PACWEST BANCORP
Form 10-Q
November 08, 2010

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2010

OR

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

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

PACWEST BANCORP

(Exact name of registrant as specified in its charter)

DELAWARE (State or other jurisdiction of incorporation or organization)	**33-0885320** (I.R.S. Employer Identification Number)
401 West "A" Street **San Diego, California** (Address of principal executive offices)	**92101** (Zip Code)

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

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

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

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

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

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

As of November 1, 2010 there were 35,348,681 shares of the registrant's common stock outstanding, excluding 1,359,594 shares of unvested restricted stock.

PACWEST BANCORP AND SUBSIDIARIES

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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)

	September 30, 2010	December 31, 2009
ASSETS		
Cash and due from banks	$ 91,615	$ 93,915
Interest-earning deposits in financial institutions	68,470	117,133
Total cash and cash equivalents	160,085	211,048
Non-covered securities available-for-sale	737,642	371,575
Covered securities available-for-sale	51,125	52,125
Total securities available-for sale, at extimated fair value	788,767	423,700
Federal Home Loan Bank stock, at cost	57,332	50,429
Total investment securities	846,099	474,129
Non-covered loans, net of unearned income	3,318,409	3,707,383
Allowance for loan losses	(96,494)	(118,717)
Total non-covered loans, net	3,221,915	3,588,666
Covered loans, net	966,140	621,686
Total loans	4,188,055	4,210,352
Non-covered other real estate owned, net	24,598	43,255
Covered other real estate owned, net	55,244	27,688
Total other real estate owned	79,842	70,943
Premises and equipment, net	21,138	22,546
Goodwill	46,228	
Core deposit and customer relationship intangibles	28,441	33,296
Cash surrender value of life insurance	65,735	66,149
FDIC loss sharing asset	141,591	112,817
Other assets	165,708	122,799
Total assets	$ 5,742,922	$ 5,324,079
LIABILITIES		
Noninterest-bearing deposits	$ 1,467,862	$ 1,302,974
Interest-bearing deposits	3,333,052	2,791,595

Total deposits	4,800,914	4,094,569
Borrowings	275,000	542,763
Subordinated debentures	129,648	129,798
Accrued interest payable and other liabilities	43,598	50,176
Total liabilities	5,249,160	4,817,306
STOCKHOLDERS' EQUITY		
Preferred stock, $0.01 par value; authorized 5,000,000 shares; none issued and outstanding		
Common stock, $0.01 par value; authorized 75,000,000 and 50,000,000 shares at September 30, 2010 and December 31, 2009, respectively; issued 36,862,990 and 35,128,452 shares, respectively (includes 1,359,594 and 1,095,417 shares of unvested restricted stock, respectively)	369	351
Additional paid-in capital	1,084,205	1,053,584
Accumulated deficit	(599,354)	(545,026)
Treasury stock, at cost 154,715 and 113,130 shares at September 30, 2010 and December 31, 2009, respectively	(2,868)	(2,032)
Accumulated other comprehensive income (loss)	11,410	(104)
Total stockholders' equity	493,762	506,773
Total liabilities and stockholders' equity	$ 5,742,922	$ 5,324,079

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			Nine Months Ended September 30,	
	September 30, 2010	June 30, 2010	September 30, 2009	2010	2009
Interest income:					
Loans	$ 68,480	$ 62,314	$ 64,658	$ 194,539	$ 188,168
Investment securities	6,519	5,702	2,741	17,342	5,928
Deposits in financial institutions	131	245	111	505	209
Total interest income	75,130	68,261	67,510	212,386	194,305
Interest expense:					
Deposits	6,375	6,945	7,754	20,209	24,441
Borrowings	2,129	2,216	3,989	7,013	11,197
Subordinated debentures	1,459	1,483	1,530	4,357	4,948
Total interest expense	9,963	10,644	13,273	31,579	40,586
Net interest income	65,167	57,617	54,237	180,807	153,719
Provision for credit losses:					
Non-covered loans	17,050	14,100	75,000	143,677	107,000
Covered loans	7,400	8,850		36,950	
Total provision for credit losses	24,450	22,950	75,000	180,627	107,000
Net interest income (expense) after provision for credit losses	40,717	34,667	(20,763)	180	46,719
Noninterest income:					
Service charges on deposit accounts	2,861	2,666	2,960	8,256	9,118
Other commissions and fees	1,760	1,845	1,721	5,395	5,152
Other-than-remporary impairment loss on securities	(874)			(874)	
Increase in cash surrender value of life insurance	353	369	371	1,120	1,204
FDIC loss sharing income, net	6,406	7,029		29,607	
Gain from Affinity acquisition			66,989		66,989
Other income	279	173	584	632	1,616
Total noninterest income	10,785	12,082	72,625	44,136	84,079
Noninterest expense:					
Compensation	23,060	21,068	20,128	63,539	57,853
Occupancy	6,872	6,576	6,435	20,406	19,283
Data processing	2,121	1,892	1,810	5,982	5,115
Other professional services	2,694	2,042	1,857	6,734	4,867
Business development	571	655	528	1,893	1,878
Communications	811	795	762	2,410	2,143
Insurance and assessments	2,431	2,611	2,010	7,316	7,479
Other real estate owned, net	1,832	536	8,141	12,978	18,369
Intangible asset amortization	2,434	2,424	2,578	7,282	7,192
Reorganization and lease charges					1,215
Other expense	3,348	4,174	2,842	10,977	8,597

Total noninterest expense		46,174		42,773		47,091		139,517		133,991
Earnings (loss) before income taxes		5,328		3,976		4,771		(95,201)		(3,193)
Income tax (expense) benefit		(1,828)		(1,271)		(2,046)		40,873		1,623
Net earnings (loss)	$	3,500	$	2,705	$	2,725	$	(54,328)	$	(1,570)
Earnings (loss) per share:										
Basic	$	0.10	$	0.07	$	0.08	$	(1.55)	$	(0.06)
Diluted	$	0.10	$	0.07	$	0.08	$	(1.55)	$	(0.06)
Dividends declared per share	$	0.01	$	0.01	$	0.01	$	0.03	$	0.34

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			Nine Months Ended September 30,	
	September 30, 2010	June 30, 2010	September 30, 2009	2010	2009
Net earnings (loss)	$ 3,500	$ 2,705	$ 2,725	$ (54,328)	$ (1,570)
Other comprehensive income (loss), net of related income taxes:					
Unrealized holding gains (losses) on securities available-for-sale arising during the period	2,869	7,420	1,098	11,514	1,351
Comprehensive income (loss)	$ 6,369	$ 10,125	$ 3,823	$ (42,814)	$ (219)

See "Notes to Condensed Consolidated Financial Statements."

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PACWEST BANCORP AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(Dollars in Thousands, Except Share Data)

(Unaudited)

	Common Stock						
	Shares	Par Value	Additional Paid-in Capital	Accumulated Deficit	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
Balance as of January 1, 2010	35,015,322	$ 351	$ 1,053,584	$ (545,026)	$ (2,032)	$ (104)	$ 506,773
Net loss				(54,328)			(54,328)
Issuance of common stock	1,348,040	14	26,573				26,587
Tax effect from vesting of restricted stock			(1,427)				(1,427)
Restricted stock awarded and earned stock compensation, net of shares forfeited	386,498	4	6,559				6,563
Restricted stock surrendered	(41,585)				(836)		(836)
Cash dividends paid ($0.03 per share)			(1,084)				(1,084)
Other comprehensive income increase in net unrealized gain on securities available-for-sale, net of tax effect of $8.3 million						11,514	11,514
Balance as of September 30, 2010	36,708,275	$ 369	$ 1,084,205	$ (599,354)	$ (2,868)	$ 11,410	$ 493,762

See "Notes to Condensed Consolidated Financial Statements."

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PACWEST BANCORP AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)

(Unaudited)

	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Cash flows from operating activities:		
Net loss	$ (54,328)	$ (1,570)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	4,190	11,290
Provision for credit losses	180,627	107,000
Gain from Affinity acquisition		(66,989)
(Gain) loss on sale of other real estate owned	(4,044)	1,320
Provision for losses on other real estate owned	14,778	13,697
(Gain) loss on sale of premises and equipment	(14)	12
Impairment loss on securities	874	
Restricted stock amortization	6,563	6,284
Tax effect included in stockholders' equity of restricted stock vesting	1,427	1,295
Increase in accrued and deferred income taxes, net	(41,718)	(13,276)
Decrease in FDIC loss sharing asset	40,470	
Decrease in other assets	13,578	11,351
Decrease in accrued interest payable and other liabilities	(8,991)	(20,037)
Net cash provided by operating activities	153,412	50,377
Cash flows from investing activities:		
Cash paid to FDIC in settlement of Security Pacific Bank deposit acquisition		(109)
Net cash acquired in Los Padres Bank and Affinity Bank acquisitions	171,366	251,679
Net decrease in net loans outstanding	24,043	71,708
Proceeds from sale of loans	204,164	30
Securities available-for-sale:		
Proceeds from maturities and paydowns	135,295	53,009
Purchases	(448,856)	(132,501)
Net redemptions of FHLB stock	3,744	
Proceeds from sales of other real estate owned	61,560	28,533
Capitalized costs to complete other real estate owned	(638)	(863)
Purchases of premises and equipment, net	(2,481)	(2,564)
Proceeds from sales of premises and equipment	28	69
Net cash provided by investing activities	148,225	268,991
Cash flows from financing activities:		
Net increase (decrease) in deposits:		
Noninterest-bearing	131,166	99,468
Interest-bearing	(177,006)	(395,272)
Net proceeds from issuance of common stock	26,587	148,782
Restricted stock surrendered	(836)	(929)
Tax effect included in stockholders' equity of restricted stock vesting	(1,427)	(1,295)
Net decrease in borrowings	(330,000)	(20,383)
Cash dividends paid	(1,084)	(10,800)

Net cash used in financing activities	(352,600)	(180,429)
Net (decrease) increase in cash and cash equivalents	(50,963)	138,939
Cash and cash equivalents at beginning of period	211,048	159,870
Cash and cash equivalents at end of period	$ 160,085	$ 298,809
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 32,163	$ 41,979
Cash paid for income taxes	810	11,625
Loans transferred to other real estate owned	45,669	43,800

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. We accept time and demand deposits, fund loans including real estate, construction, SBA and commercial loans, and offer other business oriented banking products. Our operations are primarily located in Southern California, but we expanded our presence in California's Central Coast with the acquisition of Los Padres Bank on August 20, 2010. See Note 2 for more information on this acquisition. The Bank focuses on conducting business with small to medium sized businesses in our marketplace and the owners and employees of those businesses. We acquired through two FDIC-assisted mergers three banking offices in the San Francisco Bay area and three offices in Arizona. Through our asset-based lending function, we also operate in Arizona, Northern California, 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, including the Los Padres Bank acquisition on August 20, 2010. See Notes 2 and 3 for more information about our acquisitions.

Basis of Presentation

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

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

Use of Estimates

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

PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

NOTE 1 BASIS OF PRESENTATION (Continued)

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

As described in Note 2 below, Pacific Western acquired assets and assumed liabilities of the former 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 year amounts have been reclassified to conform to the current year's presentation.

NOTE 2 ACQUISITIONS

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

For acquisitions completed prior to January 1, 2009, the estimated merger-related charges associated with each acquisition were recorded as a liability at closing when the related purchase price was allocated. For each acquisition, we developed an integration plan for the Company that addressed, among other things, requirements for staffing, systems platforms, branch locations and other facilities. The remaining merger-related liability totals $1.1 million at September 30, 2010 and represents the estimated lease payments, net of estimated sublease income, for the remaining life of leases for abandoned space.

