have determined that it is not probable at the present time that the net earnings performance target will be achieved. Accordingly, no expense is being recognized for these shares. If and when it becomes probable that the net earnings target will be achieved, a catch-up adjustment will be recorded and amortization will begin. The unearned compensation expense related to these shares is \$7.2 million.

Compensation expense related to awards of restricted stock is based on the fair value of the underlying stock on the award date and is recognized over the vesting period using the straight-line method. The vesting of performance-based restricted stock awards and recognition of related compensation expense may occur over a shorter vesting period if financial performance targets are achieved earlier than anticipated. In 2007, the amortization of certain performance-based restricted stock awards was suspended. In 2008 we concluded it was improbable that the financial targets would be met for the performance-based stock awards and we reversed the accumulated amortization on those awards. If and when the attainment of such performance targets is deemed probable in future periods, a catch-up adjustment will be recorded and amortization of such performance-based restricted stock will begin again. The total amount of unrecognized compensation expense related to all performance-based restricted stock for which amortization was suspended or never started totaled \$33.8 million at March 31, 2011. The unvested performance-based restricted stock awarded in 2006 expires in 2013. The unvested performance-based restricted stock awarded in 2007 and 2008 expires in 2017. The unvested performance-based restricted stock awarded in 2011 expires in 2016. Restricted stock amortization totaled \$2.0 million, \$1.9 million and \$2.3 million for the three months ended March 31, 2011, December 31, 2010, and March 31, 2010, respectively. Such amounts are included in compensation expense on the accompanying condensed consolidated statements of earnings (loss).

The Company's 2003 Plan permits stock based compensation awards to officers, directors, key employees and consultants. The 2003 Plan authorizes grants of stock-based compensation instruments to purchase or issue up to 5,000,000 shares of authorized but unissued Company common stock, subject to adjustments provided by the 2003 Plan. As of March 31, 2011, there were 618,643 shares available for grant under the 2003 Plan.

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PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

NOTE 12 RECENT ACCOUNTING PRONOUNCEMENTS

In January 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2011-01, "*Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20.*" ASU 2011-01 temporarily deferred the effective date for disclosures related to troubled debt restructurings in paragraphs 310-10-50-31 through 50-34 of ASU 2010-20, "*Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses,*" to be concurrent with the effective date of proposed guidance to be issued at a later date in identifying a troubled debt restructuring. This guidance was issued by the FASB in April 2011 as ASU 2011-02, "*A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring.*" ASU 2011-02 clarifies the guidance in determining whether a creditor has granted a concession and whether a debtor is experiencing financial difficulties for purposes of determining whether a debt restructuring constitutes a troubled debt restructuring. ASU 2011-02 is effective for the first interim or annual period beginning on or after June 15, 2011 and should be applied retrospectively to the beginning of the annual period of adoption. The troubled debt restructuring disclosure information required by paragraphs 310-10-50-33 through 50-34 of ASU 2010-20 is effective for the interim and annual period beginning on or after June 15, 2011. We have not as yet determined what effect, if any, adoption of this standard will have on our financial statements and related disclosures.

NOTE 13 SUBSEQUENT EVENTS

We have evaluated events that have occurred subsequent to March 31, 2011 and have concluded there are no subsequent events that would require recognition or disclosure in the accompanying condensed consolidated financial statements.

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

Forward-Looking Information

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

lower than expected revenues;

credit quality deterioration or pronounced and sustained reduction in real estate market values could cause an increase in the allowance for credit losses and a reduction in earnings;

increased competitive pressure among depository institutions;

the Company's ability to complete future acquisitions and to successfully integrate such acquired entities or achieve expected benefits, synergies and/or operating efficiencies within expected time-frames or at all;

the possibility that personnel changes will not proceed as planned;

the cost of additional capital is more than expected;

a change in the interest rate environment reduces interest margins;

asset/liability repricing risks and liquidity risks;

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

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

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

the economic and regulatory effects of the continuing war on terrorism and other events of war, including the conflicts in Iraq, Afghanistan, and neighboring countries;

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

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changes in the securities markets; and

regulatory approvals for any capital activities cannot be obtained on the terms expected or on the anticipated schedule.

If any of these risks or uncertainties materializes, or if any of the assumptions underlying such forward-looking statements proves to be incorrect, our results could differ materially from those expressed in, implied or projected by, such forward-looking statements. The Company assumes no obligation to update such forward-looking statements.

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Overview

We are a bank holding company registered under the Bank Holding Company Act of 1956, as amended. Our principal business is to serve as the holding company for our subsidiary bank, Pacific Western Bank, which we refer to as Pacific Western or the Bank.

Pacific Western is a full-service commercial bank offering a broad range of banking products and services including: accepting time, money market, and demand deposits; originating loans, including commercial, real estate construction, SBA-guaranteed and consumer loans; and providing other business-oriented products. Although our operations are primarily located in Southern California, we expanded our presence in California's Central Coast with the FDIC-assisted acquisition of Los Padres Bank on August 20, 2010. The Bank focuses on conducting business with small to medium-sized businesses in our marketplace and the owners and employees of those businesses. The majority of our loans are secured by the real estate collateral of such businesses. We acquired through FDIC-assisted acquisitions three banking offices in the San Francisco Bay area and one office in Arizona. Our asset-based lending function operates in Arizona, California, Texas, and the Pacific Northwest.

Pacific Western competes actively for deposits, and emphasizes solicitation of noninterest-bearing deposits. In managing the top line of our business, we focus on quality loan growth and loan yield, deposit cost, and net interest margin, as net interest income, on a year-to-date basis, accounts for 80% of our net revenues (net interest income plus noninterest income).

During the three months ended March 31, 2011, our assets declined \$58.5 million, or 1.1%, to \$5.5 billion. This was primarily due to a decrease in our total loans of \$152.5 million on a net basis, including a \$103.4 million reduction in our non-covered loans. The loan portfolio continues to decline generally due to repayments, resolution activities, and low demand. The decline in total assets was offset partially by an increase of \$85.0 million in cash and cash equivalents, which included a \$78.6 million increase in overnight funds held at the Federal Reserve Bank. Additionally, investment securities available-for-sale grew \$13.1 million due to the purchase of \$71.1 million in government-sponsored entity pass-through securities, offset partially by principal reductions.

During the three months ended March 31, 2011, our deposits declined \$65.0 million, or 1.4%, to \$4.6 billion. This was primarily due to a reduction of \$118.1 million in time deposits, attributable primarily to maturities of brokered deposits and runoff of higher cost acquired time deposit accounts. The decline in deposits was offset partially by an increase of \$53.1 million in core deposits, which include noninterest-bearing demand, interest checking, money market, and savings accounts. The growth in core deposits was driven by a \$140.6 million increase in noninterest-bearing demand accounts to \$1.6 billion at March 31, 2011, which represented 35% of total deposits at that date.

Key Performance Indicators

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

The Level of Our Net Interest Income

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

Our primary interest-earning asset is loans. Our primary interest-bearing liabilities include deposits, borrowings, and subordinated debentures. We attribute our high net interest margin to our high level of noninterest-bearing deposits and low cost of deposits. While our deposit balances will fluctuate depending on deposit holders' perceptions of alternative yields available in the market, we attempt to minimize these variances by attracting a high percentage of noninterest-bearing deposits, which have no

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expectation of yield. At March 31, 2011, approximately 35% of our total deposits were noninterest-bearing.

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

Loan Growth

We generally seek new lending opportunities in the \$500,000 to \$10 million range, try to limit loan maturities for commercial loans to one year, for construction loans up to 18 months, and for commercial real estate loans up to ten years, and to price lending products so as to preserve our interest spread and net interest margin. We sometimes encounter strong competition in pursuing lending opportunities such that potential borrowers obtain loans elsewhere at lower rates than those we offer. We have continued to reduce our exposure to residential construction and foreign loans, including limiting the amount of new loans in these categories. Our ability to make new loans is dependent on economic factors in our market area, borrower qualifications, competition, and liquidity, among other items. Loan growth has been affected by weak demand in Southern California. We continue to seek out quality loan opportunities.

The Magnitude of Credit Losses

We stress credit quality in originating and monitoring the loans we make and measure our success by the levels of our nonperforming assets, net charge-offs and allowance for credit losses. Our allowance for credit losses is the sum of our allowance for loan losses and our reserve for unfunded loan commitments and relates only to our non-covered loans. Provisions for credit losses are charged to operations as and when needed for both on and off balance sheet credit exposure. Loans which are deemed uncollectible are charged off and deducted from the allowance for loan losses. Recoveries on loans previously charged off are added to the allowance for loan losses. During the three months ended March 31, 2011, we made a provision for credit losses totaling \$13.5 million composed of \$7.8 million on non-covered loans and \$5.7 million on covered loans. The provision for credit losses on the non-covered loan portfolio was based on our allowance methodology and reflected net charge-offs, the levels and trends of nonaccrual and classified loans, and the migration of loans into various risk classifications. The provision for credit losses on the covered loan portfolio reflected decreases in expected cash flows on covered loans compared to those previously estimated.

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

The Level of Our Noninterest Expense

Our noninterest expense includes fixed and controllable overhead, the major components of which are compensation, occupancy, data processing, other professional service fees and communications expense. We measure success in controlling such costs through monitoring of the efficiency ratio. We calculate the efficiency ratio by dividing noninterest expense by net revenues (the sum of net interest

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income plus noninterest income). Accordingly, a lower percentage reflects lower operating expenses relative to net revenue.

The consolidated operating efficiency ratios have been as follows:

Three Months Ended:	Efficiency Ratio
March 31, 2011	56.4%
December 31, 2010	67.4%
September 30, 2010	60.8%
June 30, 2010	61.4%
March 31, 2010	63.8%

The decline in the efficiency ratio for the first quarter of 2011 reflects lower noninterest expense for that period. This was due mostly to decreases in compensation expense, covered OREO costs, and other expense for the first quarter of 2011 compared to the fourth quarter of 2010. Compensation expense decreased due mainly to a higher discretionary bonus accrual in the prior quarter. Covered OREO costs decreased due principally to a gain on sale of one commercial real estate property during the current quarter. Other expense declined due mostly to a penalty recorded in the prior quarter for the early repayment of \$50 million in FHLB advances; there was no similar expense item in the current quarter.

The increase in the efficiency ratio for the fourth quarter of 2010 was due mostly to lower FDIC loss sharing income as covered loan credit costs declined and certain covered loans, which are carried at a discount, were resolved at amounts above their carrying values.

