PACIFIC CAPITAL BANCORP

March 6, 2009

Mr. Neil M. Barofsky
Special Inspector General
Troubled Asset Relief Program
1500 Pennsylvania Avenue, N.W., Suite 1064
Washington, D.C. 20220

Dear Mr. Barofsky,

Thank you for your letter dated February 6, 2009, related to the Emergency Economic Stabilization Act of 2008 ("EESA") that established the Troubled Asset Relief Program ("TARP"), which also created the Office of the Special Inspector General for Troubled Asset Relief Program ("SIGTARP") for which you are responsible. Pacific Capital Bancorp (the "Company") and its wholly owned subsidiary Pacific Capital Bank, N.A. (the "Bank") appreciate your role in coordinating and conducting audits and investigations of all programs established by the Secretary of the United States Department of the Treasury (the "U.S. Treasury") under EESA and TARP; and are pleased to provide this response to your audit into our use of funds and our compliance with EESA's executive compensation requirements.

As you may be aware, the Company applied to participate in the TARP Capital Purchase Program ("TARP CPP") on October 21, 2008 (b) (8)
(b) (8)
(b) (8). On November 21, 2008, the Company issued to the U.S. Treasury pursuant to the TARP CPP (i) 180,634 shares of its Series B Fixed Rate Cumulative Perpetual Preferred Stock, having a liquidation preference of $1,000 per share and (ii) a warrant (the "Warrant") to purchase up to 1,512,003 shares of the Company's common stock, no par value, for an aggregate purchase price of $180,634,000 (the "TARP Funds").

On December 31, 2008, (b) (8)
the Company contributed all of the TARP Funds to the Bank as an increase to the Bank's capital surplus account.

For your convenience, the remainder of this document will follow the form of your letter to us referenced above. We will restate your request first, and provide our response under each request.

Confidential treatment is requested for the information contained in this document. Said information contains confidential financial, tax or other information that would be harmful if released publicly. Further, the Company is publicly traded and certain information contained herein should not be or may not yet have been publicly disclosed. We believe that the information in this document qualifies for protection under the Freedom of Information Act ("FOIA"), 5 U.S.C. 552, and the regulations thereunder, as the information includes sensitive, nonpublic commercial and financial or supervisory

Post Office Box 60839 | Santa Barbara, California 93160 | 888.400.7228

information. The information contained in this response qualifies under (i) Section 552(b)(4) of FOIA as trade secrets and commercial and financial information furnished in confidence and/or (ii) Section 552(b)(8) of FOIA as information contained in or related to examination, operating, or condition reports prepared by, on behalf of, or for the use of an agency responsible for the regulation or supervision of financial institutions, as well as likely other sections of FOIA.

SIGTARP Item 1: A narrative response specifically outlining (a) your anticipated use of TARP funds; (b) whether the TARP funds were segregated from other institutional funds; (c) your actual use of TARP funds to date; and (d) your expected use of unspent TARP funds. In your response, please take into consideration your anticipated use of TARP funds at the time that you applied for such funds, or any actions that have taken that you would not have been able to take absent the infusion of TARP funds.

Response to (a), (b) and (c):

At the time of our application to participate in the TARP CPP, we identified the following expected uses of the TARP Funds:

- Strengthen our balance sheet and capital position, and bolster reserves, to ensure the safety and soundness of the Bank
- Reassure the public and our customers that the Bank was strong
- Continue, and possibly expand, our prudent lending activities
- Support the capital needs of our Refund Anticipation Loan ("RAL") program
- (b) (4)

The TARP Funds are included as part of Shareholders' Equity for the Company and the Bank. As of December 31, 2008, Total Shareholders' Equity, including the TARP Funds and the Warrants, equated to $788,437,000. The TARP Funds, once contributed to the Bank, went into our operating account at the Federal Reserve Bank of San Francisco. Technically, we do not have a separate cash account for the TARP Funds; however, we do reconcile our operating account at the Federal Reserve on a regular basis and can identify as needed the TARP Funds on balance.

The TARP Funds are a part of our total capital as stated above and resulted in: (i) Tier 1 Capital Ratios of 11.8% for the Company and 11.6% for the Bank as of December 31, 2008, and (ii) Total Risk Based Capital Ratios of 14.6% for the Company and 14.4% for the Bank as of December 31, 2008. The increase in total capital, and the related

improvement in our regulatory capital ratios, is important because total capital serves to support all of the lending activities of our organization, which include:

- Real estate:
  - Residential – 1 to 4 family
  - Multi-family residential
  - Commercial
  - Construction
- Commercial Loans (C&I)
- Home Equity Loans
- Consumer Loans
- Refund Anticipation Loans
- Small Business Administration Loans
- Standby Letters of Credit and Financial Guarantees
- Other

As we have seen in our marketplace and across the U.S., the Banking Industry has tightened up, and in some cases shut off its lending activities to qualified companies and individuals. This notwithstanding, we have and will continue our prudent lending activities to qualified borrowers (both individuals and companies). The additional capital from the TARP Funds certainly allows us to do this while at the same time ensuring our safety and soundness.