Federally Assisted Acquisition of Los Padres Bank

On August 20, 2010, Pacific Western Bank acquired certain assets and liabilities of Los Padres Bank from the Federal Deposit Insurance Corporation ("FDIC") in an FDIC-assisted transaction. The FDIC assistance is embodied in a loss sharing agreement with the FDIC that covers a substantial portion of any future losses on loans and other real estate owned. Under the terms of such loss sharing agreement, the FDIC will absorb 80% of losses and share in 80% of loss recoveries. We refer to the acquired assets subject to the loss sharing agreement collectively as "covered assets." The loss sharing arrangement for single family and commercial (non-single family) loans is in effect for 10 years and 5 years, respectively, from the acquisition date and the loss recovery provisions are in effect for 10 years and 8 years, respectively, from the acquisition date. Los Padres was a federally chartered savings bank headquartered in Solvang, California that operated 14 branches, including 11 branches in California (three in Ventura County, four in Santa Barbara County, and four in San Luis Obispo County) and three branches in Arizona (Maricopa County). We made this acquisition to expand our presence in the Central Coast of California.

The operations of Los Padres Bank are included in our operating results from August 20, 2010, and added revenue of $2.8 million, non-interest expenses of $2.1 million, and net earnings of $420,000 for the third quarter of 2010. Such operating results are not necessarily indicative of future operating results. Los Padres' results of operations prior to the acquisition are not included in our operating results.

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PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

NOTE 2 ACQUISITIONS (Continued)

The Los Padres acquisition has been accounted for under the acquisition method of accounting. The assets and liabilities, both tangible and intangible, were recorded at their estimated fair values as of the August 20, 2010 acquisition date. Such fair values are preliminary estimates and are subject to adjustment for up to one year after the acquisition date or when additional information relative to closing date fair values becomes available and such information is considered final, whichever is earlier. The application of the acquisition method of accounting resulted in goodwill of $46.2 million. Such goodwill includes $9.5 million related to the FDIC's settlement accounting for Los Padres' wholly-owned subsidiary. We disagree with the FDIC's accounting for this item and are in process of negotiating with the FDIC to resolve this matter. Should we be successful in our negotiations, goodwill would be reduced by a cash payment to us from the FDIC of $9.5 million. No assurance can be given, however, that we will be successful in our efforts.

In the Los Padres acquisition, the estimated fair value of the liabilities assumed exceeded the estimated fair value of the assets acquired. The excess of the fair value of the liabilities assumed over the fair value of the assets acquired is goodwill. All of the recognized goodwill is expected to be deductible for tax purposes. The determination of goodwill is influenced significantly by the FDIC-assisted transaction process. Under the FDIC-assisted transaction process, only certain assets and liabilities are transferred to the acquirer and, depending on the nature and amount of the acquirer's bid, the FDIC may be required to make a cash payment to the acquirer. In the Los Padres Acquisition, we acquired net liabilities with cost basis of $160.8 million, received $144.0 million in a cash payment, and established a $13.4 million receivable from the FDIC that is net of the $3.4 million deposit premium we paid. The receivable from the FDIC is due at final settlement. A summary of the net liabilities received from the FDIC and the estimated fair value adjustments resulting in goodwill follows:

	August 20, 2010
	(In thousands)
Los Padres cost basis net liabilities on August 20, 2010	$ (160,794)
Cash received and due from the FDIC	160,794
Fair value adjustments	
Net increase (decrease) in acquired assets:	
Loans	(99,332)
Other real estate owned	(4,507)
FDIC loss sharing asset	69,244
Core deposit intangible	2,427
Receivable from subsidiary	(9,513)
Miscellaneous	(674)
Net (increase) decrease in assumed liabilities:	
Time deposits	(467)
FHLB advances	(13)
Total fair value adjustments	(42,835)
Deposit premium paid	(3,393)
Goodwill resulting from the Los Padres acquisition	$ 46,228

PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

NOTE 2 ACQUISITIONS (Continued)

The statement of assets acquired and liabilities assumed at their estimated fair values as of August 20, 2010 are presented in the following table.

	August 20, 2010 (In thousands)
Assets	
Cash and cash equivalents	$ 171,366
Investment securities	44,251
Loans	440,219
Other real estate owned	33,394
Core deposit intangible	2,427
Goodwill	46,228
FDIC loss sharing asset	69,244
Other assets	16,954
Total assets acquired at fair value	$ 824,083
Liabilities	
Deposits	$ 752,185
FHLB advances	70,013
Other liabilities	1,885
Total liabilities assumed at fair value	$ 824,083

Covered loans

We refer to the loans acquired in the Los Padres acquisition as "covered loans" as we will be reimbursed for a substantial portion of any future losses on them under the terms of the FDIC loss sharing agreement. We account for loans under ASC 310-30 ("acquired impaired loan accounting") when (a) we acquire loans deemed to be impaired when there is evidence of credit deterioration since the origination and it is probable at the date of acquisition that we would be unable to collect all contractually required payments and (b) as a general policy election for non-impaired loans that we acquire. We may refer to acquired loans accounted for under ASC 310-30 as "acquired impaired loans". Revolving credit agreements such as home equity lines and credit card loans are excluded from acquired impaired loan accounting requirements. We acquired $34.5 million, at fair value, of revolving credit agreements, mainly home equity loans and commercial asset-based lines of credit, where the borrower had revolving privileges on the acquisition date; we account for such revolving covered loans in accordance with accounting requirements for purchased non-impaired loans.

The acquired covered loans were recorded at their estimated fair value at the time of acquisition. Fair value of acquired loans is determined using a discounted cash flow model based on assumptions about the amount and timing of principal and interest payments, estimated prepayments, estimated default rates, estimated loss severity in the event of defaults, and current market rates. Estimated credit losses are included in the determination of fair value; therefore, an allowance for loan losses is not recorded on the acquisition date.

For acquired impaired loans, we (a) calculated the contractual amount and timing of undiscounted principal and interest payments (the "undiscounted contractual cash flows") and (b) estimated the

PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

NOTE 2 ACQUISITIONS (Continued)

amount and timing of undiscounted expected principal and interest payments (the "undiscounted expected cash flows"). Under acquired impaired loan accounting, the difference between the undiscounted contractual cash flows and the undiscounted expected cash flows is the nonaccretable difference. The nonaccretable difference represents an estimate of the loss exposure of principal and interest related to the covered acquired impaired loans portfolio and such amount is subject to change over time based on the performance of such covered loans. The carrying value of covered acquired impaired loans is reduced by payments received, both principal and interest, and increased by the portion of the accretable yield recognized as interest income.

The excess of expected cash flows at acquisition over the initial fair value of acquired impaired loans is referred to as the "accretable yield" and is recorded as interest income over the estimated life of the loans using the effective yield method if the timing and amount of the future cash flows is reasonably estimable. Subsequent to acquisition, the Company aggregates loans into pools of loans with common credit risk characteristics such as loan type and risk rating. Increases in expected cash flows over those originally estimated increase the accretable yield and are recognized as interest income prospectively. Decreases in the amount and changes in the timing of expected cash flows compared to those originally estimated decrease the accretable yield and usually result in a provision for loan losses and the establishment of an allowance for loan losses.

Under acquired impaired loan accounting, purchased loans 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 as long as the estimated cash flows are received as expected. If the timing and amount of cash flows is not reasonably estimable, the loans may be classified as nonaccrual loans and interest income may be recognized on a cash basis or as a reduction of the principal amount outstanding.

At the August 20, 2010 acquisition date, we estimated the fair value of the Los Padres loan portfolio at $440.2 million.

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PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

NOTE 2 ACQUISITIONS (Continued)

A summary of the covered loans acquired in the Los Padres acquisition as of August 20, 2010 and the related discount is as follows:

	August 20, 2010 (In thousands)
Commercial real estate	$ 233,560
Single family	113,371
Multi-family	65,835
Construction and land	55,217
Commercial and industrial	43,988
Home equity lines of credit	26,220
Consumer[1]	1,360
Total gross loans	539,551
Discount resulting from acquisition date fair value adjustment	(99,332)
Total net loans	$ 440,219

(1) Includes $828,000 of loans not covered by loss sharing agreement.

The carrying value of covered loans purchased in the Los Padres acquisition, where we applied acquired impaired loan accounting, was $405.7 million at August 20, 2010. The undiscounted contractual cash flows for such covered acquired impaired loans was $681.9 million and the undiscounted estimated cash flows not expected to be collected was $129.9 million on the acquisition date.

The accretable yield represents the amount by which the undiscounted expected cash flows exceed the estimated fair value. The accretable yield is measured at each financial reporting date and represents the difference between the remaining undiscounted expected cash flows and the current carrying value of the acquired impaired loans. As of August 20, 2010, the weighted average contractual maturity of the acquired impaired loans was 8 years. The following table summarizes the accretable yield on the covered loans purchased in the Los Padres acquisition and accounted for under acquired impaired loan accounting as of August 20, 2010:

	Accretable Yield (In thousands)
Undiscounted contractual cash flows	$ 681,936
Undiscounted cash flows not expected to be collected (nonaccretable difference)	(129,866)
Undiscounted cash flows expected to be collected	552,070
Estimated fair value of loans acquired	(405,656)
Acquired accrued interest receivable	(2,436)
Accretable yield	$ 143,978

Acquired revolving lines of credit were recorded at fair value. The carrying amount of covered revolving lines of credit was $34.5 million, net of a $12.2 million discount, at August 20, 2010. The difference between the loan balances and fair value will be accreted to interest income over the life of

PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

NOTE 2 ACQUISITIONS (Continued)

the loans on a straight-line basis. The estimated life of the purchased revolving lines of credit agreements was 6 years. Such loans will be subject to our allowance for credit loss methodology, and a provision for credit losses will be recorded when the required allowance exceeds the remaining credit discount.

Covered Other Real Estate Owned

Other real estate owned covered under loss sharing agreements with the FDIC is recorded at fair value and is also carried exclusive of the FDIC loss sharing asset. Subsequent decreases in fair value estimates for covered other real estate owned results in a reduction of the covered other real estate owned carrying amounts with a charge against earnings; further, a partial offset of such amount will be credited to FDIC loss sharing noninterest income reflecting the increase to the FDIC loss sharing asset.

FDIC Loss Sharing Asset

The FDIC loss sharing asset is initially recorded at fair value which represents the present value of the estimated cash payments from the FDIC for future losses on covered assets. The estimated gross cash flows associated with this asset are $74.9 million. 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.

Federally Assisted Acquisition of Affinity Bank

On August 28, 2009, Pacific Western Bank acquired certain assets and assumed certain liabilities of Affinity Bank ("Affinity") from the FDIC in an FDIC-assisted transaction. We entered into a loss sharing agreement with the FDIC, whereby the FDIC will cover a substantial portion of any future losses on loans, other real estate owned and certain investment securities. Under the terms of this loss sharing agreement, the FDIC will absorb 80% of losses and receive 80% of loss recoveries on the first $234 million of losses on Affinity covered assets and absorb 95% of losses and receive 95% of loss recoveries on Affinity covered assets exceeding $234 million. The Affinity loss sharing agreement is in effect for 5 years for commercial assets (non-residential loans, commercial OREO and certain securities) and 10 years for residential assets, both loans and OREO, from the August 28, 2009 acquisition date. The Affinity loss recovery provisions are in effect for 8 years for commercial assets and 10 years for residential assets from the acquisition date. Through September 30, 2010, we have claimed $116.1 million in gross losses related to covered assets under the loss sharing agreement. Affinity was a full service commercial bank headquartered in Ventura, California that operated 10 branch locations in California. We made this acquisition to expand our presence in California.