Critical Accounting Policies

The Company's accounting policies are fundamental to understanding management's discussion and analysis of results of operations and financial condition. The Company has identified several policies as being critical because they require management to make particularly difficult, subjective and/or complex judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts would be reported under different conditions or using different assumptions. These policies relate to the allowances for credit losses and the carrying values of intangible assets and deferred income tax assets. For further information, refer to our Annual Report on Form 10-K for the year ended December 31, 2010.

Results of Operations

Non-GAAP Measurements

Certain discussion in this Form 10-Q contains non-GAAP financial disclosures for tangible common equity and pre-credit, pre-tax earnings. 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. Given the use of tangible capital amounts and ratios is prevalent among banking regulators, investors and analysts, we disclose our tangible capital ratios in addition to equity-to-assets ratios. Also, as analysts and investors view pre-credit, pre-tax earnings as an indicator of the Company's ability to absorb credit losses, we disclose this amount in addition to net earnings. The methodology of determining tangible common equity and pre-credit, pre-tax earnings may differ among companies.

These non-GAAP financial measures are presented for supplemental informational purposes only for understanding the Company's operating results and should not be considered a substitute for financial information presented in accordance with United States generally accepted accounting principles (GAAP). The following table presents performance amounts and ratios in accordance with

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GAAP and a reconciliation of the non-GAAP financial measurements to the GAAP financial measurements.

GAAP to Non-GAAP Reconciliations	March 31, 2011	December 31, 2010	March 31, 2010
(Dollars in thousands)			
PacWest Bancorp Consolidated:			
Net earnings (loss)	\$ 10,676	\$ (7,688)	\$ (60,533)
Plus: Total provision for credit losses	13,547	37,411	133,227
Other real estate owned expense			
(income):			
Non-covered	703	1,093	8,441
Covered	(2,578)	699	2,169
Income tax expense (benefit)	7,742	(5,841)	(43,972)
Less: FDIC loss sharing income			
(expense), net	1,667	(1,277)	16,172
Pre-credit, pre-tax earnings	\$ 28,423	\$ 26,951	\$ 23,160
Stockholders' equity	\$ 491,360	\$ 478,797	\$ 474,844
Less: intangible assets	70,287	73,144	30,872
Tangible common equity	\$ 421,073	\$ 405,653	\$ 443,972
Total assets	\$ 5,470,517	\$ 5,529,021	\$ 5,203,217
Less: intangible assets	70,287	73,144	30,872
Tangible assets	\$ 5,400,230	\$ 5,455,877	\$ 5,172,345
Equity to assets ratio	8.98%	8.66%	9.13%
Tangible common equity ratio ⁽¹⁾	7.80%	7.44%	8.58%
Pacific Western Bank:			
Stockholder's equity	\$ 584,418	\$ 570,118	\$ 559,909
Less: intangible assets	70,287	73,144	30,872
Tangible common equity	\$ 514,131	\$ 496,974	\$ 529,037
Total assets	\$ 5,453,971	\$ 5,513,601	\$ 5,192,003
Less: intangible assets	70,287	73,144	30,872
Tangible assets	\$ 5,383,684	\$ 5,440,457	\$ 5,161,131
Equity to assets ratio	10.72%	10.34%	10.78%
Tangible common equity ratio ⁽¹⁾	9.55%	9.13%	10.25%

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

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Summarized financial information for the periods indicated are as follows:

	March 31, 2011	Three Months Ended December 31, 2010	March 31, 2010
(Dollars in thousands, except per share data)			
Earnings Summary:			
Interest income	\$ 74,657	\$ 77,898	\$ 68,995
Interest expense	(8,919)	(9,378)	(10,972)
Net interest income	65,738	68,520	58,023
Provision for credit losses:			
Non-covered loans	(7,800)	(35,315)	(112,527)
Covered loans	(5,747)	(2,096)	(20,700)
Total provision for credit losses	(13,547)	(37,411)	(133,227)
FDIC loss sharing income (expense), net	1,667	(1,277)	16,172
Other noninterest income	5,959	5,925	5,097
Noninterest expense	(41,399)	(49,286)	(50,570)
Income tax (expense) benefit	(7,742)	5,841	43,972
Net earnings (loss)	\$ 10,676	\$ (7,688)	\$ (60,533)
Profitability Measures:			
Earnings (loss) per share:			
Basic	\$ 0.29	\$ (0.22)	\$ (1.76)
Diluted	\$ 0.29	\$ (0.22)	\$ (1.76)
Annualized return (loss) on:			
Average assets	0.79%	(0.53)%	(4.70)%
Average equity	8.97%	(6.15)%	(48.54)%
Net interest margin	5.34%	5.21%	4.90%
Efficiency ratio	56.4%	67.4%	63.8%

First Quarter of 2011 Compared to Fourth Quarter of 2010

Net earnings for the first quarter of 2011 were \$10.7 million, or \$0.29 per diluted share, compared to a net loss of \$7.7 million, or \$0.22 per diluted share, for the fourth quarter of 2010. The \$18.4 million increase in net earnings for the linked quarters was due mostly to a lower credit loss provision and lower noninterest expense. The provision for credit losses on the non-covered loans for the fourth quarter of 2010 included \$14.3 million attributed to the sale in December 2010 of \$74.9 million in non-covered classified loans for \$54.0 million in cash.

First Quarter of 2011 Compared to First Quarter of 2010

Net earnings for the first quarter of 2011 increased \$71.2 million from the net loss of \$60.5 million, or \$1.76 per diluted share, for the first quarter of 2010 due primarily to a lower credit loss provision. The provision for credit losses on the non-covered loans for the first quarter of 2010 included \$71.4 million attributed to the sale in February 2010 of \$323.6 million in non-covered classified loans for \$200.6 million in cash.

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Net Interest Income

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

	March 31, 2011			December 31, 2010			March 31, 2010		
	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, net of unearned income ⁽¹⁾⁽²⁾	\$ 3,992,204	\$ 66,781	6.78%	\$ 4,216,088	\$ 70,597	6.64%	\$ 4,122,853	\$ 63,745	6.27%
Investment securities ⁽¹⁾	913,613	7,819	3.47%	886,392	7,222	3.23%	469,732	5,121	4.42%
Deposits in financial institutions	89,248	57	0.26%	116,721	79	0.27%	206,887	129	0.25%
Total interest-earning assets	4,995,065	\$ 74,657	6.06%	5,219,201	\$ 77,898	5.92%	4,799,472	\$ 68,995	5.83%
Other assets	515,717			531,829			418,517		
Total assets	\$ 5,510,782			\$ 5,751,030			\$ 5,217,989		
LIABILITIES AND STOCKHOLDERS' EQUITY									
Interest checking deposits	\$ 495,950	\$ 268	0.22%	\$ 494,313	\$ 272	0.22%	\$ 434,446	\$ 393	0.37%
Money market deposits	1,240,524	1,734	0.57%	1,305,199	1,954	0.59%	1,166,688	2,868	1.00%
Savings deposits	141,027	69	0.20%	139,228	70	0.20%	110,564	58	0.21%
Time deposits	1,167,468	3,885	1.35%	1,327,869	3,732	1.12%	1,045,417	3,570	1.38%
Total interest-bearing deposits	3,044,969	5,956	0.79%	3,266,609	6,028	0.73%	2,757,115	6,889	1.01%
Borrowings	227,122	1,744	3.11%	272,848	2,113	3.07%	445,754	2,668	2.43%
Subordinated debentures	129,545	1,219	3.82%	129,621	1,237	3.79%	129,780	1,415	4.42%
Total interest-bearing liabilities	3,401,636	\$ 8,919	1.06%	3,669,078	\$ 9,378	1.01%	3,332,649	\$ 10,972	1.34%
Noninterest-bearing demand deposits	1,582,720			1,538,748			1,332,862		
Other liabilities	43,501			47,002			46,756		
Total liabilities	5,027,857			5,254,828			4,712,267		
Stockholders' equity	482,925			496,202			505,722		
Total liabilities and stockholders' equity	\$ 5,510,782			\$ 5,751,030			\$ 5,217,989		
Net interest income		\$ 65,738			\$ 68,520			\$ 58,023	
Net interest rate spread			5.00%			4.91%			4.49%
Net interest margin			5.34%			5.21%			4.90%

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- (1) Includes nonaccrual loans and loan fees.
- (2) Yields on loans and securities have not been adjusted to a tax-equivalent basis because the impact is not material.

First Quarter of 2011 Compared to Fourth Quarter of 2010

Net interest income was \$65.7 million for the first quarter of 2011 compared to \$68.5 million for the fourth quarter of 2010. The \$2.8 million decline was due mostly to a \$3.2 million reduction in interest income attributable to lower average loans as a result of the \$74.9 million classified loan sale in the fourth quarter and the continued decrease in the loan portfolio from loan payoffs. Partially

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offsetting the decline in net interest income was a reduction in interest expense of \$459,000 due mainly to the early repayment of \$50 million in FHLB advances during the fourth quarter of 2010.

Our net interest margin for the first quarter of 2011 was 5.34%, an increase of 13 basis points from the 5.21% posted for the fourth quarter of 2010. The yield on average loans was 6.78% for the first quarter of 2011 compared to 6.64% for the prior quarter. The loan yield, earning asset yield and net interest margin are all affected by loans being placed on or removed from nonaccrual status and the acceleration of purchase discounts on covered loan disposals; the net interest margin for the first quarter of 2011 and fourth quarter of 2010 was positively impacted by 22 and 16 basis points, respectively, from the combination of these items. The cost of interest-bearing deposits and all-in deposit cost increased six and two basis points to 0.79% and 0.52%, respectively, due mostly to an increase in the cost of time deposits. The cost of time deposits increased primarily from lower discount accretion on certain acquired time deposits, the maturities of brokered deposits having a lower rate than the overall time deposit rate, and an increase in the average remaining life of the time deposit portfolio.

First Quarter of 2011 Compared to First Quarter of 2010

Net interest income grew \$7.7 million during the first quarter of 2011 compared to the same quarter of 2010. The increase was due to higher interest income of \$5.7 million and lower interest expense of \$2.0 million. The growth in interest income was attributable to a higher yield on average loans and a higher average balance of investment securities due to the purchases of securities during 2011 and 2010 to deploy excess cash. Interest expense declined primarily due to a lower rate on average deposits and a reduction in average borrowings.

The net interest margin grew 44 basis points to 5.34% for the first quarter of 2011 compared to 4.90% for the same period last year. The increase was due mostly to a higher yield on average loans and lower interest expense as described above. The yield on average loans grew 51 basis points to 6.78% for the first quarter of 2011 from 6.27% from the first quarter of 2010. The cost of interest-bearing deposits and all-in deposit cost decreased 22 and 16 basis points to 0.79% and 0.52%, respectively.