Management tracks the loans that we make via Asset Liability Management reports, and discusses loan growth and trends during our ALCO meetings each month. Attachment A hereto presents our new loan activity since July 2008. Since receiving TARP Funds, the Bank has made approximately $209,940,294 in new or renewed loans for the period November 2008 through January 2009.

<u>Response to (d):</u>

We intend to continue our lending activities within the Bank's footprint and within its adjacent markets to qualified borrowers, consistent with the lending activity that we have conducted since receiving the TARP Funds. All lending activity will continue to be tracked and reported upon during our ALCO meetings to ensure that we are using the TARP Funds in a manner and within the spirit for which they were provided. Our current forecast anticipates loan growth to average 4% to 6% during the severe recession that the U.S. economy and our own marketplace are currently experiencing.

The Bank also makes RALs on Federal tax returns across the U.S. We believe that this program provides a very valuable service to millions of taxpayers and the Internal Revenue Service ("IRS") each year. This program runs during the first and second quarter of each year. During past years, we have been able to fund these RALs largely

through the use of a Securitization/Conduit facility wherein RALs were sold into the facility and removed from our books, thereby allowing us to continue to make new RALs and serve our customers and the public's interest. For the 2009 season however, many of the banks and institutions that have traditionally participated in our Securitization/Conduit facility notified us that they were unable to participate in our 2009 program due to their own liquidity and capital issues, which required us not only to find alternative funding sources, but also to carry all RALs on our own balance sheet for the 2009 RAL season. As such, the Bank funded its RAL program wholly through the use of (i) brokered certificates of deposit, (ii) wholesale funding sources such as advances from the FHLB, (iii) federal funds' lines, and (iv) a syndicated funding line from a major U.S. bank. We did not use any of the TARP Funds as liquidity for funding the 2009 RAL program. However, without the additional capital from the TARP Funds, we would not have been able to carry the RALs on our balance sheet and maintain our required minimum capital ratios; which would have forced us to reduce the volume of RALs for the 2009 season. We did not grow or expand our RAL program via the TARP Funds. Instead, we have continued to make RALs in volumes similar to previous years as we believe that the lack of RALs in the marketplace to qualified customers would be yet another impact to the U.S. economy and the current recession.

SIGTARP Item 2: Your specific plans, and the status of implementation of those plans, for addressing executive compensation requirements associated with the funding. Information provided regarding executive compensation should also include any assessments made of loan risks and their relationship to executive compensation; how limitations on executive compensation will be implemented in line with Department of Treasury guidelines; and whether any such limitations may be offset by other changes to other, longer-term or deferred forms of executive compensation.

On March 5, 2009, the Company filed with the Securities and Exchange Commission (the "SEC") a preliminary proxy statement for its 2009 annual meeting of shareholders. Included within this preliminary proxy statement is the Company's Compensation Discussion and Analysis (the "CD&A"), which explains all material elements of the Company's compensation of its named executive officers. A copy of the CD&A included within this preliminary proxy statement is included as Attachment B hereto.

As stated in the CD&A, the objectives of the Company's executive compensation program are to align a significant portion of each executive officer's total compensation with the annual and long-term performance of the Company and the interests of the Company's shareholders. The Company's Performance-Based Annual Incentive Compensation Plan ("Incentive Plan"), which plays a key role in fulfilling this objective,

is designed specifically to establish a direct correlation between the annual incentives awarded to the participants and the financial performance of the Company.