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

Unaudited Pro Forma Results of Operations

The following table presents our unaudited pro forma results of operations for the periods presented as if the Los Padres and Affinity acquisitions had been completed on January 1, 2009. The unaudited pro forma results of operations include the historical accounts of the Company, Los Padres and Affinity and pro forma adjustments as may be required, including the amortization of intangibles

PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

NOTE 2 ACQUISITIONS (Continued)

with definite lives and the amortization or accretion of any premiums or discounts arising from fair value adjustments for assets acquired and liabilities assumed. The unaudited pro forma information is intended for informational purposes only and is not necessarily indicative of our future operating results or operating results that would have occurred had this acquisition been completed at the beginning of 2009. No assumptions have been applied to the pro forma results of operations regarding possible revenue enhancements, expense efficiencies or asset dispositions.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(In thousands, except per share data)			
Revenues (net interest income plus noninterest income)	$ 79,760	$ 78,333	$ 239,269	$ 256,530
Net (loss) earnings	$ 3,888	$ (39,637)	$ (56,196)	$ (57,296)
Net (loss) income per share:				
Basic	$ 0.11	$ (1.23)	$ (1.61)	$ (1.84)
Diluted	$ 0.11	$ (1.23)	$ (1.61)	$ (1.84)

NOTE 3 GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill and intangible assets arise from purchase business combinations. 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 is recognized in an amount equal to that excess and is included in noninterest expense in the consolidated statement of earnings (loss). The implied fair value of goodwill is determined in the same manner as goodwill recognized in a business combination. First, the fair value of the reporting unit is determined, which is the price that would be received to sell the unit as a whole in an orderly transaction between market participants. Then, the estimated fair value of the reporting unit is allocated to all of the reporting unit's individual assets and liabilities as if the reporting unit had been acquired in a business combination and the estimated fair value of the reporting unit was the price paid to acquire it. The excess of the fair value of the reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. Goodwill in the amount $46.2 million was recorded in the August 2010 Los Padres acquisition.

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

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PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

NOTE 3 GOODWILL AND OTHER INTANGIBLE ASSETS (Continued)

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

	Three Months Ended			Nine Months Ended September 30,	
	September 30, 2010	June 30, 2010	September 30, 2009	2010	2009
	(In thousands)				
Gross amount of CDI and CRI:					
Balance at beginning of period	$ 75,911	$ 75,911	$ 73,099	$ 75,911	$ 72,990
Adjustment to Security Pacific Bank CDI					109
Additions	2,427		2,812	2,427	2,812
Balance at end of period	78,338	75,911	75,911	78,338	75,911
Accumulated amortization:					
Balance at beginning of period	(47,463)	(45,039)	(37,682)	(42,615)	(33,068)
Amortization	(2,434)	(2,424)	(2,578)	(7,282)	(7,192)
Balance at end of period	(49,897)	(47,463)	(40,260)	(49,897)	(40,260)
Net CDI and CRI at end of period	$ 28,441	$ 28,448	$ 35,651	$ 28,441	$ 35,651

The aggregate amortization expense related to the intangible assets is expected to be $9.7 million for 2010. The estimated aggregate amortization expense related to these intangible assets for each of the subsequent four years is $8.5 million for 2011, $6.1 million for 2012, $4.5 million for 2013, and $2.9 million for 2014.

NOTE 4 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 Affinity acquisition and are covered by a FDIC

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PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

NOTE 4 INVESTMENT SECURITIES (Continued)

loss sharing agreement. Other securities include an investment in overnight money market funds at a financial institution. See Note 9 for information on fair value measurements and methodology.

	September 30, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In thousands)			
Government-sponsored entity debt securities	$ 33,221	$ 124	$	$ 33,345
Municipal securities	7,439	208	(4)	7,643
Residental mortgage-backed securities:				
Government and government-sponsored entity pass through securities	621,622	15,714	(223)	637,113
Government and government-sponsored entity collateralized mortgage obligations	56,347	997	(106)	57,238
Covered private label collateralized mortgage obligations	48,163	5,619	(2,657)	51,125
Other securities	2,303			2,303
Total securities available-for-sale	$ 769,095	$ 22,662	$ (2,990)	$ 788,767

	December 31, 2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In thousands)			
Government-sponsored entity debt securities	$ 38,945	$ 22	$ (319)	$ 38,648
Municipal securities	7,880	334		8,214
Residental mortgage-backed securities:				
Government and government-sponsored entity pass through securities	232,717	3,655	(840)	235,532
Government and government-sponsored entity collateralized mortgage obligations	89,087	512	(2,702)	86,897
Covered private label collateralized mortgage obligations	52,967	713	(1,555)	52,125
Other securities	2,284			2,284
Total securities available-for-sale	$ 423,880	$ 5,236	$ (5,416)	$ 423,700

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.

PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

NOTE 4 INVESTMENT SECURITIES (Continued)

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:

	September 30, 2010	
	Amortized Cost	Estimated Fair Value
	(In thousands)	
Due in one year or less	$ 7,890	$ 7,928
Due after one year through five years	30,507	31,141
Due after five years through ten years	50,042	51,379
Due after ten years	680,656	698,319
Total securities available-for-sale	$ 769,095	$ 788,767

At September 30, 2010, 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 $617.0 million. We do not own any equity securities issued by Fannie Mae or Freddie Mac.

As of September 30, 2010, securities available-for-sale with an estimated fair value of $155.0 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:

	September 30, 2010						December 31, 2009	
	Less Than 12 Months		12 Months or Longer		Total		Less Than 12 Months	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
	(In thousands)							
Government-sponsored entity debt securities	$	$	$	$	$	$	$ 35,626	$ (319)
Municipal securities	236	(4)			236	(4)		
Residential mortgage-backed securities:								
Government and government-sponsored entity pass through securities	59,926	(223)			59,926	(223)	113,621	(840)
Government and government-sponsored entity collateralized mortgage obligations	6,127	(82)	2,685	(24)	8,812	(106)	64,661	(2,702)

Covered private label collateralized mortgage obligations	2,651	(1,303)	4,007	(1,354)	6,658	(2,657)	30,511	(1,555)
Total	$ 68,940	$ (1,612)	$ 6,692	$ (1,378)	$ 75,632	$ (2,990)	$ 244,419	$ (5,416)

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PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

NOTE 4 INVESTMENT SECURITIES (Continued)

We reviewed the securities that were in a continuous loss position less than 12 months and longer than 12 months at September 30, 2010, and concluded that their losses were a result of the level of market interest rates relative to the types of securities in our investment portfolio and not a result of the underlying issuers' abilities to repay. Accordingly, we determined that the securities were temporarily impaired. Additionally, we have the ability to hold these securities until their fair values recover to their costs, and therefore did not recognize the temporary impairment in the consolidated statements of earnings (loss).

During the quarter we determined that one covered private label collateralized mortgage obligation security was fully impaired due to deteriorating cash flows and significant delinquency of the underlying loan collateral and recorded an other-than-temporary impairment loss of $874,000 in the consolidated statement of earnings (loss). This loss is offset by FDIC loss sharing income of $699,000, which represents the FDIC's 80% share of the loss.

FHLB Stock

At September 30, 2010, the Company had a $57.3 million investment in Federal Home Loan Bank of San Francisco (FHLB) stock carried at cost. This amount includes $10.7 million acquired in the Los Padres acquisition. 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 four cash dividends, though at rates less than that paid in the past, and repurchased $3.7 million of our excess stock. We evaluated the carrying value of our FHLB stock investment at September 30, 2010 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 5 COVERED LOANS AND COVERED OTHER REAL ESTATE OWNED

Covered Loans

We refer to the loans acquired in the Los Padres and Affinity acquisitions as "covered loans" as we will be reimbursed for a substantial portion of any future losses on them under the terms of the FDIC loss sharing agreements. At the August 20, 2010 acquisition date, we estimated the fair value of the Los Padres loan portfolio at $440.2 million, which represented the expected cash flows from the

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PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

NOTE 5 COVERED LOANS AND COVERED OTHER REAL ESTATE OWNED (Continued)

portfolio discounted at a market-based rate. The carrying values of the covered loans were as follows as of the dates indicated:

	September 30, 2010	December 31, 2009
	(In thousands)	
Covered loans, gross	$ 1,183,105	$ 742,535
Less: discount	(176,786)	(102,849)
Covered loans, net of discount	1,006,319	639,686
Less: allowance for loan losses	(40,179)	(18,000)
Covered loans, net	$ 966,140	$ 621,686

The amount by which the undiscounted expected cash flows exceed the estimated fair value of the acquired impaired loans on the acquisition date is the initial accretable yield. The accretable yield is then measured at each financial reporting date and represents the difference between the remaining undiscounted expected cash flows and the current carrying value of the loans. The following table summarizes the changes 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 as of January 1, 2010	$ 621,686	$ (226,446)
Addition	405,656	(143,978)
Accretion	35,708	35,708
Payments received	(91,529)	
Decrease in expected cash flows		16,292
Provision for credit losses	(36,950)	
Balance as of September 30, 2010	$ 934,571	$ (318,424)

The carrying amount of covered revolving lines of credit is $31.6 million, net of a $12.1 million discount, at September 30, 2010.

The covered loans are subject to our internal and external credit review. If and when deterioration in the expected cash flows occurs, a provision for credit losses will be charged to earnings for the full amount without regard to the FDIC loss sharing agreements. The portion of the estimated loss reimbursable from the FDIC will be recorded in FDIC loss sharing income, net and will increase the FDIC loss sharing asset. During the third quarter of 2010 we recorded a provision for credit losses of $7.4 million on the covered loan portfolio; such provision represents credit deterioration since the Affinity acquisition date based on decreases in expected cash flows on certain covered loans measured as of September 30, 2010 compared to acquisition date expected cash flows. We recorded $6.4 million in FDIC loss sharing income, net during the third quarter of 2010 primarily to reflect the FDIC's share of this estimated loss.

PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

NOTE 5 COVERED LOANS AND COVERED OTHER REAL ESTATE OWNED (Continued)

Covered Other Real Estate Owned

Other real estate owned ("OREO") covered under loss sharing agreements with the FDIC ("covered OREO") is recorded at fair value and is also carried exclusive of the FDIC loss sharing asset. Subsequent decreases in fair value estimates for covered OREO result in a reduction of the covered OREO carrying amounts and an increase in the FDIC loss sharing asset for the reimbursable portion.

The following table summarizes covered OREO by property type as of the date indicated:

Property Type	September 30, 2010 (In thousands)
Construction and land development	$ 17,322
Commercial real estate	13,557
Multi-family	11,219
Single family residence	13,146
Total covered OREO	$ 55,244

The following table summarizes the activity related to the covered OREO for the period indicated:

	Covered OREO (In thousands)
Balance as of January 1, 2010	$ 27,688
Addition due to acquisition	33,394
Foreclosures	14,239
Write-downs from updated appraisals	(3,415)
Reductions related to sales	(16,662)
Balance as of September 30, 2010	$ 55,244

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 collectability of this asset is dependent upon the performance of the underlying covered assets, the

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PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

NOTE 6 FDIC LOSS SHARING ASSET (Continued)

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 as of January 1, 2010	$ 112,817
Addition due to acquisition	69,244
FDIC share of additional losses	31,377
Cash payments received from FDIC	(70,160)
Net accretion	(2,470)
Reclassification to claims receivable	(8,767)
Subtotal	132,041
Filed claims receivable[1]	9,550
Balance as of September 30, 2010	$ 141,591

(1) Represents second quarter 2010 claim filed with the FDIC for losses on covered assets related to the Affinity acquisition. We received payment from the FDIC for this claim on October 28, 2010.

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:

	September 30, 2010		
Maturity Date	Amount (In thousands)	Interest Rate	Next Date Callable by FHLB
January 11, 2013	$ 50,000	2.71%	January 11, 2011(1)
December 11, 2017	200,000	3.16%	December 11, 2010(1)
January 11, 2018	25,000	2.61%	January 11, 2011(1)
Total FHLB advances	$ 275,000	3.03%	

(1) Callable quarterly thereafter by FHLB.

The FHLB advances outstanding at September 30, 2010, are 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 $925.8 million at September 30, 2010. Additionally, the Bank had secured borrowing capacity from the Federal Reserve discount window of

PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

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

$387.2 million at September 30, 2010. The Bank also maintains unsecured lines of credit of $52.0 million with correspondent banks for the purchase of overnight funds; these lines are subject to availability of funds. We acquired and retired $70.0 million in FHLB advances in the Los Padres acquisition.