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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 periods indicated:

	March 31, 2011	December 31, 2010	September 30, 2010	June 30, 2010	March 31, 2010
	Three Months Ended				
	(In thousands)				
Provision For Credit Losses:					
Addition to allowance for loan losses	\$ 7,800	\$ 34,390	\$ 17,271	\$ 14,345	\$ 112,872
Addition (reduction) to reserve for unfunded loan commitments		925	(221)	(245)	(345)
Total provision for non-covered loans	7,800	35,315	17,050	14,100	112,527
Provision for covered loans	5,747	2,096	7,400	8,850	20,700
Total provision for credit losses	\$ 13,547	\$ 37,411	\$ 24,450	\$ 22,950	\$ 133,227
Allowance for Credit Losses Data:					
Net charge-offs on non-covered loans	\$ 7,889	\$ 32,231	\$ 9,240	\$ 12,045	\$ 145,426
Charge-offs on non-covered loans sold		20,942			123,705
Annualized net charge-off ratios:					
Net charge-offs to non-covered average loans	1.03%	3.90%	1.09%	1.50%	16.81%
Net charge-offs, excluding charge-offs on loans sold, to non-covered average loans	1.03%	1.37%	1.09%	1.50%	2.51%
At Period End:					
Allowance for loan losses	\$ 98,564	\$ 98,653	\$ 96,494	\$ 88,463	\$ 86,163
Allowance for credit losses	104,239	104,328	101,244	93,434	91,379
Allowance for credit losses to non-covered loans, net of unearned income	3.41%	3.30%	3.05%	2.93%	2.81%
Allowance for credit losses to non-covered nonaccrual loans	135.6%	110.8%	95.9%	86.3%	91.5%

The amount of the provision for credit losses in a reporting period is a charge against earnings in that reporting period. We have a provision for credit losses on our non-covered loans and a provision for credit losses on our covered loans. The provision for credit losses on our non-covered loans is based on our allowance methodology and is an expense that, in our judgment, is required to maintain the adequacy of the allowance for loan losses and the reserve for unfunded loan commitments. Our allowance methodology reflects net charge-offs and the levels and trends of nonaccrual and classified loans and the migration of loans into various risk classifications. The provision for credit losses on our covered loans reflects decreases in expected cash flows on covered loans compared to those previously estimated.

We made provisions for credit losses totaling \$13.5 million during the first quarter of 2011 compared to \$37.4 million for the fourth quarter of 2010 and \$133.2 million for the first quarter of 2010. The provision related to non-covered loans totaled \$7.8 million for the first quarter of 2011; this compares to \$35.3 million for the fourth quarter of 2010, which included \$14.3 million attributed to the December 2010 classified loan sale, and \$112.5 million for the first quarter of 2010, which included \$71.4 million attributed to the February 2010 classified loan sale. Net non-covered loan charge-offs were \$7.9 million for the first quarter of 2011; this compares to \$32.2 million for the fourth quarter of

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2010 and \$145.4 million for the first quarter of 2010. The fourth and first quarters of 2010 included charge-offs from the classified loans sold during those quarters of \$20.9 million and \$123.7 million, respectively.

The allowance for credit losses on non-covered loans was \$104.2 million as of March 31, 2011 and represented 3.41% of the non-covered loan balances at that date. This compares to an allowance for credit losses on non-covered loans of \$104.3 million, or 3.30% of non-covered loans, as of December 31, 2010 and an allowance for credit losses on non-covered loans of \$91.4 million, or 2.81% of non-covered loans, as of March 31, 2010. The economic downturn has negatively impacted our borrowers and the collateral values underlying our loans. A protracted economic down cycle will increase the stress on our loan portfolio and we may experience increased levels of charge-offs and provisions and may maintain a higher level of allowance for credit losses.

During the first quarter of 2011, we recorded a \$5.7 million provision for credit losses on the covered loan portfolio based on current quarter analysis of acquired loans, which indicated a decrease in expected cash flows from previous estimates. Under the terms of our loss sharing agreements with the FDIC, the FDIC will absorb 80% of the losses on the covered loans. As a result, we recorded \$4.6 million in FDIC loss sharing income related to this provision.

Increased provisions for credit losses may be required in the future based on loan and unfunded commitment growth, the effect changes in economic conditions, such as inflation, unemployment, market interest rate levels, and real estate values may have on the ability of our borrowers to repay their loans, and other negative conditions specific to our borrowers' businesses. See further discussion in Balance Sheet Analysis *Allowance for Credit Losses on Non-Covered Loans* and *Allowance for Credit Losses on Covered Loans* contained herein.

Noninterest Income.

The following table summarizes noninterest income by category for the periods indicated:

	Three Months Ended		
	March 31, 2011	December 31, 2010	March 31, 2010
(In thousands)			
Service charges on deposit accounts	\$ 3,558	\$ 3,305	\$ 2,729
Other commissions and fees	1,720	1,896	1,790
Other-than-temporary impairment loss on securities			
Increase in cash surrender value of life insurance	379	320	398
FDIC loss sharing income (expense), net	1,667	(1,277)	16,172
Other income	302	404	180
Total noninterest income	\$ 7,626	\$ 4,648	\$ 21,269

First Quarter of 2011 Compared to Fourth Quarter of 2010 and First Quarter of 2010

Noninterest income for the first quarter of 2011 totaled \$7.6 million compared to \$4.6 million for the fourth quarter of 2010 and \$21.3 million for the first quarter of 2010. The \$3.0 million increase in noninterest income for the first quarter of 2011 compared to the prior quarter was due mostly to higher FDIC loss sharing income stemming from higher credit-related net costs on covered loans and OREO. Contributing to the growth in noninterest income was an increase in service charges on deposit accounts attributable to mid-quarter increases in rates charged for certain deposit services. The \$13.6 million decline in noninterest income for the first quarter of 2011 compared to the same period last year was due primarily to the \$14.5 million reduction in FDIC loss sharing income, net, attributable to a decrease in credit-related net costs on covered loans and OREO. Service charges on deposit accounts increased due to both the increase in service charge rates implemented during the fourth quarter of 2010 and the first quarter of 2011 and a higher number of accounts as a result of the Los Padres acquisition and organic growth.

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The following table summarizes noninterest expense by category for the periods indicated:

	Three Months Ended		
	March 31, 2011	December 31, 2010	March 31, 2010
	(Dollars in thousands)		
Compensation	\$ 21,929	\$ 23,944	\$ 19,411
Occupancy	6,983	7,233	6,958
Data processing	2,475	2,556	1,969
Other professional services	2,296	1,833	1,998
Business development	569	570	667
Communications	859	919	804
Insurance and assessments	2,337	2,369	2,274
Non-covered other real estate owned, net	703	1,093	8,441
Covered other real estate owned, net	(2,578)	699	2,169
Intangible asset amortization	2,307	2,360	2,424
Other expense	3,519	5,710	3,455
Total noninterest expense	\$ 41,399	\$ 49,286	\$ 50,570
Efficiency ratio	56.4%	67.4%	63.8%

First Quarter of 2011 Compared to Fourth Quarter of 2010

Noninterest expense totaled \$41.4 million for the first quarter of 2011 compared to \$49.3 million for the fourth quarter of 2010. The \$7.9 million decline was due mostly to decreases in compensation expense, covered OREO costs, and other expense. Compensation expense decreased by \$2.0 million, due mostly to a higher discretionary bonus accrual in the prior quarter. Covered OREO costs decreased by \$3.3 million due principally to a gain on sale of one commercial real estate property during the current quarter. Other expense declined by \$2.2 million due mostly to a \$1.9 million penalty recorded in the prior quarter for the early repayment of \$50 million in FHLB advances; there was no similar expense item in 2011. We consolidated five acquired Los Padres branches into nearby branch locations in February 2011 contributing to the lower occupancy costs.

Noninterest expense includes amortization of time-based restricted stock, which is included in compensation, and intangible asset amortization, which is for core deposit and customer relationship intangible assets. Amortization of restricted stock totaled \$2.0 million for the first quarter of 2011 compared to \$1.9 million for the fourth quarter of 2010. Intangible asset amortization totaled \$2.3 million and \$2.4 million for the first quarter of 2011 and fourth quarter of 2010, respectively.

First Quarter of 2011 Compared to First Quarter of 2010

Noninterest expense declined \$9.2 million for the first quarter of 2011 compared to the same period of 2010 due mostly to lower OREO costs of \$12.4 million. Non-covered OREO costs decreased by \$7.7 million due primarily to lower write-downs. Covered OREO costs decreased by \$4.7 million due mostly to higher gains on sale and lower write-downs. Generally, all of the other expense categories increased reflecting the additional overhead associated with the Los Padres acquisition.

Income Taxes

The effective tax rate for the first quarter of 2011 was 42.0% compared to 43.2% for the fourth quarter of 2010. The difference in effective tax rates between the periods relates mainly to the level of tax credits and tax deductions and the amount of tax exempt income recorded.

Table of Contents**Balance Sheet Analysis***Non-Covered Loans*

The following table presents the balance of each major category of non-covered loans at the dates indicated:

Loan Category	March 31, 2011		December 31, 2010		September 30, 2010		June 30, 2010	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
(Dollars in thousands)								
Domestic:								
Real estate mortgage	\$ 2,172,923	71%	\$ 2,274,733	72%	\$ 2,368,943	71%	\$ 2,229,331	70%
Commercial	667,401	22	663,557	21	708,329	21	709,075	22
Real estate construction	176,758	5	179,479	5	192,595	6	194,181	6
Consumer	21,815	1	25,058	1	28,328	1	30,323	1
Foreign:								
Commercial	21,808	1	21,057	1	22,948	1	25,309	1
Other, including real estate	1,488		1,551		1,595		1,637	
Total gross non-covered loans	3,062,193	100%	3,165,435	100%	3,322,738	100%	3,189,856	100%
Less: unearned income	(4,539)		(4,380)		(4,329)		(4,831)	
Less: allowance for loan losses	(98,564)		(98,653)		(96,494)		(88,463)	
Total net non-covered loans	\$ 2,959,090		\$ 3,062,402		\$ 3,221,915		\$ 3,096,562	

Gross non-covered loans declined \$103.2 million during the first quarter of 2011. Real estate mortgage loans and real estate construction loans decreased \$101.8 million and \$2.7 million, respectively, while commercial loans increased \$3.8 million. The non-covered loan portfolio continues to decline as a result of repayments, foreclosures, charge-offs and the stagnant economy which causes both a low demand for loans and fewer acceptable lending opportunities.

