PACWEST BANCORP
Form 10-K
March 02, 2015

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

| | |
|---|---|
| Delaware | 33-0885320 |
| (State of Incorporation) | (I.R.S. Employer Identification No.) |

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

| | |
|---|---|
| (Title of Each Class) | (Name of Exchange on Which Registered) |
| Common Stock, par value $0.01 per share | The Nasdaq Stock Market, LLC |

Securities Registered Pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. þ Yes o No
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. o Yes þ No
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. þ Yes o No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). þ Yes o No
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. 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 the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

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

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

As of June 30, 2014, the aggregate market value of the voting common stock held by non-affiliates of the registrant, computed by reference to the average high and low sales prices on The Nasdaq Global Select Market as of the close of business on June 30, 2014, was approximately $4.3 billion. Registrant does not have any nonvoting common equities.
As of February 9, 2015, there were 101,913,512 of registrant's common stock outstanding, excluding treasury shares and 1,108,505 shares of unvested restricted stock.
DOCUMENTS INCORPORATED BY REFERENCE
The information required by Items 10, 11, 12, 13 and 14 of Part III of this Annual Report on Form 10-K will be found in the Company's definitive proxy statement for its 2015 Annual Meeting of Stockholders, to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended, and such information is incorporated herein by this reference.

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# PART I
## ITEM 1. BUSINESS
### General
PacWest Bancorp, a Delaware corporation, is a bank holding company registered under the Bank Holding Company Act of 1956, as amended. Our principal business is to serve as the holding company for our wholly-owned subsidiary, Pacific Western Bank, which we refer to as “Pacific Western” or the “Bank.” We are focused on relationship-based business banking to small and middle-market businesses nationwide. The Company offers a broad range of deposit products and services through 80 full-service branches located throughout California. The Company, through offices across the United States, provides loans to middle-market businesses, real estate investment firms, and sophisticated individual real estate investors. References to “we,” “us,” or the “Company” refer to PacWest Bancorp together with its subsidiaries on a consolidated basis. When we refer to “PacWest” or to the “holding company,” we are referring to PacWest Bancorp, the parent company, on a stand-alone basis. References to “Pacific Western Bank” include the Bank’s wholly-owned subsidiaries.

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

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

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

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

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

First California Financial Group Acquisition

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

Our Business Strategy

General Overview

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

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

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

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

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

The following chart summarizes the acquisitions completed since our inception:

| | Date | Institution/Company Acquired |
|---|---|---|
| (1) | May 2000 | Rancho Santa Fe National Bank |
| (2) | May 2000 | First Community Bank of the Desert |
| (3) | January 2001 | Professional Bancorp, Inc. |
| (4) | October 2001 | First Charter Bank |
| (5) | January 2002 | Pacific Western National Bank |
| (6) | March 2002 | W.H.E.C., Inc. |
| (7) | August 2002 | Upland Bank |
| (8) | August 2002 | Marathon Bancorp |
| (9) | September 2002 | First National Bank |
| (10) | January 2003 | Bank of Coronado |
| (11) | August 2003 | Verdugo Banking Company |
| (12) | March 2004 | First Community Financial Corporation |
| (13) | April 2004 | Harbor National Bank |
| (14) | August 2005 | First American Bank |
| (15) | October 2005 | Pacific Liberty Bank |
| (16) | January 2006 | Cedars Bank |
| (17) | May 2006 | Foothill Independent Bancorp |
| (18) | October 2006 | Community Bancorp Inc. |
| (19) | June 2007 | Business Finance Capital Corporation |
| (20) | November 2008 | Security Pacific Bank (deposits only)(1) |
| (21) | August 2009 | Affinity Bank(1) |
| (22) | August 2010 | Los Padres Bank(1) |
| (23) | January 2012 | Pacific Western Equipment Finance (formerly Marquette Equipment Finance) |
| (24) | April 2012 | Celtic Capital Corporation |
| (25) | August 2012 | American Perspective Bank |
| (26) | May 2013 | First California Financial Group, Inc.(2) |
| (27) | April 2014 | CapitalSource Inc. |