Subordinated Debentures

The Company had an aggregate amount of $129.6 million in subordinated debentures outstanding at September 30, 2010. These subordinated debentures were issued in seven separate series. Each issuance has a maturity of thirty years from its date of issue. The subordinated debentures were issued to trusts established by us or entities we have acquired, which in turn issued trust preferred securities, which total $123.0 million at September 30, 2010. With the exception of Trust I and Trust CI, the subordinated debentures are callable at par, only by the issuer, five years from the date of issuance, subject to certain exceptions. We were permitted to call the debentures in the first five years if the prepayment election relates to one of the following three events: (i) a change in the tax treatment of the debentures stemming from a change in the IRS laws; (ii) a change in the regulatory treatment of the underlying trust preferred securities as Tier 1 capital; and (iii) a requirement to register the underlying trust as a registered investment company. However, redemption in the first five years 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 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 or we no longer need to provide notice under applicable regulations.

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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)

The following table summarizes the terms of each issuance of the subordinated debentures outstanding as of September 30, 2010:

Series	Date Issued	September 30, 2010 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	3 month LIBOR + 3.10	3.39%	12/15/10
Trust VI	9/3/03	10,310	9/15/33	(1)	Variable	3 month LIBOR + 3.05	3.34%	12/11/10
Trust CII	9/17/03	5,155	9/17/33	(1)	Variable	3 month LIBOR + 2.95	3.24%	12/15/10
Trust VII	2/5/04	61,856	4/23/34	(1)	Variable	3 month LIBOR + 2.75	3.04%	1/28/11
Trust CIII	8/15/05	20,619	9/15/35	(1)	Variable	3 month LIBOR + 1.69	1.98%	12/15/10
Unamortized premium[(3)]		2,840						
Total subordinated debentures		$ 129,648						

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

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

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

As previously mentioned, the subordinated debentures were issued to trusts established by us, or entities we acquired, which in turn issued $123.0 million of trust preferred securities. These securities are currently included in our Tier I capital for purposes of determining the Company's Tier I and total risk-based capital ratios. The Board of Governors of the Federal Reserve System, which is the holding company's banking regulator, has promulgated a modification of the capital regulations affecting trust preferred securities that is scheduled to be effective on March 31, 2011. At that time, the Company will be allowed to include in Tier I capital an amount of trust preferred securities equal to no more than 25% of the sum of all core capital elements, which is generally defined as shareholders' equity less certain intangibles, including goodwill, core deposit intangibles and customer relationship intangibles, net of any related deferred income tax liability. The regulations currently in effect through December 31, 2010, limit the amount of trust preferred securities that can be included in Tier I capital to 25% of the sum of core capital elements without a deduction for permitted intangibles. We have determined that our Tier I capital ratios would remain above the well-capitalized level had the modification of the capital regulations been in effect at September 30, 2010. We expect that our Tier I capital ratios will be at or above the existing well-capitalized levels on March 31, 2011, the first date on which the modified capital regulations must be applied.

The Dodd-Frank Wall Street Reform and Consumer Protection Act, which was signed into law on July 21, 2010, provides that existing trust preferred securities issued before May 19, 2010 are grandfathered in as Tier 1 capital for all bank holding companies having less than $15 billion in

PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

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

consolidated total assets at December 31, 2009. Since our consolidated total assets were less than $15 billion at December 31, 2009, our trust preferred securities will continue to be included in Tier 1 capital at the allowable amounts.

Brokered Deposits

Brokered deposits totaled $159.7 million at September 30, 2010 and are included in the interest-bearing deposits balance on the accompanying condensed consolidated balance sheets. Such amount includes (a) $55.2 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, and (b) $104.5 million of wholesale CDs.

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 amounting to $739.1 million and $790.6 million were outstanding at September 30, 2010 and December 31, 2009, 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 amounting to $24.4 million and $31.2 million were outstanding at September 30, 2010 and December 31, 2009, 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 September 30, 2010 the Company had commitments to contribute capital to these entities totaling $177,000.

Legal Matters

In the ordinary course of our business, we are party to various legal actions, which we believe are incidental to the operation of our business. The ultimate outcome and amount of liability, if any, with

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PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

NOTE 8 COMMITMENTS AND CONTINGENCES (Continued)

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

NOTE 9 FAIR VALUE MEASUREMENTS

ASC 820, *Fair Value Measurements and Disclosures,* defines fair value, establishes a framework for measuring fair value including a three-level valuation hierarchy, and expands disclosures about fair value measurements. Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement 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 September 30, 2010			
	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:				
Government-sponsored entity debt securities	$ 33,345	$	$ 33,345	$
Municipal securities	7,643		7,643	
Government and government-sponsored enitity mortgage-backed securities	694,351		694,351	
Covered private label CMOs	51,125			51,125
Other securities	2,303		2,303	
	$ 788,767	$	$ 737,642	$ 51,125
Measured on a Nonrecurring Basis:				
Non-covered impaired loans	$ 136,743	$	$ 18,734	$ 118,009
Covered impaired loans	59,334		51,373	7,961
Non-covered other real estate owned	12,753		11,972	781
Covered other real estate owned	10,664		10,568	96
SBA loan servicing asset	1,669			1,669
	$ 221,163	$	$ 92,647	$ 128,516

There were no significant transfers of assets between Level 1 and Level 2 of the fair value hierarchy during the three and nine months ended September 30, 2010.

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

	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2010
	(In thousands)	
Non-covered impaired loans	$ (14,958)	$ (28,215)
Covered impaired loans	(7,166)	(25,633)
Non-covered other real estate owned	(1,571)	(8,042)
Covered other real estate owned	(1,038)	(3,091)
SBA loan servicing asset		139
Total loss on assets measured on a nonrecurring basis	$ (24,733)	$ (64,842)

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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, 2010	$ 52,125
Total realized in earnings	1,055
Other-than-temporary impairment loss	(874)
Total unrealized in comprehensive income	3,804
Principal collections	(4,985)
Balance as of September 30, 2010	$ 51,125

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:

	September 30, 2010		December 31, 2009	
	Carrying or Contract Amount	Estimated Fair Value	Carrying or Contract Amount	Estimated Fair Value
	(In thousands)			
Financial Assets:				
Cash and due from banks	$ 91,615	$ 91,615	$ 93,915	$ 93,915
Interest-earning deposits in financial institutions	68,470	68,470	117,133	117,133
Securities available-for-sale	788,767	788,767	423,700	423,700
Investment in FHLB stock	57,332	57,332	50,429	50,429
Loans, net	4,188,055	4,175,933	4,210,352	4,195,805
Financial Liabilities:				
Deposits	4,800,914	4,816,420	4,094,569	4,102,467
Borrowings	275,000	299,455	542,763	557,363
Subordinated debentures	129,648	134,369	129,798	146,413

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.

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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. Also see Note 4 for further information on unrealized gains and losses on securities available-for-sale.

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

Our covered private label collateralized mortgage obligation securities, which 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. We recorded $874,000 in losses on impaired securities for the three and nine months ended September 30, 2010 for a security with a fair value of zero as of September 30, 2010.

FHLB stock. The fair value of FHLB stock is based on our recorded investment. 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 four cash dividends, though at rates less than that paid in the past, and the FHLB recently redeemed $3.7 million 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 September 30, 2010 or December 31, 2009.

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

PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

NOTE 9 FAIR VALUE MEASUREMENTS (Continued)

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

Non-covered impaired loans. Non-covered impaired loans are measured and recorded at fair value on a non-recurring basis. All of our non-covered nonaccrual loans and restructured loans are considered impaired and are reviewed individually for the amount of impairment, if any. 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. Of the $105.5 million of nonaccrual loans at September 30, 2010, loans totaling $13.0 million were written down to their fair values through charge-offs during the quarter. We recorded $585,000 and $1.1 million in losses on impaired loans for the three and nine months ended September 30, 2010 for loans with a fair value of zero as of September 30, 2010. At September 30, 2010, the recorded investment in non-covered impaired loans with a related allowance is $140.0 million and the related allowance is $16.3 million.

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

Other real estate owned. The fair value of foreclosed real estate, both non-covered and covered, is generally based on estimated market prices from independently prepared current appraisals or negotiated sales prices with potential buyers; such valuation inputs result in a fair value measurement that is categorized as a Level 2 measurement on a nonrecurring basis. As a matter of policy, appraisals are required annually and may be updated more frequently as circumstances require in the opinion of management. With the deterioration of real estate values during this economic downturn, appraisals have been obtained more regularly and as a result our Level 2 measurement is based on appraisals that are generally less than 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

PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

NOTE 9 FAIR VALUE MEASUREMENTS (Continued)

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.

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 $1.7 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.

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

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PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

NOTE 9 FAIR VALUE MEASUREMENTS (Continued)

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 September 30, 2010, the amounts that will actually be realized or paid at settlement or maturity of the instruments could be significantly different.

NOTE 10 NET EARNINGS (LOSS) PER SHARE

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

	Three Months Ended			Nine Months Ended September 30,	
	September 30, 2010	June 30, 2010	September 30, 2009	2010	2009
	(In thousands, except per share data)				
Basic Earnings (Loss) Per Share:					
Net earnings (loss)	$ 3,500	$ 2,705	$ 2,725	$ (54,328)	$ (1,570)
Less: earnings allocated to unvested restricted stock[1]	(126)	(99)	(93)	(24)	(240)
Net earnings (loss) allocated to common shares	$ 3,374	$ 2,606	$ 2,632	$ (54,352)	$ (1,810)
Weighted-average basic shares and unvested restricted stock outstanding	36,712.4	36,732.9	33,308.0	36,355.1	32,473.5
Less: weighted-average unvested restricted stock outstanding	(1,375.1)	(1,420.6)	(1,203.2)	(1,347.6)	(1,245.1)
Weighted-average basic shares outstanding	35,337.3	35,312.3	32,104.8	35,007.5	31,228.4
Basic earnings (loss) per share	$ 0.10	$ 0.07	$ 0.08	$ (1.55)	$ (0.06)
Diluted Earnings (Loss) Per Share:					
Net earnings (loss) allocated to common shares	$ 3,374	$ 2,606	$ 2,632	$ (54,352)	$ (1,810)
Weighted-average basic shares outstanding	35,337.3	35,312.3	32,104.8	35,007.5	31,228.4
Add: warrants outstanding		86.8			
Weighted-average diluted shares outstanding	35,337.3	35,399.1	32,104.8	35,007.5	31,228.4
Diluted earnings (loss) per share	$ 0.10	$ 0.07	$ 0.08	$ (1.55)	$ (0.06)

(1)

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

PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

NOTE 11 STOCK COMPENSATION PLANS

Restricted Stock

At September 30, 2010, there were outstanding 859,594 shares of unvested time-based restricted common stock and 500,000 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.

Compensation expense related to awards of restricted stock is based on the fair value of the underlying stock on the award date and is recognized over the vesting period using the straight-line method. The vesting of performance-based restricted stock awards and recognition of related compensation expense may occur over a shorter vesting period if financial performance targets are achieved earlier than anticipated. In 2007, the amortization of certain performance-based restricted stock awards was suspended. In 2008 we concluded it was improbable that the financial targets would be met for the performance-based stock awards and we reversed the accumulated amortization on those awards. If and when the attainment of such performance targets is deemed probable in future periods, a catch-up adjustment will be recorded and amortization of such performance-based restricted stock will begin again. The total amount of unrecognized compensation expense related to the performance-based restricted stock for which amortization was suspended totaled $26.6 million at September 30, 2010. The unvested performance-based restricted stock awarded in 2006 expires in 2013. The unvested performance-based restricted stock awarded in 2007 and 2008 expires in 2017. Restricted stock amortization totaled $2.1 million, $2.2 million and $2.2 million for the three months ended September 30, 2010, June 30, 2010 and September 30, 2009, respectively, and $6.6 million and $6.3 million for the nine months ended September 30, 2010 and 2009, 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 November 1, 2010, there were 1,193,662 shares available for grant under the 2003 Plan.