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The following table presents the composition of our non-covered real estate mortgage loan portfolio:

Loan Category	March 31, 2011		December 31, 2010	
	Balance	% of Total	Balance	% of Total
(Dollars in thousands)				
Commercial real estate mortgage:				
Industrial/warehouse	\$ 393,000	18.1%	\$ 432,263	19.0%
Retail	337,149	15.5%	374,027	16.4%
Office buildings	332,233	15.3%	350,192	15.4%
Owner-occupied	276,631	12.7%	263,603	11.6%
Hotel	149,928	6.9%	156,614	6.9%
Healthcare	106,061	4.9%	102,227	4.5%
Mixed use	57,624	2.7%	57,230	2.5%
Gas station	36,227	1.7%	38,502	1.7%
Self storage	26,312	1.2%	26,432	1.2%
Restaurant	24,166	1.1%	26,463	1.2%
Land acquisition/development	9,602	0.4%	9,649	0.4%
Unimproved land	1,519	0.1%	1,494	0.1%
Other	248,558	11.4%	250,068	11.0%
Total commercial real estate mortgage	1,999,010	92.0%	2,088,764	91.8%
Residential real estate mortgage:				
Multi-family	75,775	3.5%	81,880	3.6%
Single family owner-occupied	37,230	1.7%	38,025	1.7%
Single family nonowner-occupied	23,070	1.1%	26,618	1.2%
HELOCs	37,838	1.7%	38,823	1.7%
Unimproved land		0.0%	623	0.0%
Total residential real estate mortgage	173,913	8.0%	185,969	8.2%
Total gross non-covered real estate mortgage loans	\$ 2,172,923	100.0%	\$ 2,274,733	100.0%

The largest subset of the "Other" commercial real estate mortgage category is for fixed base operators at airports with a balance of \$38.4 million, or 15.4% of the total in "Other".

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The following table presents the composition of our non-covered real estate construction loan portfolio:

Loan Category	March 31, 2011		December 31, 2011	
	Balance	% of Total	Balance	% of Total
(Dollars in thousands)				
Commercial real estate construction:				
Retail	\$ 21,129	12.0%	\$ 20,378	11.4%
Industrial/warehouse	7,987	4.5%	11,329	6.3%
Office buildings	11,131	6.3%	3,805	2.1%
Owner-occupied	2,000	1.1%	2,000	1.1%
Healthcare		0.0%	4,305	2.4%
Self storage	19,151	10.8%	13,191	7.3%
Land acquisition/development	34,963	19.8%	16,983	9.5%
Unimproved land	33,870	19.2%	26,032	14.5%
Other	4,499	2.5%	9,062	5.0%
Total commercial real estate construction	134,730	76.2%	107,085	59.7%
Residential real estate construction:				
Multi-family	23,296	13.2%	26,474	14.8%
Single family owner-occupied	9	0.0%		0.0%
Single family nonowner-occupied	1,055	0.6%	1,026	0.6%
Land acquisition/development	3,240	1.8%	1,482	0.8%
Unimproved land	14,428	8.2%	43,412	24.2%
Total residential real estate construction	42,028	23.8%	72,394	40.3%
Total gross non-covered real estate construction loans	\$ 176,758	100.0%	\$ 179,479	100.0%

Covered Loans

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

Loan Category	March 31,	December 31,
	2011	2010
(In thousands)		
Multi-family	\$ 299,832	\$ 321,650
Commercial real estate	430,160	444,244
Single family	151,281	157,424
Construction and land	82,992	87,301
Commercial and industrial	24,583	34,828
Home equity lines of credit	5,811	5,916
Consumer	724	1,378
Total gross covered loans	995,383	1,052,741
Less: discount	(106,512)	(110,901)
Covered loans, net of discount	888,871	941,840
Less: allowance for loan losses	(29,438)	(33,264)
Covered loans, net	\$ 859,433	\$ 908,576

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The above loans are subject to a loss sharing agreements with the FDIC under which we will be reimbursed for a substantial portion of any future losses on them. Under the terms of the Los Padres loss sharing agreement, the FDIC will absorb 80% of losses and receive 80% of loss recoveries on covered assets. The loss sharing arrangement for single family and commercial (non-single family) covered assets is in effect for 10 years and 5 years, respectively, from the August 20, 2010 acquisition date and the loss recovery provisions are in effect for 10 years and 8 years, respectively, from the acquisition date. Under the terms of the Affinity loss sharing agreement, the FDIC will absorb 80% of losses and receive 80% of loss recoveries on the first \$234 million of losses on covered assets and absorb 95% of losses and receive 95% of loss recoveries on covered assets exceeding \$234 million. The loss sharing agreement is in effect for 5 years for commercial assets (non-residential loans, OREO, and certain securities) and 10 years for residential loans from the August 28, 2009 acquisition date. The loss recovery provisions are in effect for 8 years for commercial assets and 10 years for residential loans from the acquisition date.

Allowance for Credit Losses on Non-Covered Loans

The allowance for credit losses on non-covered loans is the combination of the allowance for loan losses and the reserve for unfunded loan commitments. The allowance for credit losses on non-covered loans relates only to loans which are not subject to the loss sharing agreement with the FDIC. The allowance for loan losses is reported as a reduction of outstanding loan balances and the reserve for unfunded loan commitments is included within other liabilities on the condensed consolidated balance sheets. Generally, as loans are funded, the amount of the commitment reserve applicable to such funded loans is transferred from the reserve for unfunded loan commitments to the allowance for loan losses based on our allowance methodology. The following discussion is for non-covered loans and the allowance for credit losses thereon. Refer to Balance Sheet Analysis *Allowance for Credit Losses on Covered Loans* for the policy on covered loans.

At March 31, 2011, the allowance for credit losses on non-covered loans totaled \$104.2 million, a \$100,000 decrease from the allowance at December 31, 2010 and was comprised of the allowance for loan losses of \$98.5 million and the reserve for unfunded loan commitments of \$5.7 million. During the three months ended March 31, 2011, the Company recorded \$7.9 million in net charge-offs and a provision for credit losses of \$7.8 million.

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

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

Specifically, our allowance methodology contains three key elements: (i) amounts based on specific evaluations of impaired loans; (ii) amounts of estimated losses on several pools of loans categorized by risk rating and loan type; and (iii) amounts for environmental and general economic factors that indicate probable losses were incurred but were not captured through the other elements of our allowance process.

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Impaired loans are identified at each reporting date based on certain criteria and individually reviewed for impairment. A loan is considered impaired when it is probable that a creditor will be unable to collect all amounts due according to the original contractual terms of the loan agreement. We measure impairment of a loan based upon the fair value of the loan's collateral if the loan is collateral dependent or the present value of cash flows, discounted at the loan's effective interest rate, if the loan is not collateral-dependent. The impairment amount on a collateral-dependent loan is charged-off to the allowance and the impairment amount on a loan that is not collateral-dependent is set up as a specific reserve. Increased charge-offs or additions to specific reserves generally result in increased provisions for credit losses.

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

Special Mention: Loans 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.

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

For further information on classified loans, see Note 4 of the Notes to Consolidated Financial Statements contained in "Item 1. Condensed Consolidated Financial Statements (Unaudited)."

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

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

We recognize the determination of the allowance for loan losses is sensitive to the assigned credit risk ratings and inherent loss rates at any given point in time. Therefore, we perform sensitivity analyses to provide insight regarding the impact adverse changes in credit risk ratings may have on our allowance for loan losses. The sensitivity analyses have inherent limitations and are based on various assumptions as of a point in time and, accordingly, it is not necessarily representative of the impact loan risk rating changes may have on the allowance for loan losses. At March 31, 2011, in the event that 1% of our non-covered loans were downgraded one credit risk rating category for each category (e.g., 1% of the "pass" category moved to the "special mention" category, 1% of the "special mention"

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category moved to "substandard" category, and 1% of the "substandard" category moved to the "doubtful" category within our current allowance methodology), the allowance for credit losses would have increased by approximately \$2.1 million. In the event that 5% of our non-covered loans were downgraded one credit risk category, the allowance for credit losses would increase by approximately \$10.6 million. Given current processes employed by the Company, management believes the credit risk ratings and inherent loss rates currently assigned are appropriate. It is possible that others, given the same information, may at any point in time reach different conclusions that could be significant to the Company's financial statements. In addition, current credit risk ratings are subject to change as we continue to review loans within our portfolio and as our borrowers are impacted by economic trends within their market areas.

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

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

The following table presents information regarding the allowance for credit losses on non-covered loans as of the dates indicated:

	March 31, 2011	December 2010	March 31, 2010
	(Dollars in thousands)		
Allowance for loan losses	\$ 98,564	\$ 98,653	\$ 86,163
Reserve for unfunded loan commitments	5,675	5,675	5,216
Total allowance for credit losses	\$ 104,239	\$ 104,328	\$ 91,379
Allowance for credit losses to loans, net of unearned income	3.41%	3.30%	2.81%
Allowance for credit losses to nonaccrual loans	135.6%	110.8%	91.5%
Allowance for credit losses to nonperforming assets	83.2%	87.1%	70.5%

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The following table presents the changes in our allowance for credit losses on non-covered loans for the periods indicated:

	Three Months Ended March 31, 2011	Three Months Ended December 31, 2010	Year Ended December 31, 2010	Three Months Ended March 31, 2010
(In thousands)				
Allowance for credit losses, beginning of period	\$ 104,328	\$ 101,244	\$ 124,278	\$ 124,278
Provision for credit losses	7,800	35,315	178,992	112,527
Net charge-offs	(7,889)	(32,231)	(198,942)	(145,426)
Allowance for credit losses, end of period	\$ 104,239	\$ 104,328	\$ 104,328	\$ 91,379

The following table presents the changes in our reserve for unfunded loan commitments for the periods indicated:

	Three Months Ended March 31, 2011	Three Months Ended December 31, 2010	Year Ended December 31, 2010	Three Months Ended March 31, 2010
(In thousands)				
Reserve for unfunded loan commitments, beginning of period	\$ 5,675	\$ 4,750	\$ 5,561	\$ 5,561
Provision (reversal)		925	114	(345)
Reserve for unfunded loan commitments, end of period	\$ 5,675	\$ 5,675	\$ 5,675	\$ 5,216

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The following table presents the changes in our allowance for loan losses on non-covered loans for the periods indicated:

	Three Months Ended March 31, 2011	Three Months Ended December 31, 2010	Year Ended December 31, 2010	Three Months Ended March 31, 2010
(Dollars in thousands)				
Allowance for loan losses, beginning of period	\$ 98,653	\$ 96,494	\$ 118,717	\$ 118,717
Loans charged off:				
Real estate mortgage	(1,212)	(22,591)	(117,029)	(82,849)
Real estate construction	(4,645)	(1,476)	(63,590)	(55,741)
Commercial	(3,121)	(7,311)	(18,548)	(8,139)
Consumer	(160)	(1,469)	(3,749)	(58)
Foreign		(193)	(306)	
Total loans charged off	(9,138)	(33,040)	(203,222)	(146,787)
Recoveries on loans charged off:				
Real estate mortgage	97	25	1,222	180
Real estate construction	92		708	681
Commercial	617	591	1,652	488
Consumer	411	193	565	12
Foreign	32		133	
Total recoveries on loans charged off	1,249	809	4,280	1,361
Net charge-offs	(7,889)	(32,231)	(198,942)	(145,426)
Provision for loan losses	7,800	34,390	178,878	112,872
Allowance for loan losses, end of period	\$ 98,564	\$ 98,653	\$ 98,653	\$ 86,163
Net charge-offs excluding charge-offs from classified loan sale	\$ 7,889	\$ 11,289	\$ 54,295	\$ 21,721
Ratios⁽¹⁾:				
Allowance for loan losses to loans, net (end of period)	3.22%	3.12%	3.12%	2.65%
Allowance for loan losses to nonaccrual loans (end of period)	128.26%	104.75%	104.75%	86.23%
Annualized net charge-offs to average loans	1.03%	3.90%	5.94%	16.81%
Annualized net charge-offs to average loans excluding charge-offs from classified loan sale	1.03%	1.37%	1.62%	2.51%

(1) Ratios apply only to non-covered loans.