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

Depository Products and Services

Deposits are our primary source of funds to support our revenue-generating assets, and our bank branch offices provide a source of low-cost funds and deposit-related fee income to support our continued operations. We offer traditional deposit products to businesses and other customers with a variety of rates and terms, including demand, money market, and time deposits. We also provide international banking services, multi-state deposit services and investment services, and out-of-service area services, as well as product offerings through other correspondent banks. The Bank’s deposits are insured by the Federal Deposit Insurance Corporation, or "FDIC," up to statutory limits.

Our branch network enhances our ability to gather deposits, expand our brand presence, service our customers’ needs, originate loans and leases and maintain our lending relationships. In addition, as the banking industry continues to experience broader customer acceptance of on-line and mobile banking tools for conducting basic banking functions, and which allows us to attract new depositors without a commensurate increase in branch traffic, we also serve our customers through a wide range of non-branch channels, including on-line and telephone banking platforms.

At December 31, 2014, we had ATMs at 62 of our branches and had another two company-owned ATMs at off-site locations located in California. We are part of the MoneyPass network, enabling our customers to take out cash surcharge-free and service charge-free at over 25,000 ATM locations across the country.  We provide access to customer accounts via a 24 hour seven-day-a-week, toll-free, automated telephone customer service and secure on-line banking services.

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

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

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

Lending Activities

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

- Real Estate Loans
- Commercial and Industrial Loans and Leases
- Consumer Loans

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

Real Estate Loans

The Bank provides real estate loans for the acquisition, refinancing and construction of commercial real estate to professional developers and real estate investors. The majority of the real estate loans are mini-perm loans collateralized by first deeds of trust on specific commercial properties. To a lesser extent, mini-perm loans may otherwise be collateralized by junior deeds of trust on specific commercial properties. Mini-perm loans are generally made with an amortization schedule ranging from 15 to 25 years with a lump sum balloon payment due in one to ten years. Mini-perm loans may also have an initial interest-only period followed by an amortization schedule with a lump sum balloon payment due in one to ten years. The Bank prices its loans to preserve our interest spread and maintain our net interest margin. Loan interest rates may be floating throughout the term or fixed. The rate on fixed-rate loans typically resets after the fifth year.

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

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

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

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

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

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

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

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

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

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

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

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

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

Commercial and Industrial Loans and Leases

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

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

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

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

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

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

Consumer Loans

Consumer loans include personal loans, auto loans, home equity lines of credit, revolving lines of credit, other loans typically made by banks to individual borrowers, and purchased 95% participation interests in student loans originated and serviced by a third-party lender. The Bank does not currently originate first trust deed home mortgage loans. The student loans that we purchased are not guaranteed by any program of the U.S. Government, and are made to refinance the outstanding student loan debt of borrowers who meet certain underwriting criteria, and have terms that fully amortize the debt over five, ten or fifteen years.

The Bank's consumer loan portfolio is subject to certain risks, including: amount of credit offered to consumers in the market; interest rate increases; and (with the exception of the purchased student loan portfolio), consumer bankruptcy laws which allow consumers to discharge certain debts. The Bank's student loan participation interests are also subject to further risks, including the ability of the sub-servicer to service the loans in accordance with the terms of the loan purchase agreement; and compliance with consumer lending regulations, additional regulations and oversight by the Consumer Financial Protection Bureau ("CFPB").