NOTE 12 RECENT ACCOUNTING PRONOUNCEMENTS

FASB ASC 810 Consolidation ("ASC 810") became effective for us on January 1, 2010, and was amended to change how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a company is required to consolidate an entity is based on, among other things, an entity's purpose and design and a company's ability to direct the activities of the entity that most significantly impact the entity's economic performance. The new authoritative accounting guidance requires additional

PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

NOTE 12 RECENT ACCOUNTING PRONOUNCEMENTS (Continued)

disclosures about the reporting entity's involvement with variable-interest entities and any significant changes in risk exposure due to that involvement as well as its affect on the entity's financial statements. The new authoritative accounting guidance under ASC 810 did not have an impact on our financial statements.

FASB ASC 860 Transfers and Servicing ("ASC 860") was amended to enhance reporting about transfers of financial assets, including securitizations, and where companies have continuing exposure to the risks related to transferred financial assets. The new authoritative accounting guidance eliminates the concept of a "qualifying special-purpose entity" and changes the requirements for derecognizing financial assets. The new authoritative accounting guidance also requires additional disclosures about all continuing involvements with transferred financial assets including information about gains and losses resulting from transfers during the period. The new authoritative accounting guidance under ASC 860 was effective January 1, 2010 and did not have an impact on our financial statements.

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

In April 2010, the FASB issued ASU 2010-18, "*Effect of a Loan Modification When the Loan is Part of a Pool That is Accounted for as a Single Asset*". ASU 2010-18 requires that a modified loan in a pool of purchased credit-impaired loans remain in the pool even if the modification would otherwise be considered a troubled debt restructuring. An entity will continue to be required to consider whether the pool of assets in which the loan is included is impaired if expected cash flows for the pool change. A one-time election to terminate accounting for loans in a pool, which may be made on a pool-by-pool basis, is provided upon adoption of ASU 2010-18. This ASU is effective for modifications of loans accounted for within pools under ASC Subtopic 310-30, "*Loans and Debt Securities Acquired with Deteriorated Credit Quality,*" occurring in the first interim and annual reporting period ending on or after July 15, 2010. ASU 2010-18 is to be applied prospectively, but early application is permitted. We adopted the provisions of this ASU effective September 30, 2010; such adoption had no material effect on our financial statements.

In July 2010, the FASB issued ASU 2010-20, "*Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*." ASU 2010-20 requires additional information about credit risk exposure for financing receivables and the related allowance for loan losses including an allowance rollforward on a portfolio segment basis, the recorded investment in financing receivables on a portfolio segment basis, the nonaccrual status of financing receivables by class, impaired financing receivables by class, aging of past due receivables by class, credit quality indicators by class, troubled debt restructurings information by class, and significant purchases and sales of financing receivables. ASU 2010-20 defines portfolio segment as the level at which an entity develops and documents a

PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

NOTE 12 RECENT ACCOUNTING PRONOUNCEMENTS (Continued)

systematic method for determining its allowance for loan losses. Classes of financing receivables generally are a disaggregation of portfolio segments. The required disclosures will be effective for us on December 31, 2010, and will be included in our 2010 Annual Report on Form 10-K. Adoption of this standard is not expected to have a material impact on our financial statements.

NOTE 13 COMMON STOCK

On March 1, 2010 holders of 1,348,040 warrants to acquire PacWest Bancorp common stock exercised such warrants for net proceeds of $26.6 million. The warrants, which had a strike price of $20.20 per share, represented 99% of the 1,361,656 six-month warrants issued in August 2009. The additional 1,361,657 million warrants that were issued in August 2009 with a strike price of $20.20 expired unexercised during August 2010.

NOTE 14 DIVIDED APPROVAL

On November 3, 2010, our Board of Directors declared a quarterly cash dividend of $0.01 per common share payable on November 30, 2010, to stockholders of record at the close of business on November 15, 2010.

NOTE 15 SUBSEQUENT EVENTS

We have evaluated events that have occurred subsequent to September 30, 2010 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;

- 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 community bank offering a broad range of banking products and services including: accepting time and demand deposits; originating loans, including commercial, real estate construction, SBA-guaranteed, consumer, and international loans; and providing other business-oriented products. Our operations are primarily located in Southern California and the Bank focuses on conducting business with small to medium-sized businesses and the owners and employees of those businesses in our marketplace. We acquired through two FDIC-assisted mergers three banking offices in the San Francisco Bay area and three offices in Arizona. Through our asset-based lending operation we also operate in Arizona, Northern California, and the Pacific Northwest. At September 30, 2010, our assets totaled $5.7 billion, of which loans totaled $4.3 billion, including $996.1 million of covered loans. At that date, the loan portfolio was broken down as follows: approximately 74% were real estate mortgage loans, 18% were commercial loans, 7% were real estate construction loans, and less than 1% were consumer and other loans. These percentages include some foreign loans, primarily to individuals or entities with business in Mexico, representing 1% of total non-covered loans. Our portfolio's value and credit quality is affected in large part by real estate trends in Southern California, which have been negative over the last several quarters.

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

Los Padres Acquisition

On August 20, 2010, Pacific Western Bank acquired certain assets and liabilities of Los Padres Bank from the Federal Deposit Insurance Corporation ("FDIC") in an FDIC-assisted transaction. As of that date, we added $824.1 million in assets, consisting primarily of $440.2 million in loans, and $752.2 million in deposits. The acquisition enabled us to expand our presence in California's Central Coast. We added 14 branches, including 11 branches in California (three in Ventura County, four in Santa Barbara County, and four in San Luis Obispo County) and three branches in Arizona (in Maricopa County). We entered into a loss sharing agreement with the FDIC, whereby the FDIC will cover a substantial portion of any future losses on loans and other real estate owned. Under the terms of such loss sharing agreement, the FDIC will absorb 80% of losses and share in 80% of loss recoveries. The loss sharing arrangement for non-residential and residential loans is in effect for 5 years and 10 years from the August 20, 2010 acquisition date and the loss recovery provisions are in effect for 8 years and 10 years, respectively, from the acquisition date.

The acquisition has been accounted for under the acquisition method of accounting. The assets and liabilities, both tangible and intangible, were recorded at their estimated fair values as of the August 20, 2010 acquisition date. Such fair values are preliminary estimates and are subject to adjustment for up to one year after the acquisition date or when additional information relative to closing date fair values becomes available and such information is considered final, whichever is earlier. The application of the acquisition method of accounting resulted in $46.2 million of goodwill. Such goodwill represents the excess of the estimated fair value of the liabilities assumed over the estimated fair value of the assets acquired. See Note 2 of the Notes to unaudited Consolidated Financial Statements for additional information regarding the acquisition.

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July 1, 2010 Loan Portfolio Purchase

On July 1, 2010, we purchased a $234.1 million portfolio of 225 performing loans secured by Southern California real estate for a cash price of $228.3 million. Such loans had a weighted average coupon interest rate of 6.15% and a weighted average maturity of 4.6 years. These loans were part of the Foothill Independent Bank loan portfolio that we acquired when we completed the Foothill Independent Bancorp acquisition in May 2006. In March 2007, we sold a 95% participating interest in these loans for cash and continued to service them and maintain the borrower relationships. When the opportunity to purchase this loan portfolio presented itself, we concluded it would be in the best interests of the Company and the Bank to make this purchase as (a) we are familiar with the credit risk and (b) it would deploy excess liquidity and enhance interest income and the net interest margin.

February 2010 Non-Covered Loan Sale

On February 23, 2010, the Bank sold 61 non-covered adversely classified loans totaling $323.6 million to an institutional buyer for $200.6 million in cash. The difference between the amount of the loans sold and the cash selling price of $123.0 million was charged to the allowance for loan losses at the time of the sale. Such charge-off was offset by $51.6 million in allowance previously allocated to the loans sold. The sale was on a servicing-released basis and without recourse to Pacific Western Bank. All loans sold were legacy Pacific Western Bank loans and none were covered loans. The loans sold included $110.5 million in nonaccrual loans and $105.1 million in restructured loans. The loan sale was intended to reduce non-covered loan concentrations and improve credit quality measures.

Recent Legislation

On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"). The Dodd-Frank Act contains numerous provisions that will affect all banks and bank holding companies, and will fundamentally change the system of oversight described in Part I, Item 1 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2009 under the caption "Business Supervision and Regulation." The Dodd-Frank Act includes provisions that, among other things, will:

- Centralize responsibility for consumer financial protection by creating a new agency responsible for implementing, examining and, for large financial institutions, enforcing compliance with federal consumer financial laws. At the federal level, the FDIC will continue to examine us for compliance with such laws.

- Change the assessment base for federal deposit insurance from the amount of insured deposits to consolidated assets less tangible capital, eliminate the ceiling on the size of the Deposit Insurance Fund (the "DIF") and increase the floor of the size of the DIF.

- Apply the same leverage and risk-based capital requirements that apply to insured depository institutions to most bank holding companies.

- Require the FDIC and the FRB to seek to make their respective capital requirements for state nonmember banks and bank holding companies countercyclical so that capital requirements increase in times of economic expansion and decrease in times of economic contraction.

- Implement corporate governance revisions, including with regard to executive compensation and proxy access by shareholders that apply to all public companies not just financial institutions.

- Make permanent the $250,000 limit for federal deposit insurance and provide unlimited federal deposit insurance until January 1, 2013 for noninterest-bearing demand transaction accounts at all insured depository institutions.

Repeal the federal prohibitions on the payment of interest on demand deposits, thereby permitting depository institutions to pay interest on business transaction and other accounts.

Increase the authority of the FRB to examine us and any of our non-bank subsidiaries.

Authorize the FDIC to assess the cost of examinations (the FDIC does not currently assess fees for examining the Bank).

Some of these provisions may have the consequence of increasing our expenses, decreasing our revenues, and changing the activities in which we choose to engage. The environment in which banking organizations will now operate, including legislative and regulatory changes affecting capital, liquidity, supervision, permissible activities, corporate governance and compensation, changes in fiscal policy and steps to eliminate government support for banking organizations, may have long-term effects on the business model and profitability of banking organizations that cannot now be foreseen. The specific impact of the Dodd-Frank Act on our current activities or new financial activities we may consider in the future, our financial performance and the markets in which we operate will depend on the manner in which the relevant agencies develop and implement the required regulations and the reaction of market participants to these regulatory developments. Many aspects of the Dodd-Frank Act are subject to rulemaking and will take effect over several years, making it difficult to anticipate the overall financial impact on us, our customers or the financial industry more generally.

Key Performance Indicators

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

The Level of Our Net Interest Income

Net interest income is the excess of interest earned on our interest-earning assets over the interest paid on our interest-bearing liabilities. The low market interest rate environment throughout 2009 and continuing in 2010 has reduced our net interest margin relative to our historical performance. A sustained low interest rate environment combined with low loan growth may lower both our net interest income and net interest margin going forward.

Our primary interest-earning asset is loans. Our primary interest-bearing liabilities include deposits, borrowings, and subordinated debentures. We attribute our high net interest margin to our loan-to-deposit ratio and a high level of noninterest-bearing deposits. While our deposit balances will fluctuate depending on deposit holders' perceptions of alternative yields available in the market, we attempt to minimize these variances by attracting a high percentage of noninterest-bearing deposits, which have no expectation of yield. At September 30, 2010, approximately 31% of our total deposits were noninterest-bearing.

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

Loan Growth

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

The Magnitude of Credit Losses

We stress credit quality in originating and monitoring the loans we make and measure our success by the levels of our nonperforming assets, net charge-offs and allowance for credit losses. Our allowance for credit losses is the sum of our allowance for loan losses and our reserve for unfunded loan commitments and relates only to our non-covered loans. Provisions for credit losses are charged to operations as and when needed for both on and off balance sheet credit exposure. Loans which are deemed uncollectible are charged off and deducted from the allowance for loan losses. Recoveries on loans previously charged off are added to the allowance for loan losses. During the three months ended September 30, 2010, we made a provision for credit losses totaling $24.5 million composed of $17.1 million on non-covered loans and $7.4 million on covered loans. The provision on the non-covered loan portfolio was based on our allowance methodology and reflected net charge-offs and the levels 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 an increase in the covered loan allowance for credit losses resulting from lower expected cash flows on covered loans since the Affinity acquisition date.