The Company and its Compensation Committee believe our compensation philosophy, policies and objectives outlined within the CD&A are appropriately designed to allow us to effectively compensate our employees both during times of positive performance and in times of weak performance such as today's difficult economy. Consistent with our philosophy and objectives, as the Company's performance fell below "threshold" level, none of our named executive officers received annual incentive bonuses with respect to the corporate objective portion of the 2008 incentive plan. In addition, the Compensation Committee used its discretion in determining not to make any cash incentive payments to the named executive officers for achievement of individual or department performance goals, even though certain individual performance levels exceeded the threshold level. The Compensation Committee determined that specific individual performance by the named executive officers in achieving Incentive Plan targets would be rewarded through equity compensation and all such payouts would be in the form of restricted stock, subject to restrictions in the amended EESA. As discussed below, the Company and its Compensation Committee have taken and will continue to take all steps necessary to comply with the requirements imposed in connection with the Company's participation in the TARP CPP. These steps included the Compensation Committee undertaking an analysis to review the relationship between the Company's risk management policies and practices and its incentive compensation arrangements for the named executive officers in order to identify any features in the executive compensation program that might lead to unnecessary or excessive risk taking that could threaten the value of the Company.

Significant Events After December 31, 2008

2009 Base Salary Decisions

Recognizing that the Company reported a consolidated net loss of ($23.8 million) for the 2008 fiscal year and acknowledging the continuing disruption in financial services and deterioration in the economy, the Compensation Committee accepted the recommendation of the Company's Chief Executive Officer that his base salary, along with base salaries for all employees, be "frozen" for 2009 as part of the Company's efforts to reduce costs and improve profitability. Only employees who qualify for a promotion are exempt from the salary freeze. The Compensation Committee may reevaluate the decision to freeze base salaries should economic conditions and the Company's performance improve during 2009.

Compliance with Capital Purchase Program – Executive Compensation Requirements

Risk Assessment of Incentive Compensation Arrangements.

In connection with its participation in the TARP CPP, the Compensation Committee is required to meet at least annually with the Company's Chief Risk Officer or other senior risk officers to discuss and review the relationship between the Company's risk management policies and practices and its SEO incentive compensation arrangements, identifying and making reasonable efforts to limit any features in such compensation arrangements that might lead to the SEOs taking unnecessary or excessive risks that could threaten the value of the Company. The Compensation Committee, on behalf of the Company, must certify that it has completed the review and taken any necessary actions.

In response to this requirement, the Compensation Committee met with the Company's Chief Risk Officer in December 2008 and February 2009. The Chief Risk Officer presented the Compensation Committee with a report on the Company's overall risk structure and the top risks identified within the Company, and discussed the process by which he had analyzed the risks associated with the executive compensation program. This process included, among other things, a comprehensive review of the program and discussions with senior Human Resources personnel of the Company and Amalfi Consulting about the structure of the Company's overall executive compensation program. This review also included the upside and downside compensation potential under the Company's annual incentive plans; the long-term view encouraged by the design and vesting features of the Company's long-term incentive arrangements; and the extent to which the Compensation Committee and the Company's management monitor the program. The Chief Risk Officer advised that goals appeared properly aligned with the Strategic Plan approved by the Board and that he had validated the supporting documentation associated with the achievement of targeted goals for the SEOs.

Based on its analysis of these and other factors, the Compensation Committee determined that the Company's executive compensation program does not encourage the SEOs to take unnecessary and excessive risks that threaten the value of the Company, and that no changes to the program were required for this purpose. The required certification of the Compensation Committee is provided in the Compensation Committee Report contained in the preliminary proxy statement filed by the Company with the SEC on March 5, 2009.

Compensation Recovery Policy.

In 2008, the Compensation Committee amended the Company's benefit and incentive plans to comply with Section 111of EESA. Specifically, (1) SEOs are ineligible to receive

compensation to the extent that the Compensation Committee determines our benefit plans or incentive plans include incentives that promote unnecessary and excessive risks that threaten the value of the financial institution; (2) each SEO is required to forfeit any bonus or incentive compensation paid during the period that the U.S. Treasury holds a debt or equity position in the Company based on statements of earnings, gains, or other criteria that are later proven to be materially inaccurate (clawback provisions); and (3) the Company is prohibited from making to each SEO, and each SEO is ineligible to receive, any "golden parachute payment" in connection with the SEO's "applicable severance from employment" within the meaning of Section 111 of EESA and the regulations issued by the U.S. Treasury as published in the Federal Register on October 20, 2008.

In 2009, the Compensation Committee amended the Company's benefit and incentive plans further to comply with Section 111of EESA, as amended by the American Recovery and Reinvestment Act of 2009 ("ARRA"). Specifically, (1) certain highly compensated employees are ineligible to receive compensation to the extent that the Compensation Committee determines our benefit plans or incentive plans include incentives for employees to take unnecessary and excessive risks that threaten the value of the financial institution; (2) certain highly compensated employees are required to forfeit any bonus or incentive compensation paid during the period in which any obligation arising from financial assistance provided under TARP (as defined by Section 111 of EESA, as amended) remains outstanding; and (c) the Company is prohibited from making to certain highly compensated employees, and such employees are ineligible to receive, any "golden parachute payment" in connection with the employees' "applicable severance from employment" within the meaning of Section 111 of EESA, as amended.