Allowance for Credit Losses on Covered Loans

The loans acquired in the Los Padres and Affinity acquisitions are covered by loss sharing agreements with the FDIC and we will be reimbursed for a substantial portion of any future losses. Under the terms of the Los Padres loss sharing agreement, the FDIC will absorb 80% of losses and receive 80% of loss recoveries on the covered assets. The loss sharing agreement is in effect for 10 years for single family covered assets and 5 years for commercial (non-single family) covered assets from the August 20, 2010 acquisition date. The loss recovery provisions are in effect for 10 years for single family assets and 8 years for commercial (non-single family) assets from the acquisition date. Under the terms of the Affinity loss sharing agreement, the FDIC will absorb 80% of losses and receive 80% of loss recoveries on the first \$234 million of losses on covered assets and absorb 95% of

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losses and receive 95% of loss recoveries on covered assets exceeding \$234 million. The loss sharing agreement is in effect for 5 years for commercial assets (non-residential loans, OREO and certain securities) and 10 years for residential loans from the August 28, 2009 acquisition date. The loss recovery provisions are in effect for 8 years for commercial assets and 10 years for residential loans from the acquisition date.

We evaluated the acquired covered loans and elected to account for them under ASC 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality* ("ASC 310-30"), which we refer to as impaired loan accounting.

The covered loans are subject to our internal and external credit review. If deterioration in the expected cash flows results in a reserve requirement, a provision for credit losses is charged to earnings without regard to the FDIC loss sharing agreement. The portion of the estimated loss reimbursable from the FDIC will be recorded in FDIC loss sharing income and will increase the FDIC loss sharing asset. For acquired impaired loans, the allowance for loan losses is measured at the end of each financial reporting period based on expected cash flows. Decreases in the amount and changes in the timing of expected cash flows on the acquired impaired loans as of the financial reporting date compared to those previously estimated are usually recognized by recording a provision for credit losses on such covered loans. Acquired covered loans not accounted for as impaired loans totaled \$28.1 million at March 31, 2011 and are subject to our allowance for credit loss methodology. Although we estimate the required allowance for credit losses similarly to the methodology used for originated loans, we record a provision for such loan losses only when the reserve requirement exceeds any remaining credit discount on these covered loans.

The following table presents the changes in our allowance for credit losses on covered loans for the periods indicated:

	Three Months Ended March 31, 2011	Three Months Ended December 31, 2010	Year Ended December 31, 2010	Three Months Ended March 31, 2010
(In thousands)				
Allowance for credit losses on covered loans, beginning of period	\$ 33,264	\$ 40,179	\$ 18,000	\$ 18,000
Provision	5,747	2,096	39,046	20,700
Charge-offs, net	(9,573)	(9,011)	(23,782)	(6,686)
Allowance for credit losses on covered loans, end of period	\$ 29,438	\$ 33,264	\$ 33,264	\$ 32,014

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The following table presents non-covered nonperforming assets information:

	March 31, 2011	December 31, 2010	March 31, 2010
(Dollars in thousands)			
Nonaccrual loans ⁽¹⁾	\$ 76,849	\$ 94,183	\$ 99,920
Other real estate owned ⁽¹⁾	48,367	25,598	29,643
Total nonperforming assets	\$ 125,216	\$ 119,781	\$ 129,563
Performing restructured loans ⁽¹⁾	\$ 71,669	\$ 89,272	\$ 68,127
Nonperforming assets ratio ⁽¹⁾⁽²⁾	4.03%	3.76%	3.95%
Nonaccrual loans to loans, net of unearned income ⁽¹⁾	2.51%	2.98%	3.07%

(1) Excludes covered loans and covered OREO from the Los Padres and Affinity acquisitions.

(2) Nonperforming assets ratio is calculated as nonaccrual loans and OREO divided by total loans and OREO.

Non-covered nonperforming assets include non-covered nonaccrual loans and non-covered OREO and totaled \$125.2 million at March 31, 2011 compared to \$119.8 million at December 31, 2010. The \$5.4 million increase in non-covered nonperforming assets is due primarily to a higher non-covered OREO balance at March 31, 2011. During the first quarter of 2011, two non-covered nonaccrual loans with an aggregate balance of \$23.0 million secured by the same undeveloped land located in Ventura County were foreclosed and transferred to non-covered OREO. The increase in the nonperforming assets ratio to 4.03% at March 31, 2011 from 3.76% at December 31, 2010 resulted from the higher non-covered OREO balance.

Non-covered nonaccrual loans declined \$17.3 million during the first quarter and were attributable to (a) foreclosures of \$25.1 million, (b) other reductions, payoffs and returns to accrual status of \$6.6 million, (c) charge-offs of \$8.8 million, and (d) additions of \$23.2 million.

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The types of non-covered loans included in the nonaccrual category and accruing loans past due between 30 and 89 days are presented below as of the dates indicated:

Loan Category	Nonaccrual Loans ⁽¹⁾				Accruing and Over 30 days Past Due ⁽¹⁾	
	March 31, 2011 Balance	% of Loan Category	December 31, 2010 Balance	% of Loan Category	March 31, 2011 Balance	December 31, 2010 Balance
(Dollars in thousands)						
Real estate mortgage:						
Hospitality	\$ 4,109	2.7%	\$ 4,151	2.6%	\$ 864	\$
SBA 504	5,138	7.9%	9,346	13.5%	188	190
Other commercial	21,679	1.2%	17,311	0.9%	1,395	1,652
Residential	9,917	5.7%	10,141	5.5%	90	585
Total real estate mortgage	40,843	1.9%	40,949	1.8%	2,537	2,427
Real estate construction:						
Residential	4,586	10.9%	24,004	36.9%		
Commercial	8,620	6.4%	5,238	4.6%	1,484	
Total real estate construction	13,206	7.5%	29,242	16.3%	1,484	
Commercial:						
Collateralized	5,748	1.6%	6,241	1.7%	661	680
Unsecured	9,009	7.8%	9,104	7.0%	400	71
Asset-based	15	0.0%	15	0.0%		
SBA 7(a)	6,234	19.9%	6,518	20.2%	1,253	423
Total commercial	21,006	3.1%	21,878	3.3%	2,314	1,174
Consumer	1,794	8.2%	1,951	7.8%	267	133
Foreign		0.0%	163	0.7%		
Total non-covered loans	\$ 76,849	2.5%	\$ 94,183	3.0%	\$ 6,602	\$ 3,734

(1) Excludes covered loans acquired from the Los Padres and Affinity acquisitions.

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The following lending relationships, excluding SBA-related loans, were on nonaccrual status at March 31, 2011:

Nonaccrual Amount (In thousands)	Description
\$ 6,948	Two unsecured loans that are fully reserved for.
\$ 6,441	Collateralized by second trust deeds on two single-family residences in Beverly Hills, California with current appraised values in excess of the loan carrying value. Foreclosure is in process.
\$ 5,734	Four industrial warehouse loans in Riverside County, California. The borrower is paying as agreed.
\$ 5,670	The loan, secured by an out-of-state shopping center, has been written down to its underlying collateral value based on the most recent appraisal. A receiver is managing the property and foreclosure is in process.
\$ 4,109	A hotel in San Diego County, California. The borrower's interest payments are current.
\$ 3,615	The collateral for this loan is residential and commercial land in Las Vegas, Nevada. The loan has been written down to its underlying collateral value based on the most recent appraisal.
\$ 2,594	This loan is secured by a medical-related office building in Los Angeles County, California and has been written down to its underlying collateral value based on the most recent appraisal.
\$ 2,402	This loan is unsecured and has a specific reserve for 50% of the balance. The borrower is current on interest payments.
\$ 2,339	This loan is secured by commercial land in Riverside County, California.
\$ 2,200	Two loans that are secured by a retail shopping center in San Diego County, California.

Non-covered OREO increased \$22.8 million during the first quarter of 2011 due to foreclosures of \$25.9 million, reductions related to sales of \$2.8 million, and write-downs of \$382,000. The write-downs were based on new appraisals or negotiated sales prices with buyers.

The following table presents the components of OREO by property type as of the dates indicated:

Property Type	March 31, 2011	December 31, 2010	March 31, 2010
	(Dollars in thousands)		
Commercial real estate	\$ 18,674	\$ 18,205	\$ 21,158
Single family residence	2,502	2,743	3,296
Construction and land development	27,191	4,650	5,189
Total non-covered OREO	\$ 48,367	\$ 25,598	\$ 29,643

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Non-covered performing restructured loans declined by \$17.6 million during the first quarter of 2011, to \$71.7 million at March 31, 2011. The decline was attributable primarily to the removal of

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\$16.7 million in loans from restructured loan status due to the performance of the loans in accordance with their modified terms. At March 31, 2011, we had \$49.5 million in real estate mortgage loans, \$19.6 million in real estate construction loans, and \$2.6 million in commercial loans that were accruing interest under the terms of troubled debt restructurings. The majority of our loan restructurings relates to commercial real estate lending and involves lowering the interest rate and/or a change to interest-only payments for a period of time. In these cases, we do not typically forgive principal or extend the maturity date as part of the loan modification.

The majority of the performing restructured loans were on accrual status prior to the loan modifications and have remained on accrual status after the loan modifications due to the borrowers making payments before and after the restructurings. In these circumstances, generally, a borrower may have had a fixed rate loan that they continued to repay, but may be having cash flow difficulties. In an effort to work with certain borrowers, we have agreed to interest rate reductions to reflect the lower market interest rate environment and/or interest-only payments for a period of time. As a result of the current economic environment in our market areas, we anticipate loan restructurings to continue during 2011.