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

The Level of Our Noninterest Expense

Our noninterest expense includes fixed and controllable overhead, the major components of which are compensation, occupancy, insurance and assessments, data processing, professional fees and communications expense. We measure success in controlling such costs through monitoring of the efficiency ratio. We calculate the efficiency ratio by dividing noninterest expense by net revenues (the sum of net interest income plus noninterest income). Accordingly, a lower percentage reflects lower operating expenses relative to net revenue. The consolidated operating efficiency ratios have been as follows:

Three Months Ended:	**Efficiency Ratio**
September 30, 2010	60.8%
June 30, 2010	61.4%
March 31, 2010	63.8%
December 31, 2009	53.7%
September 30, 2009	37.1%

The decrease in the efficiency ratio for the third quarter of 2010 compared to the second quarter of 2010 was due mostly to higher revenues attributable to higher interest income related to the July real estate loan purchase and the Los Padres acquisition. The gain from the Affinity acquisition reduced the third quarter of 2009 efficiency ratio by 4,840 basis points from 85.5% to 37.1%.

Critical Accounting Policies

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

Results of Operations

Non-GAAP Measurements

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

These non-GAAP financial measures are presented for supplemental informational purposes only for understanding the Company's operating results and should not be considered a substitute for financial information presented in accordance with United States generally accepted accounting

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

GAAP to Non-GAAP Reconciliations	September 30, 2010	June 30, 2010	December 31, 2009
	(Dollars in thousands)		
PacWest Bancorp Consolidated:			
Stockholders' equity	$ 493,762	$ 486,585	$ 506,773
Less: intangible assets	74,669	28,448	33,296
Tangible common equity	$ 419,093	$ 458,137	$ 473,477
Total assets	$ 5,742,922	$ 5,153,682	$ 5,324,079
Less: intangible assets	74,669	28,448	33,296
Tangible assets	$ 5,668,253	$ 5,125,234	$ 5,290,783
Equity to assets ratio	8.60%	9.44%	9.52%
Tangible common equity ratio(1)	7.39%	8.94%	8.95%
Pacific Western Bank:			
Stockholder's equity	$ 582,335	$ 573,227	$ 585,940
Less: intangible assets	74,669	28,448	33,296
Tangible common equity	$ 507,666	$ 544,779	$ 552,644
Total assets	$ 5,728,353	$ 5,141,150	$ 5,313,750
Less: intangible assets	74,669	28,448	33,296
Tangible assets	$ 5,653,684	$ 5,112,702	$ 5,280,454
Equity to assets ratio	10.17%	11.15%	11.03%
Tangible common equity ratio(1)	8.98%	10.66%	10.47%

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

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Earnings Performance

Summarized financial information for the periods indicated are as follows:

	Three Months Ended			Nine Months Ended September 30,	
	September 30, 2010	June 30, 2010	September 30, 2009	2010	2009
	(Dollars in thousands, except per share data)				
Earnings Summary:					
Net interest income	$ 65,167	$ 57,617	$ 54,237	$ 180,807	$ 153,719
Noninterest income	10,785	12,082	72,625	44,136	84,079
Net revenues	75,952	69,699	126,862	224,943	237,798
Provision for credit losses	(24,450)	(22,950)	(75,000)	(180,627)	(107,000)
Noninterest expense	(46,174)	(42,773)	(47,091)	(139,517)	(133,991)
Income tax (expense) benefit	(1,828)	(1,271)	(2,046)	40,873	1,623
Net earnings (loss)	$ 3,500	$ 2,705	$ 2,725	$ (54,328)	$ (1,570)
Average interest-earning assets	$ 5,089,703	$ 4,768,527	$ 4,553,398	$ 4,886,964	$ 4,296,293
Profitability Measures:					
Earnings (loss) per share:					
Basic	$ 0.10	$ 0.07	$ 0.08	$ (1.55)	$ (0.06)
Diluted	$ 0.10	$ 0.07	$ 0.08	$ (1.55)	$ (0.06)
Annualized return (loss) on:					
Average assets	0.25%	0.21%	0.22%	(1.37)%	(0.05)%
Average equity	2.82%	2.26%	2.23%	(14.74)%	(0.44)%
Net interest margin	5.08%	4.85%	4.73%	4.95%	4.78%
Efficiency ratio	60.8%	61.4%	37.1%	62.0%	56.3%

Third Quarter of 2010 Compared to Second Quarter of 2010

Net earnings for the third quarter of 2010 were $3.5 million, or $0.10 per diluted share, compared to net earnings of $2.7 million, or $0.07 per diluted share, for the second quarter of 2010. The $795,000 improvement in third quarter net earnings compared to the prior quarter is due mostly to the combination of higher net interest income offset by higher net credit-related costs and higher noninterest expense.

Third Quarter of 2010 Compared to Third Quarter of 2009

Net earnings for the third quarter of 2010 were $3.5 million, or $0.10 per diluted share, compared to net earnings of $2.7 million, or $0.08 per diluted share, for the third quarter of 2009. The increase in net earnings for the current quarter reflected higher net interest income and lower net credit-related costs, offset by lower noninterest income compared to the same period last year.

Nine Months of 2010 Compared to Nine Months of 2009

The net loss of $54.3 million, or $1.55 per diluted share, for the nine months ended September 30, 2010 compared to a net loss of $1.6 million, or $0.06 per diluted share, for the nine months ended September 30, 2009. The higher net loss for the 2010 period compared to the 2009 period was due mostly to two factors: the 2009 gain recorded in connection with the Affinity acquisition and the higher credit loss provisions in 2010 from the Company's sale of $323.6 million of classified loans in the first quarter and higher non-covered loan charge-offs.

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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:

	Three Months Ended								
	September 30, 2010			June 30, 2010			September 30, 2009		
	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)]	$ 4,123,684	$ 68,480	6.59%	$ 3,809,546	$ 62,314	6.56%	$ 4,140,220	$ 64,658	6.20%
Investment securities[(1)]	757,945	6,519	3.41%	584,368	5,702	3.91%	262,816	2,741	4.14%
Deposits in financial institutions	208,074	131	0.25%	374,613	245	0.26%	150,358	111	0.29%
Federal funds sold							4		
Total interest-earning assets	5,089,703	$ 75,130	5.86%	4,768,527	$ 68,261	5.74%	4,553,398	$ 67,510	5.88%
Other assets	455,323			413,103			304,817		
Total assets	$ 5,545,026			$ 5,181,630			$ 4,858,215		
LIABILITIES AND STOCKHOLDERS' EQUITY									
Interest checking deposits	$ 466,366	$ 262	0.22%	$ 438,945	$ 338	0.31%	$ 402,503	$ 420	0.41%
Money market deposits	1,246,585	2,034	0.65%	1,203,527	2,773	0.92%	1,001,609	3,024	1.20%
Savings deposits	124,132	63	0.20%	112,909	58	0.21%	111,184	53	0.19%
Time deposits	1,281,423	4,016	1.24%	1,068,033	3,776	1.42%	841,001	4,257	2.01%
Total interest-bearing deposits	3,118,506	6,375	0.81%	2,823,414	6,945	0.99%	2,356,297	7,754	1.31%
Borrowings	276,543	2,129	3.05%	303,877	2,216	2.92%	567,320	3,989	2.79%
Subordinated debentures	129,683	1,459	4.46%	129,732	1,483	4.59%	129,876	1,530	4.67%
Total interest-bearing liabilities	3,524,732	$ 9,963	1.12%	3,257,023	$ 10,644	1.31%	3,053,493	$ 13,273	1.72%
Noninterest-bearing demand deposits	1,472,366			1,403,348			1,274,968		
Other liabilities	55,450			41,053			44,117		
Total liabilities	5,052,548			4,701,424			4,372,578		
Stockholders' equity	492,478			480,206			485,637		
Total liabilities and stockholders' equity	$ 5,545,026			$ 5,181,630			$ 4,858,215		
Net interest income		$ 65,167			$ 57,617			$ 54,237	
Net interest rate spread			4.73%			4.43%			4.16%
Net interest margin			5.08%			4.85%			4.73%

(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.

Third Quarter of 2010 Compared to Second Quarter of 2010

Net interest income was $65.2 million for the third quarter of 2010 compared to $57.6 million for the second quarter of 2010. The $7.6 million net increase is due mostly to a $6.9 million increase in interest income attributable to higher average loans from the Los Padres acquisition and the July 1, 2010 real estate loan purchase. Contributing to the increase in net interest income was a reduction in interest expense of $681,000 due mainly to rate reductions on our deposit products implemented during the third quarter.

Our net interest margin for the third quarter of 2010 was 5.08%, an increase of 23 basis points from the 4.85% posted for the second quarter of 2010. Such improvement reflects higher average loans during the third quarter as a result of the Los Padres acquisition and the July 1, 2010 real estate loan purchase. The yield on average loans was 6.59% for the third quarter of 2010 compared to 6.56% 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 pay-offs: the net interest margin for the third quarter was positively impacted by 10 basis points from the combination of these items. The cost of interest-bearing deposits and all-in deposit cost decreased 18 basis points and 11 basis points to 0.81% and 0.55%, respectively; such decreases resulted primarily from lower rates on our deposit products, offset partially by an increase in time deposit volume attributable mostly to the Los Padres acquisition.

Third Quarter of 2010 Compared to Third Quarter of 2009

Net interest income grew $10.9 million during the third quarter of 2010 compared to the same quarter of 2009. The increase was due to higher interest income of $7.6 million and lower interest expense of $3.3 million. The growth in interest income was attributable to a higher yield on average loans due to the July 1, 2010 real estate loan purchase, and a higher average balance of investment securities due to the purchases of securities during 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 35 basis points to 5.08% for the third quarter of 2010 compared to 4.73% for the same period last year. The increase was due mostly to a higher yield on average loans, lower funding costs, and lower interest expense on borrowings due principally to a lower average balance. The yield on average loans grew 39 basis points to 6.59% for the third quarter of 2010 from 6.20% from the third quarter of 2009. The cost of interest-bearing deposits and all-in deposit cost decreased 50 basis points and 30 basis points to 0.81% and 0.55%, respectively. The cost of average interest-bearing liabilities declined 60 basis points to 1.12% for the three months ended September 30, 2010 compared to 1.72% for the same period last year.

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	Nine Months Ended September 30,					
	2010			2009		
	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)]	$ 4,018,697	$ 194,539	6.47%	$ 4,000,774	$ 188,168	6.29%
Investment securities[(2)]	605,071	17,342	3.83%	203,065	5,928	3.90%
Deposits in financial institutions	263,196	505	0.26%	92,367	209	0.30%
Federal funds sold				87		
Total interest-earning assets	4,886,964	$ 212,386	5.81%	4,296,293	$ 194,305	6.05%
Other assets	429,116			288,345		
Total assets	$ 5,316,080			$ 4,584,638		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Interest checking deposits	$ 446,702	$ 993	0.30%	$ 374,551	$ 1,268	0.45%
Money market deposits	1,205,893	7,675	0.85%	912,130	8,349	1.22%
Savings deposits	115,918	179	0.21%	116,133	203	0.23%
Time deposits	1,132,489	11,362	1.34%	810,820	14,621	2.41%
Total interest-bearing deposits	2,901,002	20,209	0.93%	2,213,634	24,441	1.48%
Borrowings	341,438	7,013	2.75%	498,611	11,197	3.00%
Subordinated debentures	129,731	4,357	4.49%	129,925	4,948	5.09%
Total interest-bearing liabilities	3,372,171	$ 31,579	1.25%	2,842,170	$ 40,586	1.91%
Noninterest-bearing demand deposits	1,403,370			1,220,809		
Other liabilities	47,786			49,098		
Total liabilities	4,823,327			4,112,077		
Stockholders' equity	492,753			472,561		
Total liabilities and stockholders' equity	$ 5,316,080			$ 4,584,638		
Net interest income		$ 180,807			$ 153,719	
Net interest rate spread			4.56%			4.14%
Net interest margin			4.95%			4.78%

(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.