Deductibility Compliance

The accounting treatment for compensation of the Company's employees is discussed in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008 ("Form 10 -K") in the following notes to the Consolidated Financial Statements of the Company: Note 1, Summary of Significant Accounting Policies; Note 15, Postretirement Benefits; Note16, Income Taxes; Note 17, Employee Benefit Plans; and Note 19, Shareholders' Equity.

While the U.S. Treasury holds an equity or debt position in the Company under the TARP CPP, no deduction will be claimed for federal income tax purposes for executive compensation that would not be deductible if 26 U.S.C. 162(m)(5) were to apply to the financial institution. This requirement effectively limits deductible compensation paid to the CEO, CFO and the three most highly compensated executive officers (other than the CEO and CFO) to $500,000. The Company anticipates that approximately $12,000 of executive compensation will be nondeductible for the 2008 tax year under this limitation.

Section 162(m) of the Internal Revenue Code generally disallows a tax deduction to public corporations for compensation over $1,000,000 paid for any fiscal year to the Company's highest paid executive officers, however, the statute exempts qualifying performance-based compensation from the deduction limit when specified requirements are met.

In general the Compensation Committee has structured awards to executive officers under the Company's incentive programs to qualify for this exemption. However, the Compensation Committee retains the discretion to award compensation that exceeds Section 162(m)'s deductibility limit. As part of our overall review of executive compensation, the Compensation Committee will continue to monitor the cost of the lost tax deduction. At this time, we believe that our compensation practices are market based and appropriate.

Change in Control/Severance Arrangements

The Company also maintains severance arrangements with certain executives, which entitle them to certain payments and benefits if their employment is terminated following a change-in-control of the Company. Agreements for the named executive officers, however, have been revised to comply with provisions of the EESA and ARRA.

Say on Pay Advisory Vote

In accordance with the ARRA and based on recent guidance issued by the SEC, the Board of Directors authorized a non-binding advisory shareholder vote on the Company's executive compensation plans, programs and arrangements to take place at the Company's 2009 annual meeting of shareholders.

Should you have any questions about these or any other matters, please do not hesitate to call Stephen Masterson at any time at (b) (6)

Sincerely,

George S. Leis[1]
Chief Executive Officer

Stephen V. Masterson[2]
EVP and Chief Financial Officer

Attachments:

Attachment A: New Loan Production

Attachment B: Compensation Discussion & Analysis Excerpt from the Preliminary Proxy Statement as filed with the SEC on March 5, 2009 for the Company's 2009 annual meeting of shareholders

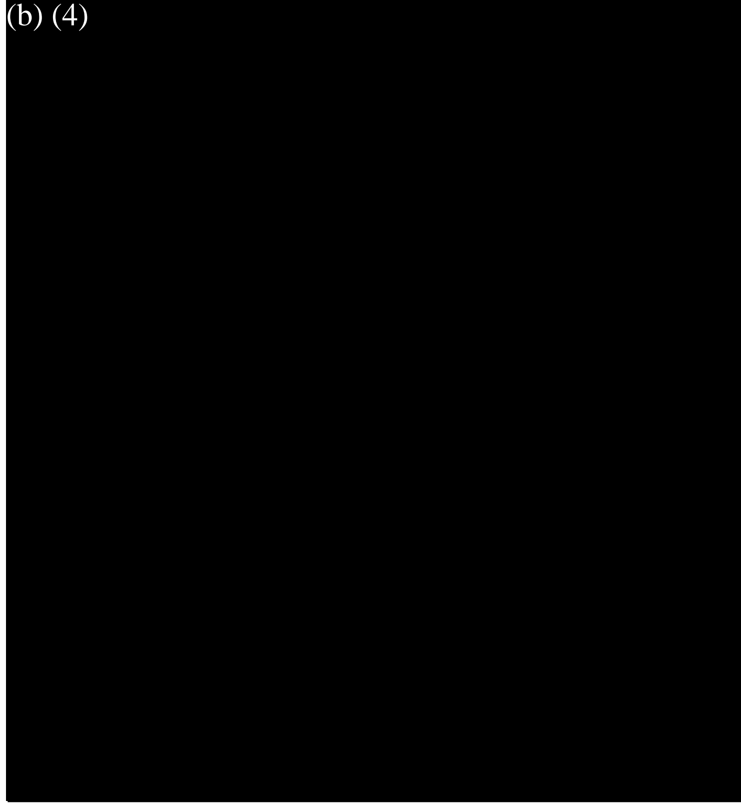
---

[1] I, George S. Leis, certify that I have reviewed this response and supporting documents, and, based on my knowledge, this response and the supporting documents do not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under such statements were made, not misleading.