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

Business Concentrations

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

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

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

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

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

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

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

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

Financing

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

Information Technology Systems

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

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

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

Risk Oversight and Management

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

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

## Competition

The banking business in California, and specifically in the Bank’s primary service areas and lending markets, is highly competitive.The Bank competes for loans, deposits and customers nationwide with other commercial banks and financial services institutions. Some of these competitors are larger in total assets and capitalization, with more offices over a wider geographic area and offer a broader range of financial services than the Bank. Our most direct competition for loans comes from larger regional and national banks, savings banks and associations, credit unions, insurance companies and service-focused community banks that target the same customers we do. In recent years, competition has increased from institutions not subject to the same regulatory restrictions as domestic banks and bank holding companies. Those competitors include savings and loan associations, brokerage houses, insurance companies, mortgage companies, credit unions, credit card companies, and other financial and non-financial institutions and entities.

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

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

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

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

## Employees

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

## Financial and Statistical Disclosure

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

Supervision and Regulation

General

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

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

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

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

Bank Holding Company Regulation

As a bank holding company, PacWest is registered with and subject to supervision, regulation and examination by the FRB under the Bank Holding Company Act of 1956, as amended, or "BHCA." FRB policy historically has required bank holding companies to act as a source of financial strength to their bank subsidiaries and to commit capital and financial resources to support those subsidiaries in circumstances where it might not be in our, or our stockholders’ or creditors’, best interest to do so. The Dodd Frank Act codified this policy as a statutory requirement. Under this requirement, the Company is expected to commit resources to support the Bank, including at times when we may not be in a financial position to do so. Similarly, under the cross guarantee provisions of the Federal Deposit Insurance Act, or "FDIA," the FDIC can hold any FDIC insured depository institution liable for any loss suffered or anticipated by the FDIC in connection with (i) the default of a commonly controlled FDIC  insured depository institution or (ii) any assistance provided by the FDIC to such a commonly controlled institution. We are also required to file with the FRB periodic reports of our operations and such additional information regarding the Company and its subsidiaries as the FRB may require.

Pursuant to the BHCA, we are required to obtain the prior approval of the FRB before we acquire all or substantially all of the assets of any bank or the ownership or control of voting shares of any bank if, after giving effect to such acquisition, we would own or control, directly or indirectly, more than 5 percent of such bank. Pursuant to the Bank Merger Act, the prior approval of the FDIC is required for our bank to merge with another bank or purchase all or substantially all of the assets or assume any of the deposits of another FDIC-insured depository institution. In reviewing applications seeking approval of merger and acquisition transactions, bank regulators consider, among other things, the competitive effect and public benefits of the transactions, the capital position and managerial resources of the combined organization, the risks to the stability of the U.S. banking or financial system, the applicant's performance record under the Community Reinvestment Act of 1977, or "CRA," the applicant's compliance with fair housing and other consumer protection laws, and the effectiveness of all organizations involved in combating money laundering activities. In addition, failure to implement or maintain adequate compliance programs could cause bank regulators not to approve an acquisition where regulatory approval is required or to prohibit an acquisition even if approval is not required. Our ability to engage in certain merger or acquisition transactions, whether or not any regulatory approval is required, will be dependent upon our regulators' assessment of the foregoing factors.

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

Additionally, bank holding companies that meet certain eligibility requirements prescribed by the BHCA and elect to operate as financial holding companies may engage in, or own shares in companies engaged in, a wider range of nonbanking activities, including securities and insurance activities and any other activity that the FRB, in consultation with the Secretary of the Treasury, determines by regulation or order is financial in nature, incidental to any such financial activity or complementary to any such financial activity and does not pose a substantial risk to the safety or soundness of depository institutions or the financial system generally. As of the date of this filing, we have not elected to be treated as a financial holding company. and currently have no plans to make a financial holding company election.