Covered Nonperforming Assets

Loans accounted for under ASC 310-30, which we refer to as "acquired impaired loan accounting," are generally considered accruing and performing loans as the loans accrete interest income over the estimated life of the loan when expected cash flows are reasonably estimable. Accordingly, acquired impaired loans that are contractually past due are still considered to be accruing and performing loans. If the timing and amount of future cash flows is not reasonably estimable, the loans may be classified as nonaccrual loans and interest income is not recognized until the timing and amount of future cash flows can be reasonably estimated.

The following table presents a summary of covered loans that would be considered nonaccrual except for the accounting requirements regarding acquired impaired loans and other real estate owned covered by the loss sharing agreement ("covered nonaccrual loans" and "covered OREO"; collectively, "covered nonperforming assets") as of the date indicated:

	March 31, 2011	December 31, 2010
	(In thousands)	
Covered nonaccrual loans	\$ 153,085	\$ 142,964
Covered OREO	42,117	55,816
Total covered nonperforming assets	\$ 195,202	\$ 198,780
Covered performing restructured loans	\$ 12,492	\$ 14,255

Loan Portfolio Risk Elements

The negative trends throughout the Southern California economy have affected certain industries and collateral types more than others. Our real estate loan portfolio is predominantly commercial and as such does not expose us to higher risks generally associated with residential mortgage loans such as option ARM, interest-only or subprime mortgage loans. Our portfolio does include mortgage loans on commercial property. Commercial mortgage loan repayments typically do not rely on the sale of the underlying collateral and instead rely on the income producing potential of the collateral as the source of repayment. Ultimately, though, due to the loan amortization period being greater than the contractual loan term, the borrower may be required to refinance the loan, either with us or another lender, or sell the underlying collateral in order to pay off the loan.

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At March 31, 2011, we had \$182.6 million of commercial real estate mortgage loans maturing over the next 12 months. In the event we refinance any of these loans because the borrowers are unable to obtain financing elsewhere due to the inability of banks in our market area to make loans, such loans may be considered troubled debt restructurings even though they were performing throughout their terms. Higher levels of troubled debt restructurings may lead to increased classified assets and credit loss provisions.

Our loan portfolio, including both non-covered and covered loans, continues to experience pressure from economic trends in Southern California. We expect that such pressures will continue for the remainder of 2011.

Deposits

The following table presents the balance of each major category of deposits at the dates indicated:

	March 31, 2011		December 31, 2010		March 31, 2010	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
(Dollars in thousands)						
Noninterest-bearing deposits	\$ 1,606,182	35%	\$ 1,465,562	32%	\$ 1,388,646	33%
Interest checking deposits	486,761	11	494,617	11	436,570	11
Money market deposits	1,232,766	27	1,321,780	28	1,171,565	28
Savings deposits	145,217	3	135,876	3	112,720	3
Total core deposits	3,470,926	76	3,417,835	74	3,109,501	75
Time deposits under \$100,000	372,650	8	436,838	9	468,356	11
Time deposits \$100,000 and over	741,163	16	795,025	17	576,380	14
Total time deposits	1,113,813	24	1,231,863	26	1,044,736	25
Total deposits	\$ 4,584,739	100%	\$ 4,649,698	100%	\$ 4,154,237	100%

Total deposits declined \$65.0 million during the first quarter of 2011 to \$4.6 billion at March 31, 2011. This was due mainly to a \$118.1 million decrease in time deposits, offset partially by an increase of \$53.1 million in core deposits. The decrease in time deposits was due to brokered deposit maturities of \$36.2 million and runoff of higher cost acquired time deposits. Core deposits, which include noninterest-bearing demand, interest checking, money market, and savings accounts, increased primarily due to the \$140.6 million growth in noninterest-bearing deposits, offset partially by an \$89.0 million decline in money market deposits. At March 31, 2011, core deposits and noninterest-bearing deposits represented 76% and 35% of total deposits, respectively.

Regulatory Matters

Capital

Actual capital amounts and ratios for the Company and the Bank as of March 31, 2011 are presented in the following table. 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. At March 31, 2011, such

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amount was \$48.9 million for the Company and \$28.2 million for the Bank. No assurance can be given that the regulatory capital deferred tax asset limitation will not increase in the future.

	March 31, 2011		
	Well Capitalized Requirement	Pacific Western Bank	PacWest Bancorp Consolidated
Tier 1 leverage capital ratio	5.00%	9.02%	9.21%
Tier 1 risk-based capital ratio	6.00%	13.22%	13.42%
Total risk-based capital ratio	10.00%	14.50%	14.70%
Tangible common equity ratio	N/A	9.55%	7.80%

Subordinated Debentures

The Company issued subordinated debentures to trusts that were established by us or entities we have acquired, which, in turn, issued trust preferred securities, which totaled \$123.0 million at March 31, 2011. These securities are currently included in our Tier I capital for purposes of determining the Company's Tier I and total risk-based capital ratios. The Board of Governors of the Federal Reserve System, which is the holding company's banking regulator, promulgated a modification of the capital regulations affecting trust preferred securities that was effective March 31, 2011. According to the modification, the Company was allowed to include in Tier I capital an amount of trust preferred securities equal to no more than 25% of the sum of all core capital elements, which is generally defined as shareholders' equity less goodwill, net of any related deferred income tax liability. The regulations in effect through December 31, 2010 limited the amount of trust preferred securities that could be included in Tier I capital to 25% of the sum of core capital elements, without a deduction for permitted intangibles. As of March 31, 2011, all of the Company's capital ratios remained above the well-capitalized level after application of this regulatory change. While our existing trust preferred securities are grandfathered under the Dodd-Frank Wall Street Reform and Consumer Protection Act that was enacted in July 2010, new issuances will not qualify as Tier 1 capital.

Dividends on Common Stock and Interest on Subordinated Debentures

Notification to the FRB is 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. Interest payments made by the Company on subordinated debentures are considered dividend payments under FRB regulations. As such, notification to the FRB is required prior to our paying such interest during any period in which our quarterly net earnings are insufficient to fund the interest due. Should the FRB object to payment of interest on the subordinated debentures we would not be able to make the payments until approval is received.

Liquidity Management***Liquidity***

The goals of our liquidity management are to ensure the ability of the Company to meet its financial commitments when contractually due and to respond to other demands for funds such as the ability to meet the cash flow requirements of customers who may be either depositors wanting to withdraw funds or borrowers who may need assurance that sufficient funds will be available to meet their credit needs. We have an Executive Asset/Liability Management Committee, or Executive ALM Committee, which is comprised of members of senior management and is responsible for managing balance sheet and off-balance sheet commitments to meet the needs of customers while achieving our financial objectives. Our Executive ALM Committee meets regularly to review funding capacities, current and forecasted loan demand, and investment opportunities.

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Historically, the Bank's primary liquidity source has been its core deposit base. In addition, the Bank relies on collateralized FHLB advances as one of its sources of affordable and immediately available liquidity. The level of such wholesale funding is monitored based on the Bank's liquidity requirements, and we maintain what we believe to be an acceptable level of this collateralized borrowing capacity. The Bank's secured borrowing capacity with the FHLB was \$1.4 billion, of which \$1.1 billion was available as of March 31, 2011. The Bank also maintains a security repurchase line with the FHLB to provide an additional \$37.2 million in secured borrowing capacity, against which there were no borrowings as of March 31, 2011. In addition to the secured borrowing relationship with the FHLB, and to meet short term liquidity needs, the Bank maintains adequate balances in liquid assets, which include cash and due from banks, Federal Funds sold, interest-earning deposits in other financial institutions, and unpledged investment securities available-for-sale. The Bank also maintains a secured line of credit with the FRB which had a borrowing capacity of \$380.3 million and no amount outstanding at March 31, 2011. In addition to its secured lines of credit, the Bank also maintains unsecured lines of credit, subject to availability, of \$92.0 million with correspondent banks for purchase of overnight funds.

We may use large denomination brokered time deposits, the availability of which is uncertain and subject to competitive market forces, for liquidity management purposes. At March 31, 2011, the Bank had none of these brokered deposits. In addition, we have \$43.7 million of customer deposits that were subsequently participated with other FDIC insured financial institutions through the CDARS program as a means to provide FDIC deposit insurance coverage for the full amount of our participating customers' deposits.

To meet short-term liquidity needs, the Bank maintains what we believe are adequate balances in cash, interest-earning deposits in other financial institutions and investment securities with a maturity or duration of five years or less. Our on-balance sheet liquidity ratio, calculated as liquid assets (cash, interest-earning deposits in financial institutions and unpledged investment securities available-for-sale) as a percent of total deposits, was 21.4% as of March 31, 2011 and 18.1% at December 31, 2010. We built-up the Bank's on balance sheet liquidity in order to have more flexibility during this current economic cycle.

Holding Company Liquidity

The primary sources of liquidity for the Company, on a stand-alone basis, include dividends from the Bank and our ability to raise capital, issue subordinated debt and secure outside borrowings. The ability of the Company to obtain funds for the payment of dividends to our stockholders and for other cash requirements is largely dependent upon the Bank's earnings. Pacific Western is subject to restrictions under certain federal and state laws and regulations which limit its ability to transfer funds to the Company through intercompany loans, advances or cash dividends.

Dividends paid by state banks, such as Pacific Western, are regulated by the California Department of Financial Institutions ("DFI") under its general supervisory authority as it relates to a bank's capital requirements. A state bank may declare a dividend without the approval of the DFI as long as the total dividends declared in a calendar year do not exceed either the retained earnings or the total of net profits for three previous fiscal years less any dividends paid during such period. During 2011, PacWest received no dividends from the Bank. For the foreseeable future, any dividends from the Bank to the Company require DFI approval.

At March 31, 2011, the Company had, on a stand-alone basis, approximately \$20.8 million in cash on deposit at the Bank. Management believes this amount of cash is sufficient to fund the Company's 2011 cash flow needs.

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The following table presents the known contractual obligations of the Company as of the date indicated:

	March 31, 2011				Total
	Due Within One Year	Due in One to Three Years	Due in Three to Five Years	Due After Five Years	
(Dollars in thousands)					
Time deposits	\$ 569,643	\$ 541,094	\$ 3,076		\$ 1,113,813
Long-term debt obligations				354,498	354,498
Operating lease obligations	16,108	26,051	17,486	13,885	73,530
Other contractual obligations	5,724	14,658	5,715		26,097
Total	\$ 591,475	\$ 581,803	\$ 26,277	\$ 368,383	\$ 1,567,938

Time deposits include brokered deposits of \$43.7 million of customer deposits that were subsequently participated with other FDIC insured financial institutions through the CDARS program as a means to provide FDIC deposit insurance coverage for the full amount of our customers' deposits.