Nine Months of 2010 Compared to Nine Months of 2009

Net interest income increased $27.1 million to $180.8 million during the nine months ended September 30, 2010 compared to the same period last year. This growth was due to an $18.1 million increase in interest income and a $9.0 million decline in interest expense. The increase in interest income was due to a higher average balance of investment securities from the purchase of $448.8 million of government-sponsored entity pass through securities during 2010, the interest-earning assets from the Los Padres and Affinity acquisitions, and a higher average yield on loans. The decline in interest expense was due mainly to lower rates paid on deposits and borrowings and lower average borrowings.

The net interest margin grew 17 basis points to 4.95% for the first nine months of 2010 compared to 4.78% for the same period last year. The increase was due mostly to a higher yield on average loans, lower funding costs, and lower interest expense on borrowings due principally to a lower average balance. The yield on average loans grew 18 basis points to 6.47% for the nine months ended September 30, 2010 from 6.29% from the same period last year. The cost of interest-bearing deposits and all-in deposit cost decreased 55 basis points and 32 basis points to 0.93% and 0.63%, respectively.

The cost of average interest-bearing liabilities declined 66 basis points to 1.25% for the first nine months of 2010 compared to 1.91% for the same period last year.

Provision for Credit Losses.

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 a cost 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 of nonaccrual and classified loans and the migration of loans into various risk classifications. The provision for credit losses on our covered loans reflects an increase in the covered loan allowance for credit losses resulting from credit deterioration since the acquisition date.

We made provisions for credit losses totaling $24.5 million during the third quarter of 2010 compared to $23.0 million for the second quarter of 2010 and $75.0 million for the third quarter of 2009. The third quarter 2010 provision for credit losses was composed of a $17.3 million addition to the allowance for loan losses on the non-covered loan portfolio, a $7.4 million addition to the covered loan allowance for credit losses and a $221,000 reduction to the reserve for unfunded loan commitments. The second quarter of 2010 provision for credit losses was composed of a $14.3 million addition to the allowance for loan losses on the non-covered loan portfolio, an $8.9 million addition to the covered loan allowance for credit losses and a $245,000 reduction to the reserve for unfunded loan commitments. The third quarter 2009 provision for credit losses was composed of a $73.6 million addition to the allowance for loan losses and a $1.4 million addition to the reserve for unfunded loan commitments.

Net non-covered loan charge-offs were $9.2 million and $12.0 million in the third quarter and second quarter of 2010, respectively. The allowance for credit losses on the non-covered loans was $101.2 million and $93.4 million as of September 30, 2010 and June 30, 2010, respectively, and represented 3.05% and 2.93% of the non-covered loan balances at those respective dates. The commercial real estate loan segment of the loan portfolio continues to be under stress from the current economic conditions. A protracted economic down cycle will increase the stress on this portion of the loan portfolio and we may continue to experience increased levels of charge-offs and provisions.

During the third quarter of 2010, we recorded a $7.4 million provision for credit losses on the covered loan portfolio that was based on a September 30, 2010 analysis of acquired loans, which indicated a decrease in expected cash flows from previous estimates. Under the terms of the FDIC loss sharing agreement, the FDIC absorbs 80% of the losses reflected by the provision. As a result, we recorded $5.9 million in FDIC loss sharing income related to this provision on the condensed consolidated statements of earnings (loss) during the third quarter of 2010.

We made provisions for credit losses totaling $180.6 million during the nine months ended September 30, 2010 compared to $107.0 million for the same period last year. The provision for credit losses for the first nine months of 2010 was composed of a $143.7 million addition to the allowance for credit losses on the non-covered loan portfolio and a $36.9 million addition to the reserve for credit losses on the covered loans. The provision for credit losses for the first nine months of 2009 related to non-covered loan only. The increase in the provision for non-covered loans was driven mostly by the February 2010 classified loan sale that resulted in net charge-offs of $123 million and other non-covered loan net charge-offs of $43.7 million; this compares to total net charge-offs of $55.2 million in the first nine months of 2009. As our allowance methodology considers, among other factors, net charge-offs, an increase in net charge-offs contributed to the increased provision levels.

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Net credit costs, which include OREO expense, net, are shown in the following table for the periods indicated.

	Three Months Ended		Nine Months Ended September 30,	
	September 30, 2010	June 30, 2010	2010	2009
	(In thousands)			
Provision for credit losses on non-covered loans	$ 17,050	$ 14,100	$ 143,677	$ 107,000
Provision for credit losses on covered loans	7,400	8,850	36,950	
Less: increase in FDIC loss sharing asset	5,920	7,080	29,560	
Net credit costs on covered loans	1,480	1,770	7,390	
Non-covered OREO expense	2,151	625	11,218	18,369
Covered OREO (income) expense	(319)	(89)	1,760	
Less: OREO-related (decrease) increase in FDIC loss sharing asset	(409)	(52)	1,257	
Net covered OREO (income) expense	90	(37)	503	
Total credit-related costs, net	$ 20,771	$ 16,458	$ 162,788	$ 125,369
Non-covered loan net charge-offs	$ 9,240	$ 12,045	$ 166,711	$ 55,204

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				
	September 30, 2010	June 30, 2010	March 31, 2010	December 31, 2009	September 30, 2009
	(In thousands)				
Service charges on deposit accounts	$ 2,861	$ 2,666	$ 2,729	$ 2,890	$ 2,960
Other commissions and fees	1,760	1,845	1,790	1,799	1,721
Other-than-temporary impairment loss on securities	(874)				
Increase in cash surrender value of life insurance	353	369	398	375	371
FDIC loss sharing income, net	6,406	7,029	16,172	16,314	
Gain from Affinity acquisition					66,989
Other income	279	173	180	450	584
Total noninterest income	$ 10,785	$ 12,082	$ 21,269	$ 21,828	$ 72,625

Third Quarter of 2010 Compared to Second Quarter of 2010 and Third Quarter of 2009

Noninterest income for the second quarter of 2010 totaled $10.8 million compared to $12.1 million for the second quarter of 2010 and $72.6 million for the third quarter 2009. The $1.3 million decline in noninterest income for the third quarter of 2010 compared to the second quarter of 2010 was due

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mostly to lower FDIC loss sharing income stemming from lower credit-related costs on covered loans and OREO. Noninterest income included an other-than-temporary impairment loss of $874,000 on one covered investment security, which was offset partially by related FDIC loss sharing income of $699,000. The $61.8 million decline in noninterest income for the third quarter of 2010 compared to the same period last year was due primarily to the $67.0 million gain on the Affinity acquisition recorded in 2009; there was no similar gain in 2010. The current quarter also includes $6.4 million of FDIC loss sharing income and the $874,000 impairment loss; there were no similar items recorded in the third quarter of 2009.

Nine Months of 2010 Compared to Nine Months of 2009

Noninterest income declined $39.9 million to $44.1 million for the nine months ended September 30, 2010 compared to $84.1 million for the same period last year. The decline was due mainly to the $67.0 million gain on the Affinity acquisition recorded in August 2009; there was no similar gain in the 2010 period. The 2010 period includes $29.6 million of FDIC loss sharing income; there was no similar income in the 2009 period.

Noninterest Expense

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

	Three Months Ended				
	September 30, 2010	June 30, 2010	March 31, 2010	December 31, 2009	September 30, 2009
	(Dollars in thousands)				
Compensation	$ 23,060	$ 21,068	$ 19,411	$ 20,320	$ 20,128
Occupancy	6,872	6,576	6,958	7,100	6,435
Data processing	2,121	1,892	1,969	1,831	1,810
Other professional services	2,694	2,042	1,998	2,047	1,857
Business development	571	655	667	663	528
Communications	811	795	804	789	762
Insurance and assessments	2,431	2,611	2,274	1,826	2,010
Other real estate owned, net	1,832	536	10,610	4,953	8,141
Intangible asset amortization	2,434	2,424	2,424	2,355	2,578
Other expense	3,348	4,174	3,455	3,329	2,842
Total noninterest expense	$ 46,174	$ 42,773	$ 50,570	$ 45,213	$ 47,091
Efficiency ratio	60.8%	61.4%	63.8%	53.7%	37.1%

Third Quarter of 2010 Compared to Second Quarter of 2010

Noninterest expense totaled $46.2 million for the third quarter of 2010 compared to $42.8 million for the second quarter of 2010. The $3.4 million increase was due mostly to addition of the Los Padres operations, employee termination severance costs, and higher OREO expenses. Los Padres noninterest expense totaled $2.1 million, including $1.0 million in compensation and $447,000 in other professional services expense for integration, audit and consulting fees. We reduced our workforce, excluding the Los Padres employees, by approximately 5% and paid $900,000 in severance at the end of September 2010; we expect annual pre-tax savings from these departures to be $3.6 million. OREO costs increased $1.3 million due mostly to write-downs from updated appraisals, offset partially by higher net gains on sales. Other expense decreased $826,000 as the second quarter included a penalty of $726,000 for the early repayment of $125 million in FHLB advances; there was no similar expense in the current period. Third quarter noninterest expense includes $430,000 related to two legal settlements on customer actions.

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The following table presents OREO costs, net for the periods indicated:

	Three Months Ended		
	September 30, 2010	June 30, 2010	September 30, 2009
	(In Thousands)		
Provision for losses	$ 3,102	$ 1,218	$ 6,165
Maintenance costs	693	352	2,161
(Gain) loss on sale	(1,963)	(1,034)	(185)
Total OREO costs, net	$ 1,832	$ 536	$ 8,141

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 $2.1 million for the third quarter of 2010 compared to $2.2 million for the second quarter of 2010. Amortization expense for restricted stock is estimated to be $8.4 million for 2010. Intangible asset amortization totaled $2.4 million for both the third and second quarters of 2010, and is estimated to be $9.7 million for 2010, which includes amortization of the Los Padres core deposit intangible. The 2010 estimates of both restricted stock award expense and intangible asset amortization are subject to change.

Third Quarter of 2010 Compared to Third Quarter of 2009

Noninterest expense declined $917,000 for the third quarter of 2010 compared to the same period of 2009. The reduction in noninterest expense was due mostly to lower OREO costs offset partially by higher overhead costs related to the Affinity and Los Padres acquisitions. OREO costs decreased by $6.3 million due to lower write-downs and expenses and higher net gains recorded on OREO sales during the third quarter of 2010 compared to the same period of 2009. Compensation costs grew $2.9 million due to the acquisitions and severance costs.

Nine Months of 2010 Compared to Nine Months of 2009

Noninterest expense grew $5.5 million to $139.5 million during the nine months ended September 30, 2010 from $134.0 million for the same period in 2009. The growth in most expense categories was due primarily to higher overhead costs related to the Affinity and Los Padres acquisitions. Compensation increased $5.7 million due to the acquisitions and severance costs. Occupancy costs increased $1.1 million due mostly to the 10 branches added in the Affinity acquisition. Other professional services increased $1.9 million due mostly to higher legal costs related to loan workout activity and acquisition-related professional services expense. Other expense increased $1.2 million due mostly to higher loan-related costs from loan workouts and a $726,000 penalty for early repayment of $125 million of FHLB advances; there were no FHLB prepayment penalties in the first nine months of 2009. OREO costs declined $5.4 million due mostly to higher net gains on sales of OREO recorded in 2010, offset partially by higher OREO write-downs in 2010.

Income Taxes

The effective tax rate for the third quarter of 2010 was 34.3% compared to 32.0% for the second quarter of 2010. Both effective rates were lower than the Company's blended Federal and California statutory rate of 42.0% due to resolution and /or lapse of tax contingencies, which reduced income tax expense by $417,000 and $400,000 in the third and second quarters of 2010, respectively.