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

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

Transactions between the Bank and its subsidiaries, on the one hand, or PacWest and any subsidiary, on the other hand, are regulated under federal banking law. Subject to certain exceptions set forth in the Federal Reserve Act, a bank can make a loan or extend credit to an affiliate, purchase or invest in the securities of an affiliate, purchase assets from an affiliate, accept securities of an affiliate as collateral for a loan or extension of credit to any person or company, issue a guaranty, accept letters of credit on behalf of an affiliate, or enter into derivative transactions with credit exposures with an affiliate only if the aggregate amount of the above transactions of such subsidiary does not exceed 10 percent of such subsidiary's capital stock and surplus on an individual basis or 20 percent of such subsidiary's capital stock and surplus on an aggregate basis. Such transactions must be on terms and conditions that are consistent with safe and sound banking practices and at least as favorable to our bank as if the transaction were conducted with an unaffiliated third party. A bank and its subsidiaries generally may not purchase a "low quality asset," as that term is defined in the Federal Reserve Act, from an affiliate. Such restrictions also prevent a holding company and its other affiliates from borrowing from a banking subsidiary of the holding company unless the loans are secured by collateral. The Dodd Frank Act significantly expanded the coverage and scope of the limitations on affiliate transactions within a banking organization.

The FRB has cease and desist powers over parent bank holding companies and non banking subsidiaries where the action of a parent bank holding company or its non financial institution subsidiaries represents an unsafe or unsound practice or violation of law. The FRB has the power to order any bank holding company or its subsidiaries to terminate any activity or to terminate its ownership or control of any subsidiary when the FRB has reasonable grounds to believe that continuing such activity, ownership or control constitutes a serious risk to the financial soundness, safety or stability of any bank subsidiary of the bank holding company.

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

The Dodd Frank Act requires the federal financial regulatory agencies to adopt rules that prohibit banks and their affiliates from engaging in proprietary trading and investing in and sponsoring certain unregistered investment companies (hedge funds and private equity funds, defined as "covered funds"). The statutory provision is commonly called the "Volcker Rule". On December 10, 2013, the federal financial regulatory agencies adopted final rules implementing the Volcker Rule, and, in connection with the final Volcker Rule, the FRB granted a blanket one year extension of the Volcker Rule conformance period so that banking organizations had until July 21, 2015 to fully comply with most requirements of the Volcker Rule. On December 18, 2014, the FRB granted a second one-year extension of the Volcker Rule conformance period to July 21, 2016 for existing investments in and relationships with covered funds (relationships existing prior to December 31, 2013). A similar one-year extension by the FRB is expected to further extend the Volcker Rule conformance period to July 21, 2017. We do not currently anticipate that the Volcker Rule will have a material effect on our operations. Because many of the effects of the Volcker Rule may become apparent only over several years as the federal financial regulatory agencies apply the rule in practice, the precise financial impact of the rule on the Company, its customers or the financial industry more generally cannot currently be determined.

Dividends

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

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

Our ability to pay cash dividends to our stockholders may be limited by certain covenants contained in the indentures governing trust preferred securities issued by us or entities that we have acquired, and the debentures underlying the trust preferred securities. Generally the indentures provide that if an Event of Default (as defined in the indentures) has occurred and is continuing, or if we are in default with respect to any obligations under our guarantee agreement which covers payments of the obligations on the trust preferred securities, or if we give notice of any intention to defer payments of interest on the debentures underlying the trust preferred securities, then we may not, among other restrictions, declare or pay any dividends with respect to our common stock.

The unsecured borrowing facility at the parent company may also limit our ability to pay cash dividends to our stockholders if an Event of Default (as defined in the credit agreement) has occurred and is continuing.

Notification to the FRB is also required prior to our declaring and paying a cash dividend to our stockholders during any period in which our quarterly and/or cumulative twelve month net earnings are insufficient to fund the dividend amount, among other requirements. Under such circumstances, we may not pay a dividend should the FRB object until such time as we receive approval from the FRB or no longer need to provide notice under applicable regulations.

Holders of Company common stock may receive dividends declared by the Board of Directors out of funds legally available under state law governing the Company and certain federal laws and regulations governing the banking and financial services business. Our Board of Directors will take into account such matters as general business conditions; our financial results; projected cash flows; capital requirements; contractual, legal and regulatory restrictions on the payment of dividends by us to our stockholders or by our subsidiary to the holding company; and such other factors as our Board of Directors may deem relevant. During 2014, 2013, and 2012, the Company paid $114.3 million, $41.0 million, and $28.8 million in cash dividends on common stock. We can provide no assurance that we will continue to declare dividends on a quarterly basis or otherwise. The declaration of dividends by the Company is subject to the discretion of our Board of Directors.