Long term debt obligations include \$225.0 million of callable FHLB advances which may be called by the FHLB on various call dates. While the FHLB may call the advances to be repaid for any reason, they are likely to be called if market interest rates are higher than the advances' stated rates on the call dates. If the advances are called by the FHLB, there is no prepayment penalty. Should our FHLB advances be called, we would evaluate the funding opportunities available at that time, including new secured FHLB borrowings at the prevailing market rates. As borrowing rates are currently lower than our contract rates, we do not expect our secured FHLB borrowings to be called. Debt obligations are also discussed in Note 7 of Notes to Condensed Consolidated Financial Statements (Unaudited) contained in "Item 1. Condensed Consolidated Financial Statements (Unaudited)." Operating lease obligations are discussed in the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2010. The other contractual obligations relate to the minimum liability associated with our data and item processing contract with a third-party provider and commitments to contribute capital to investments in low income housing project partnerships.

We believe that we will be able to meet our contractual obligations as they come due through the maintenance of adequate cash levels. We expect to maintain adequate cash levels through profitability, loan and securities repayment and maturity activity, and continued deposit gathering activities. We believe we have in place sufficient borrowing mechanisms for short-term liquidity needs.

Off-Balance Sheet Arrangements

Our obligations also include off-balance sheet arrangements consisting of loan-related commitments, of which only a portion are expected to be funded. At March 31, 2011, our loan-related commitments, including standby letters of credit, totaled \$716.9 million. The commitments which result in a funded loan increase our profitability through net interest income. We manage our overall liquidity taking into consideration funded and unfunded commitments as a percentage of our liquidity sources. Our liquidity sources have been and are expected to be sufficient to meet the cash requirements of our lending activities.

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Asset/Liability Management and Interest Rate Sensitivity

Interest Rate Risk

Our market risk arises primarily from credit risk and interest rate risk inherent in our lending and financing activities. To manage our credit risk, we rely on adherence to our underwriting standards and loan policies, internal loan monitoring and periodic credit review as well as our allowance for credit losses methodology, all of which are administered by the Bank's credit administration department and overseen by the Company's Credit Risk Committee. To manage our exposure to changes in interest rates, we perform asset and liability management activities which are governed by guidelines pre-established by our Executive ALM Committee, and approved by our Asset/Liability Management Committee of the Board of Directors, which we refer to as our Board ALCO. Our Executive ALM Committee monitors our compliance with our asset/liability policies. These policies focus on providing sufficient levels of net interest income while considering capital constraints and acceptable levels of interest rate exposure and liquidity.

Market risk sensitive instruments are generally defined as derivatives and other financial instruments, which include investment securities, loans, deposits, and borrowings. At March 31, 2011, we had not used any derivatives to alter our interest rate risk profile or for any other reason. However, both the repricing characteristics of our fixed rate loans and floating rate loans, the significant percentage of noninterest-bearing deposits compared to interest-earning assets, and the callable features in certain borrowings, may influence our interest rate risk profile. Our financial instruments include loans receivable, Federal funds sold, interest-bearing deposits in financial institutions, Federal Home Loan Bank stock, investment securities, deposits, borrowings and subordinated debentures.

We measure our interest rate risk position on at least a quarterly basis using three methods: (i) net interest income simulation analysis; (ii) market value of equity modeling; and (iii) traditional gap analysis. The results of these analyses are reviewed by the Executive ALM Committee and the Board ALCO quarterly. If hypothetical changes to interest rates cause changes to our simulated net present value of equity and/or net interest income outside our pre-established limits, we may adjust our asset and liability mix in an effort to bring our interest rate risk exposure within our established limits.

We evaluated the results of our net interest income simulation and market value of equity models prepared as of March 31, 2011, the results of which are presented below. Our net interest income simulation indicates that our balance sheet is liability sensitive as rising interest rates would result in a decline in our net interest margin. This profile is primarily a result of the increased origination of fixed rate loans and variable rate loans with initial fixed rate terms, which is driven by customer demand for fixed rate products in this low interest rate environment. Our market value of equity model indicates an asset sensitive profile suggesting a sudden sustained increase in rates would result in an increase in our estimated market value of equity. This profile is a result of the assumed floors in the Company's offering rates, which are not expected to increase to the extent of the movement of market interest rates, and the significant value placed on the Company's noninterest-bearing deposits for purposes of this analysis. The divergent profile between the net interest income simulation and market value of equity model is a result of the Company's significant level of noninterest-bearing deposits. Static balances of noninterest-bearing deposits do not impact the net interest income simulation, while at the same time the value of these deposits increases substantially in the market value of equity model when market rates are assumed to rise. In general, we view the net interest income model results as more relevant to the Company's current operating profile and manage our balance sheet based on this information.

Net Interest Income Simulation

We used a simulation model to measure the estimated changes in net interest income that would result over the next 12 months from immediate and sustained changes in interest rates as of March 31,

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2011. This model is an interest rate risk management tool and the results are not necessarily an indication of our future net interest income. This model has inherent limitations and these results are based on a given set of rate changes and assumptions at one point in time. We have assumed no growth in either our interest-sensitive assets or liabilities over the next 12 months; therefore, the results reflect an interest rate shock to a static balance sheet.

This analysis calculates the difference between net interest income forecasted using both increasing and declining interest rate scenarios and net interest income forecasted using a base market interest rate derived from the U.S. Treasury yield curve at March 31, 2011. In order to arrive at the base case, we extend our balance sheet at March 31, 2011 one year and reprice any assets and liabilities that would contractually reprice or mature during that period using the products' pricing as of March 31, 2011. Based on such repricings, we calculate an estimated net interest income and net interest margin.

The repricing relationship for each of our assets and liabilities includes many assumptions. For example, many of our assets are floating rate loans, which are assumed to reprice to the same extent as the change in market rates according to their contracted index except for floating rate loans tied to our base lending rate which are assumed to reprice upward only after the first 75 basis point increase in market rates. This assumption is due to the fact that we reduced our base lending rate 100 basis points when the Federal Reserve lowered the Federal Funds benchmark rate by 175 basis points in the fourth quarter of 2008. Some loans and investment vehicles include the opportunity of prepayment (imbedded options) and the simulation model uses national indices to estimate these prepayments and reinvest these proceeds at current simulated yields. Our deposit products reprice at our discretion and are assumed to reprice more slowly in a rising or declining interest rate environment and usually reprice at a rate less than the change in market rates. Also, a callable option feature on certain borrowings will reprice differently in a rising interest rate environment than in a declining interest rate environment. The effects of certain balance sheet attributes, such as fixed rate loans, floating rate loans that have reached their floors, and the volume of noninterest-bearing deposits as a percentage of earning assets, impact our assumptions and consequently the results of our interest rate risk management model. Changes that could vary significantly from our assumptions include loan and deposit growth or contraction, changes in the mix of our earning assets or funding sources, and future asset/liability management decisions, all of which may have significant effects on our net interest income.

The simulation analysis does not account for all factors that impact this analysis, including changes by management to mitigate the impact of interest rate changes or the impact a change in interest rates may have on our credit risk profile, loan prepayment estimates and spread relationships which can change regularly. In addition, the simulation analysis does not make any assumptions regarding loan fee income, which is a component of our net interest income and tends to increase our net interest margin. Management reviews the model assumptions for reasonableness on a quarterly basis.

The following table presents as of March 31, 2011, forecasted net interest income and net interest margin for the next 12 months using a base market interest rate and the estimated change to the base

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scenario given immediate and sustained upward and downward movements in interest rates of 100, 200 and 300 basis points.

Interest rate scenario	Estimated Net Interest Income	Percentage Change From Base	Estimated Net Interest Margin	Estimated
				Net Interest Margin Change From Base
(Dollars in thousands)				
Up 300 basis points	\$ 249,349	(4.5)%	4.98%	(0.23)%
Up 200 basis points	\$ 248,910	(4.6)%	4.97%	(0.24)%
Up 100 basis points	\$ 251,519	(3.6)%	5.02%	(0.19)%
BASE CASE	\$ 261,019		5.21%	
Down 100 basis points	\$ 256,684	(1.7)%	5.12%	(0.09)%
Down 200 basis points	\$ 251,931	(3.5)%	5.03%	(0.18)%
Down 300 basis points	\$ 250,457	(4.0)%	5.00%	(0.21)%

The net interest income simulation model prepared as of March 31, 2011 suggests our balance sheet is liability sensitive. Liability sensitivity indicates that in a rising interest rate environment, our net interest margin would decrease. Due to the historically low market interest rates as of March 31, 2011 the "down" scenarios are not considered meaningful and are excluded from the following discussion. The liability sensitive profile is due mostly to the mix of fixed rate loans to total loans in the loan portfolio relative to our amount of interest-bearing deposits that would reprice as interest rates change. Although \$2.0 billion of the \$3.9 billion of total loans in the portfolio have variable interest rate terms, only \$616 million of those variable rate loans will reprice within 12 months. The remaining variable rate loans will behave as if they have fixed rates in the short run because of the effect of interest rate floors and hybrid ARM loan pricing structures of mini-perm commercial real estate loans, which generally contain initial fixed rate terms ranging from three to five years before becoming variable rate.

In comparing the March 31, 2011 simulation results to December 31, 2010, our profile has remained relatively unchanged while our overall estimated net interest income has decreased for all scenarios. The decline in the net interest income is a result of the decrease in earning assets from run-off of the loan portfolio.

Market Value of Equity

We measure the impact of market interest rate changes on the net present value of estimated cash flows from our assets, liabilities and off-balance sheet items, defined as the market value of equity, using a simulation model. This simulation model assesses the changes in the market value of our interest sensitive financial instruments that would occur in response to an instantaneous and sustained increase or decrease in market interest rates of 100, 200 and 300 basis points. This analysis assigns significant value to our noninterest-bearing deposit balances. The projections are by their nature forward looking and therefore inherently uncertain, and include various assumptions regarding cash flows and interest rates. This model is an interest rate risk management tool and the results are not necessarily an indication of our actual future results. Actual results may vary significantly from the results suggested by the market value of equity table. Loan prepayments and deposit attrition, changes in the mix of our earning assets or funding sources, and future asset/liability management decisions, among others, may vary significantly from our assumptions. The base case is determined by applying various current market discount rates to the estimated cash flows from the different types of assets, liabilities and off-balance sheet items existing at March 31, 2011.