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Balance Sheet Analysis

Non-Covered Loans

Gross non-covered loans increased $132.9 million during the third quarter of 2010 due to the July 1, 2010 purchase of $234.1 million in performing real estate loans, offset by continued payments and resolutions. Gross non-covered loans totaled $3.3 billion at September 30, 2010 and were comprised primarily of $2.4 billion in real estate mortgage loans, $731.3 million in commercial loans, and $192.6 million in real estate construction loans. Our loan portfolio's value and credit quality is affected in large part by real estate trends in Southern California which have been negative for the last several quarters. The real estate mortgage loan category includes loans secured by commercial real estate totaling $2.1 billion and loans secured by residential real estate totaling $249.7 million. The real estate construction loan category includes commercial real estate construction loans totaling $116.1 million and residential real estate construction loans totaling $76.5 million.

The following table presents the balances by loan categories of the real estate loans purchased on July 1, 2010:

	July 1, 2010 (In thousands)
Office building and light industrial	$ 151,958
Retail	47,968
Commercial owner-occupied	16,757
Other commercial	12,476
Residential	2,685
Hotel	1,797
Commercial land	497
Total loans purchased	$ 234,138

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

	September 30, 2010		June 30, 2010		December 31, 2009		September 30, 2009	
Loan Category	**Amount**	**% of Total**	**Amount**	**% of Total**	**Amount**	**% of Total**	**Amount**	**% of Total**
	(Dollars in thousands)							
Domestic:								
Real estate mortgage	$ 2,368,943	71%	$ 2,229,331	70%	$ 2,423,712	65%	$ 2,500,520	65%
Commercial	708,329	21	709,075	22	781,003	21	774,755	20
Real estate construction	192,595	6	194,181	6	440,286	12	480,119	13
Consumer	28,328	1	30,323	1	32,138	1	33,011	1
Foreign:								
Commercial	22,948	1	25,309	1	34,524	1	38,964	1
Other, including real estate	1,595		1,637		1,719		1,763	
Total gross non-covered loans	3,322,738	100%	3,189,856	100%	3,713,382	100%	3,829,132	100%
Less: unearned income	(4,329)		(4,831)		(5,999)		(6,447)	
Less: allowance for loan losses	(96,494)		(88,463)		(118,717)		(114,575)	
Total net non-covered loans	$ 3,221,915		$ 3,096,562		$ 3,588,666		$ 3,708,110	

At September 30, 2010, the non-covered SBA loan portfolio totaled $124.1 million and was composed of $92.5 million in SBA 504 loans and $31.6 million in SBA 7(a) and Express loans. SBA 7(a) loans are secured by borrowers' real estate and/or business assets and are covered by an SBA guarantee of up to 85% of the loan amount. The SBA 504 loans are included in the real estate mortgage category and the SBA 7(a) and Express loans are included in the commercial category.

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

Loan Category	September 30, 2010 Balance	September 30, 2010 % of Total	June 30, 2010 Balance	June 30, 2010 % of Total
	(Dollars in thousands)			
Commercial real estate mortgage:				
Retail	$ 394,727	16.7%	$ 386,132	17.3%
Industrial/warehouse	414,020	17.5%	326,002	14.6%
Office buildings	358,858	15.1%	305,843	13.7%
Owner-occupied	279,760	11.8%	279,428	12.5%
Hotel	166,504	7.0%	172,122	7.7%
Healthcare	95,311	4.0%	90,298	4.1%
Gas station	40,008	1.7%	40,051	1.8%
Self storage	32,235	1.4%	29,721	1.3%
Restaurant	26,461	1.1%	24,929	1.1%
Land acquisition/development	9,693	0.4%	9,734	0.4%
Unimproved land	1,524	0.1%	1,067	0.0%
Other	300,144	12.7%	286,386	12.8%
Total commercial real estate mortgage	2,119,245	89.5%	1,951,713	87.5%
Residential real estate mortgage:				
Mixed use	63,472	2.7%	89,506	4.0%
Multi-family	78,109	3.3%	72,434	3.2%
Single family owner-occupied	40,903	1.7%	42,921	1.9%
Single family nonowner-occupied	27,872	1.2%	35,698	1.6%
HELOC's	38,716	1.6%	37,059	1.7%
Unimproved land	626	0.0%		0.0%
Total residential real estate mortgage	249,698	10.5%	277,618	12.5%
Total gross non-covered real estate mortgage loans	$ 2,368,943	100.0%	$ 2,229,331	100.0%

SBA 504 gross loans included in the commercial real estate mortgage loans table above are as follows: $37.5 million in owner-occupied; $484,000 in retail; $11.7 million in office buildings; $2.4 million in industrial/warehouse; $7.9 million in hospitality; and $32.6 million in other.

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

Loan Category	September 30, 2010 Balance	September 30, 2010 % of Total	June 30, 2010 Balance	June 30, 2010 % of Total
	(Dollars in thousands)			
Commercial real estate construction:				
Retail	$ 21,817	11.3%	$ 21,942	11.3%
Industrial/warehouse	9,154	4.8%	12,293	6.3%
Office buildings	5,006	2.6%	5,519	2.8%
Owner-occupied	3,548	1.8%	3,548	1.8%
Healthcare	3,856	2.0%		0.0%
Self storage	13,151	6.8%	9,211	4.7%
Land acquisition/development	17,872	9.3%	9,439	4.9%
Unimproved land	25,310	13.1%	31,952	16.5%
Other	16,413	8.5%	21,635	11.1%
Total commercial real estate construction	116,127	60.3%	115,539	59.5%
Residential real estate construction:				
Multi-family	24,779	12.9%	25,518	13.1%
Single family owner-occupied	1,689	0.9%	1,689	0.9%
Single family nonowner-occupied	925	0.5%	764	0.4%
Land acquisition/development	1,498	0.8%	3,228	1.7%
Unimproved land	47,577	24.7%	47,443	24.4%
Total residential real estate construction	76,468	39.7%	78,642	40.5%
Total gross non-covered real estate construction loans	$ 192,595	100.0%	$ 194,181	100.0%

Covered Loans

Covered loans increased $344.5 million during the third quarter of 2010 due to the $440.2 million in loans we acquired on August 20, 2010 in connection with the Los Padres acquisition. A summary of covered loans follows as of the dates indicated:

Loan Category	September 30, 2010	December 31, 2009
	(In thousands)	
Commercial real estate	$ 509,645	$ 311,298
Multi-family	303,309	263,944
Construction and land	151,895	121,735
Single family	129,900	17,078
Commercial and industrial	53,278	21,340
Home equity lines of credit	33,365	6,565
Consumer	1,713	575
Total gross covered loans	1,183,105	742,535
Less: discount	(176,786)	(102,849)
Covered loans, net of discount	1,006,319	639,686
Less: allowance for loan losses	(40,179)	(18,000)
Covered loans, net	$ 966,140	$ 621,686

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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 Affinity loss sharing agreement, the FDIC will absorb 80% of losses and share in 80% of loss recoveries on the first $234 million of losses on covered assets and absorb 95% of losses and share in 95% of loss recoveries on covered assets exceeding $234 million in the aggregate. Under the terms of the Los Padres loss sharing agreement, the FDIC will absorb 80% of losses and share in 80% of loss recoveries on covered assets. The loss sharing arrangements for single family and commercial (non-single family) loans are in effect for 10 years and 5 years, respectively, from the acquisition dates and the loss recovery provisions are in effect for 10 years and 8 years, respectively, from the acquisition dates. Through September 30, 2010, we have claimed $116.1 million in gross losses related to covered assets under the Affinity loss sharing agreement.

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 they are included in our methodology for the allowance for loan losses and the amount of the commitment reserve applicable to such funded loans is relieved from the reserve for unfunded loan commitments. At September 30, 2010, the allowance for credit losses on non-covered loans totaled $101.2 million and was comprised of the allowance for loan losses of $96.4 million and the reserve for unfunded loan commitments of $4.8 million. 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.

The $101.2 million allowance for credit losses at September 30, 2010 decreased $23.1 million from the $124.3 million allowance at December 31, 2009 due to an improved credit risk profile as the February 2010 classified loan sale substantially reduced non-covered nonaccrual and adversely classified loans.

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 loan 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 four elements: (a) amounts based on specific evaluations of impaired loans; (b) amounts of estimated losses on several pools of loans categorized by type; (c) amounts of estimated losses for loans adversely classified based on our loan review process; and (d) 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.

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

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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 estimated fair value of the loan's underlying 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 collateralized. 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 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, asset-based, and factoring. 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. 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 historical 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 result 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; external factors such as fuel and building materials prices, the effects of adverse weather and hostilities; 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; quality of loan review; 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 has inherent limitations and is 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 September 30, 2010, in the event that 1 percent 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" category moved to "substandard" category, and 1% of the "substandard" category moved to the "doubtful" category within our current allowance methodology), the allowance for loan losses would have increased by approximately $2.3 million. In the event that 5% of our non-covered loans were downgraded one credit risk category, the allowance for loan losses would increase by approximately $11.4 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.

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

	September 30, 2010	June 30, 2010	December 31, 2009	September 30, 2009
	(Dollars in thousands)			
Allowance for loan losses	$ 96,494	$ 88,463	$ 118,717	$ 114,575
Reserve for unfunded loan commitments	4,750	4,971	5,561	6,011
Total allowance for credit losses	$ 101,244	$ 93,434	$ 124,278	$ 120,586
Allowance for credit losses to loans, net of unearned income	3.05%	2.93%	3.35%	3.15%
Allowance for credit losses to nonaccrual loans	95.9%	86.3%	51.7%	62.3%
Allowance for credit losses to nonperforming assets	77.8%	70.4%	43.8%	51.8%

The lower coverage ratio of 3.05% at September 30, 2010 compared to the 3.35% ratio at December 31, 2009 reflects the improved credit risk profile resulting from the classified loan sale, which substantially reduced non-covered nonaccrual and adversely classified loans.

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

	Three Months Ended September 30, 2010	Three Months Ended June 30, 2010	Year Ended December 31, 2009	Three Months Ended September 30, 2009
	(In thousands)			
Allowance for credit losses beginning of period	$ 93,434	$ 91,379	$ 68,790	$ 76,743
Provision for credit losses	17,050	14,100	141,900	75,000
Net charge-offs	(9,240)	(12,045)	(86,412)	(31,157)
Allowance for credit losses end of period	$ 101,244	$ 93,434	$ 124,278	$ 120,586

The provision for credit losses for the third quarter of 2010 of $17.1 million is applicable to non-covered loans and commitments only and was based on our allowance methodology and considered, among other factors, net charge-offs, the level and trends of classified, criticized, past due and nonaccrual loans, the migration of loans into various risk classifications, usage trends of unfunded loan commitments, general market conditions and portfolio concentrations.

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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 September 30, 2010	Three Months Ended June 30, 2010	Year Ended December 31, 2009	Three Months Ended September 30, 2009
	(Dollars in thousands)			
Allowance for loan losses beginning of period	$ 88,463	$ 86,163	$ 63,519	$ 72,122
Loans charged off:				
Real estate mortgage	(4,601)	(6,988)	(46,047)	(2,760)
Real estate construction	(3,032)	(3,341)	(28,542)	(8,224)
Commercial	(2,074)	(1,024)	(11,982)	(19,908)
Consumer	(218)	(2,004)	(1,180)	(387)
Foreign	(113)		(368)	
Total loans charged off	(10,038)	(13,357)	(88,119)	(31,279)
Recoveries on loans charged off:				
Real estate mortgage		1,017	503	55
Real estate construction		27	461	6
Commercial	319	254	548	45
Consumer	348	12	151	16
Foreign	131	2	44	
Total recoveries on loans charged off	798	1,312	1,707	122
Net charge-offs	(9,240)	(12,045)	(86,412)	(31,157)
Provision for loan losses	17,271	14,345	141,610	73,610
Allowance for loan losses end of period	$ 96,494	$ 88,463	$ 118,717	$ 114,575
Ratios[1]:				