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

Dividends paid by state banks, such as Pacific Western, are regulated by the DBO and FDIC under their general supervisory authority as it relates to a bank's capital requirements. A state bank may declare a dividend without the approval of the DBO and FDIC as long as the total dividends declared in a calendar year do not exceed either the retained earnings or the total of net earnings for three previous fiscal years less any dividend paid during such period. During 2014, 2013, and 2012, the Bank paid $137.0 million, $48.0 million, and $50.0 million in dividends to the Company. For the foreseeable future, any further cash dividends from the Bank to the Company will require DBO and FDIC approval.

See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations-Liquidity" and Note 20, Dividend Availability and Regulatory Matters, of the Notes to Consolidated Financial Statements contained in "Item 8. Financial Statements and Supplementary Data" for a discussion of other factors affecting the availability of dividends and limitations on the ability to declare dividends.

## Capital Requirements

The Company is subject to consolidated regulatory capital requirements administered by the FRB, and the Bank is subject to similar capital requirements administered by the FDIC. The Dodd Frank Act applies the same leverage and risk based capital requirements that apply to insured depository institutions to bank holding companies, such as the Company. The guidelines of the FRB and FDIC are intended to ensure that banking organizations have adequate capital given the risk levels of assets and off balance sheet financial instruments.

General Risk Based Capital Rules. Prior to January 1, 2015, the FDIC and FRB risk-based capital guidelines were based upon the 1988 Capital Accord (“Basel I”) of the Basel Committee on Banking Supervision (the “Basel Committee”). The Basel Committee is a committee of central banks and bank supervisors/regulators from the major industrialized countries that develops broad policy guidelines that each country’s supervisors can use to determine the supervisory policies that apply.

Under the general risk-based capital rules, applicable through December 31, 2014, banking organizations are required to maintain minimum ratios of Tier 1 capital and total capital to total risk weighted assets (including certain off balance sheet items, such as letters of credit). For purposes of calculating the ratios, a banking organization’s assets and some of its specified off balance sheet commitments and obligations are assigned to various risk categories. A depository institution’s or holding company’s capital, in turn, is classified in one of two tiers relevant to us, depending on type:

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

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

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

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

Regulatory capital requirements limit the amount of deferred tax assets that may be included when determining the amount of regulatory capital. Deferred tax asset amounts in excess of the calculated limit are deducted from regulatory capital. See “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations-Capital Resources-Capital” for further information on regulatory capital requirements, capital ratios, and deferred tax asset limits as of December 31, 2014 for Pacific Western Bank and the Company.

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The Company issued subordinated debentures to trusts that were established by us or entities we have acquired, which, in turn, issued trust preferred securities. The amount of subordinated debentures totaled $433.6 million at December 31, 2014 and includes $300.4 million of debentures assumed in connection with the CapitalSource Inc. merger. The Company includes in Tier 1 capital an amount of trust preferred securities equal to no more than 25% of the sum of all core capital elements, which is generally defined as shareholders' equity less goodwill, net of any related deferred income tax liability. At December 31, 2014, the amount of trust preferred securities included in Tier I capital was $131.0 million. The acquired CapitalSource Inc. trust preferred securities are ineligible for inclusion in Tier 1 capital but are included in Tier 2 capital. The $131.0 million of trust preferred securities are currently grandfathered as Tier 1 capital under the Dodd-Frank Act. However, under new capital rules approved by the FRB and FDIC in July 2013, described below under "-Basel III Capital Rules," as a result of the Company having exceeded $15 billion in consolidated total assets, beginning in 2015 only 25% of the Company's $1