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The following table shows the projected change in the market value of equity for the set of rate shocks presented as of March 31, 2011:

Interest rate scenario	Estimated Market Value	Dollar Change From Base	Percentage Change From Base	Percentage of Total Assets	Ratio of Estimated Market Value to Book Value
(Dollars in thousands)					
Up 300 basis points	\$ 674,651	\$ 11,588	1.7%	12.3%	137.3%
Up 200 basis points	\$ 714,156	\$ 51,093	7.7%	13.1%	145.3%
Up 100 basis points	\$ 700,887	\$ 37,824	5.7%	12.8%	142.6%
BASE CASE	\$ 663,063			12.1%	134.9%
Down 100 basis points	\$ 592,729	\$ (70,334)	(10.6)%	10.8%	120.6%
Down 200 basis points	\$ 513,889	\$ (149,174)	(22.5)%	9.4%	104.6%
Down 300 basis points	\$ 473,870	\$ (189,193)	(28.5)%	8.7%	96.4%

The results of our market value of equity model indicate an asset sensitive interest rate risk profile at March 31, 2011 demonstrated by the increase in the market value of equity in the "up" interest rate scenarios compared to the "base case". Given the historically low market interest rates as of March 31, 2011, the "down" scenarios at March 31, 2011 are not considered meaningful and are excluded from the following discussion.

Our asset sensitive position as of March 31, 2011 is due primarily to the significant value placed on the Company's noninterest-bearing deposits and the assumed floors in the discount rates used to value a portion of the loan portfolio. The discount rate used to value our loan portfolio is derived from the expected offering rate for each loan type with a similar term and credit risk profile. In a rising rate environment, management does not expect to increase our offering rates on certain loan products to the same extent as market rates until the fully indexed offering rate exceeds the current pricing floor, and in turn, our loans are not projected to lose significant value in the "up" 100 basis point and "up" 200 basis point scenarios. Conversely, the discount rates for our liabilities are expected to immediately change when market rates change. Therefore, our liabilities are expected to increase in value as rates rise thereby increasing the estimated market value of equity in the rising rate scenario.

In comparing the March 31, 2011 simulation results to December 31, 2010, our base case estimated market value of equity has increased while our overall profile is consistent with the prior quarter. The increase in base case estimated market value of equity is the result of growth in noninterest-bearing deposits, to an increase in the discount rates used to value deposit accounts, and to the \$10.7 million of earnings retained during the quarter.

Gap Analysis

As part of the interest rate management process, we use a gap analysis. A gap analysis provides information about the volume and repricing characteristics and relationship between the amounts of interest-sensitive assets and interest-bearing liabilities at a particular point in time. An effective interest rate strategy attempts to match the volume of interest sensitive assets and interest-bearing liabilities repricing over different time intervals.

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The following table illustrates the volume and repricing characteristics of our balance sheet at March 31, 2011 over the indicated time intervals:

March 31, 2011	Amounts Maturing or Repricing In				Non Interest Rate Sensitive	Total
	3 Months Or Less	Over 3 Months to 12 Months	Over 1 Year to 5 Years	Over 5 Years		
(Dollars in thousands)						
ASSETS						
Cash and deposits in financial institutions	\$ 104,810	\$	\$ 115	\$	\$ 88,634	\$ 193,559
Investment securities	14,327	24,746	11,361	889,577		940,011
Loans, net of unearned income	1,258,540	435,475	1,174,934	1,077,576		3,946,525
Other assets					390,422	390,422
Total assets	\$ 1,377,677	\$ 460,221	\$ 1,186,410	\$ 1,967,153	\$ 479,056	\$ 5,470,517
LIABILITIES AND STOCKHOLDERS' EQUITY						
Noninterest-bearing demand deposits	\$	\$	\$	\$	\$ 1,606,182	\$ 1,606,182
Interest-bearing demand, money market and savings	1,864,744					1,864,744
Time deposits	218,522	351,121	544,170			1,113,813
Borrowings				225,000		225,000
Subordinated debentures	108,250			18,558	2,690	129,498
Other liabilities					39,920	39,920
Stockholders' equity					491,360	491,360
Total liabilities and stockholders' equity	\$ 2,191,516	\$ 351,121	\$ 544,170	\$ 243,558	\$ 2,140,152	\$ 5,470,517
Period gap	\$ (813,839)	\$ 109,100	\$ 642,240	\$ 1,723,595	\$ (1,661,096)	
Cumulative interest-earning assets	\$ 1,377,677	\$ 1,837,898	\$ 3,024,308	\$ 4,991,461		
Cumulative interest-bearing liabilities	\$ 2,191,516	\$ 2,542,637	\$ 3,086,807	\$ 3,330,365		
Cumulative gap	\$ (813,839)	\$ (704,739)	\$ (62,499)	\$ 1,661,096		
Cumulative interest-earning assets to cumulative interest-bearing liabilities	62.9%	72.3%	98.0%	149.9%		
Cumulative gap as a percent of:						
Total assets	(14.9)%	(12.9)%	(1.1)%	30.4%		
Interest-earning assets	(16.7)%	(14.4)%	(1.3)%	34.0%		

All amounts are reported at their contractual maturity or repricing periods, except for \$52.9 million in FHLB stock which is shown as a longer-term repricing investment because of the FHLB's suspended/reduced stock redemptions and dividend payments. This analysis makes certain assumptions as to interest rate sensitivity of savings and NOW accounts which have no stated maturity and have had very little rate fluctuation in the past three years. Money market accounts are repriced at management's discretion and generally are more rate sensitive.

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The preceding table indicates that we had a negative one year cumulative gap of \$704.7 million at March 31, 2011, a decrease of \$202.8 million from the \$907.5 million negative gap position at December 31, 2010. The decline in the negative gap is attributable mostly to a decrease in one-year

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liabilities of \$235.3 million, reflecting a \$147.8 million drop in one-year time deposits and an \$87.5 million decrease in interest-bearing checking, money market and savings. Partially offsetting this was a decline in one-year assets of \$32.5 million, which was due mostly to a \$114.2 million decrease in one-year loans, offset partially by a \$78.5 million increase in one-year deposits in financial institutions. This gap position suggests that we are liability sensitive and if rates were to increase, our net interest margin would most likely decrease. Conversely, if rates were to decrease, our net interest margin would most likely increase. The ratio of interest-earning assets to interest-bearing liabilities maturing or repricing within one year at March 31, 2011, is 72.3%. This one year gap position indicates that interest expense is likely to be affected to a greater extent than interest income for any changes in interest rates within one year from March 31, 2011.

Borrowings includes two long term advances totaling \$225.0 million with maturity dates of 2017 and 2018, which contain quarterly call options and are currently callable by the FHLB. While the FHLB may call the advances to be repaid for any reason, they are likely to be called if market interest rates, for borrowings of similar remaining term, are higher than the advances' stated rates on the call dates. If the advances are called by the FHLB, there is no prepayment penalty. Should our FHLB advances be called, we would evaluate the funding opportunities available at that time, including new secured borrowings from the FHLB at the then market rates. As borrowing rates are currently lower than our contract rates, we do not expect our secured FHLB borrowings to be called. We may repay the advances with a prepayment penalty at any time.

The gap table has inherent limitations and actual results may vary significantly from the results suggested by the gap table. The gap table is unable to incorporate certain balance sheet characteristics or factors. The gap table assumes a static balance sheet, and accordingly, looks at the repricing of existing assets and liabilities without consideration of new loans and deposits that reflect a more current interest rate environment. Unlike the net interest income simulation, however, the interest rate risk profile of certain deposit products and floating rate loans that have reached their floors cannot be captured effectively in a gap table. Although the table shows the amount of certain assets and liabilities scheduled to reprice in a given time frame, it does not reflect when or to what extent such repricings may actually occur. For example, interest-bearing demand, money market and savings deposits are shown to reprice in the first three months, but we may choose to reprice these deposits more slowly and incorporate only a portion of the movement in market rates based on market conditions at that time. Alternatively, a loan which has reached its floor may not reprice even though market interest rates change causing such loan to act like a fixed rate loan regardless of its scheduled repricing date. The gap table as presented cannot factor in the flexibility we believe we have in repricing either deposits or the floors on our loans.

We believe the estimated effect of a change in interest rates is better reflected in our net interest income and market value of equity simulations which incorporate many of the factors mentioned.

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ITEM 3. Quantitative and Qualitative Disclosure about Market Risk

Please see the section above titled "Asset/Liability Management and Interest Rate Sensitivity" in "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" which provides an update to our quantitative and qualitative disclosure about market risk. This analysis should be read in conjunction with text under the caption "Quantitative and Qualitative Disclosure About Market Risk" in our Annual Report on Form 10-K for the year ended December 31, 2010, which text is incorporated herein by reference. Our analysis of market risk and market-sensitive financial information contains forward-looking statements and is subject to the disclosure at the beginning of Item 2 regarding such forward-looking information.

ITEM 4. Controls and Procedures

As of the end of the period covered by this report, an evaluation was carried out by the Company's management, with the participation of the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, these disclosure controls and procedures were effective.

There have been no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. Legal Proceedings

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. Because of these factors, the Company cannot provide a meaningful estimate of the range of reasonably possible outcomes of claims in the aggregate or by individual claim. In the opinion of management, based upon information currently available to us, any resulting liability is not likely to have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

ITEM 1A. Risk Factors

There have been no material changes with respect to the risk factors described in Item 1A. to Part I of our Annual Report on Form 10-K for the fiscal year ended December 31, 2010, which Item 1A. is incorporated herein by reference.

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The following table presents stock purchases made during the first quarter of 2011:

	Total Shares Purchased^(a)	Average Price Per Share
January 1 - January 31, 2011		\$
February 1 - February 28, 2011	12,166	20.37
March 1 - March 31, 2011		
Total	12,166	\$ 20.37

(a) Shares repurchased in satisfaction of financial obligations incurred through the vesting of the Company's restricted stock.

ITEM 6. Exhibits

Exhibit Number	Description
3.1	Certificate of Incorporation, as amended, of PacWest Bancorp, a Delaware corporation (Exhibit 3.1 to Form 8-K filed on May 14, 2008 and incorporated herein by this reference).
3.2	Certificate of Amendment, dated May 14, 2010, to Certificate of Incorporation of PacWest Bancorp (Exhibit 3.1 to Form 8-K filed on May 14, 2010 and incorporated herein by this reference).
3.3	Bylaws of PacWest Bancorp, a Delaware corporation, dated April 22, 2008 (Exhibit 3.2 to Form 8-K filed on May 14, 2008 and incorporated herein by this reference).
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.
32.1	Section 1350 Certification of Chief Executive Officer.
32.2	Section 1350 Certification of Chief Financial Officer.

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SIGNATURES

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

PACWEST BANCORP

Date: May 9, 2011

/s/ VICTOR R. SANTORO

Victor R. Santoro
Executive Vice President and Chief Financial Officer

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