[2] I, Stephen V. Masterson, certify that I have reviewed this response and supporting documents, and, based on my knowledge, this response and the supporting documents do not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under such statements were made, not misleading.

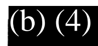
Attachment A

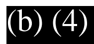
(b) (4)

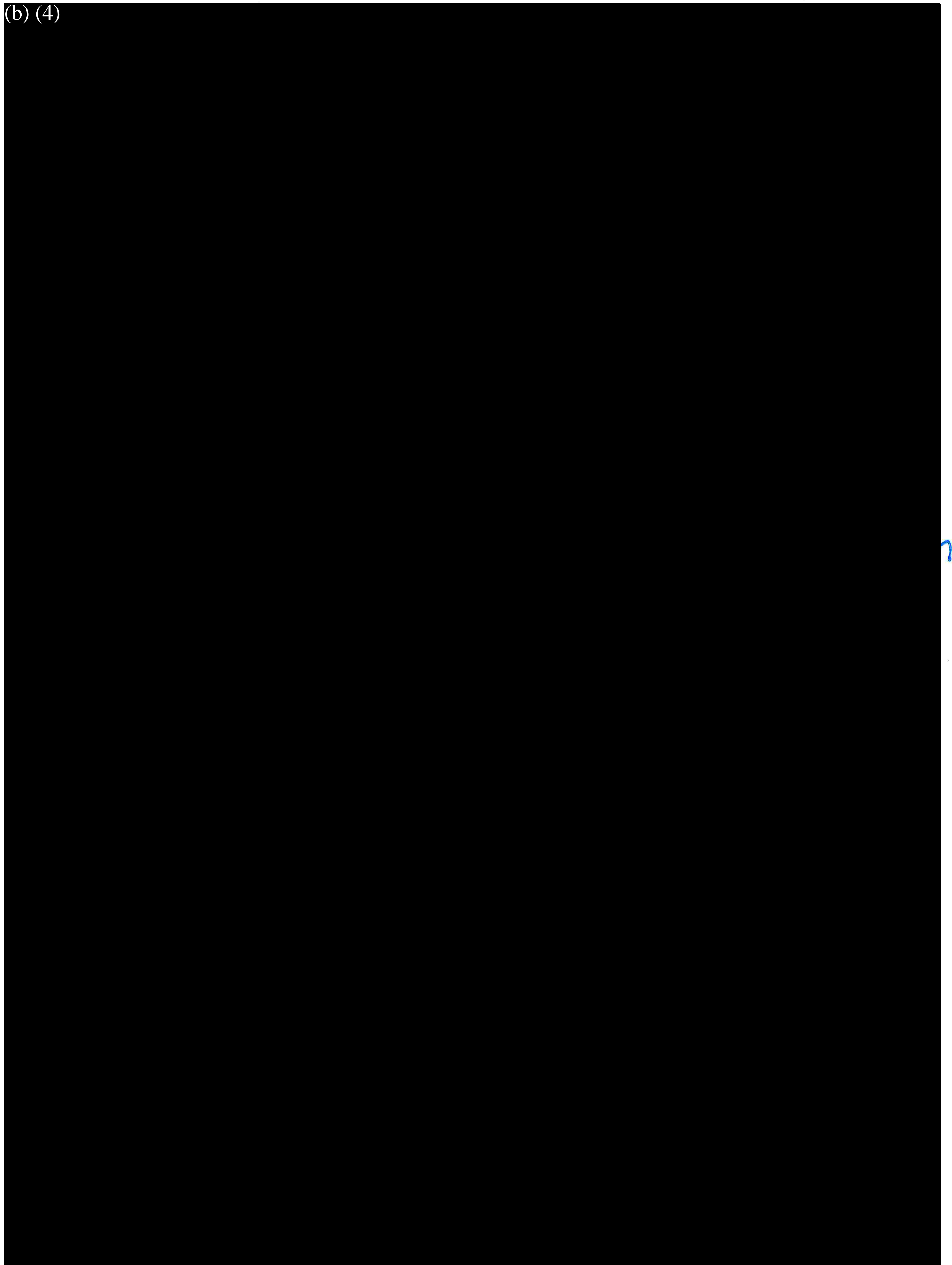


(b) (4)

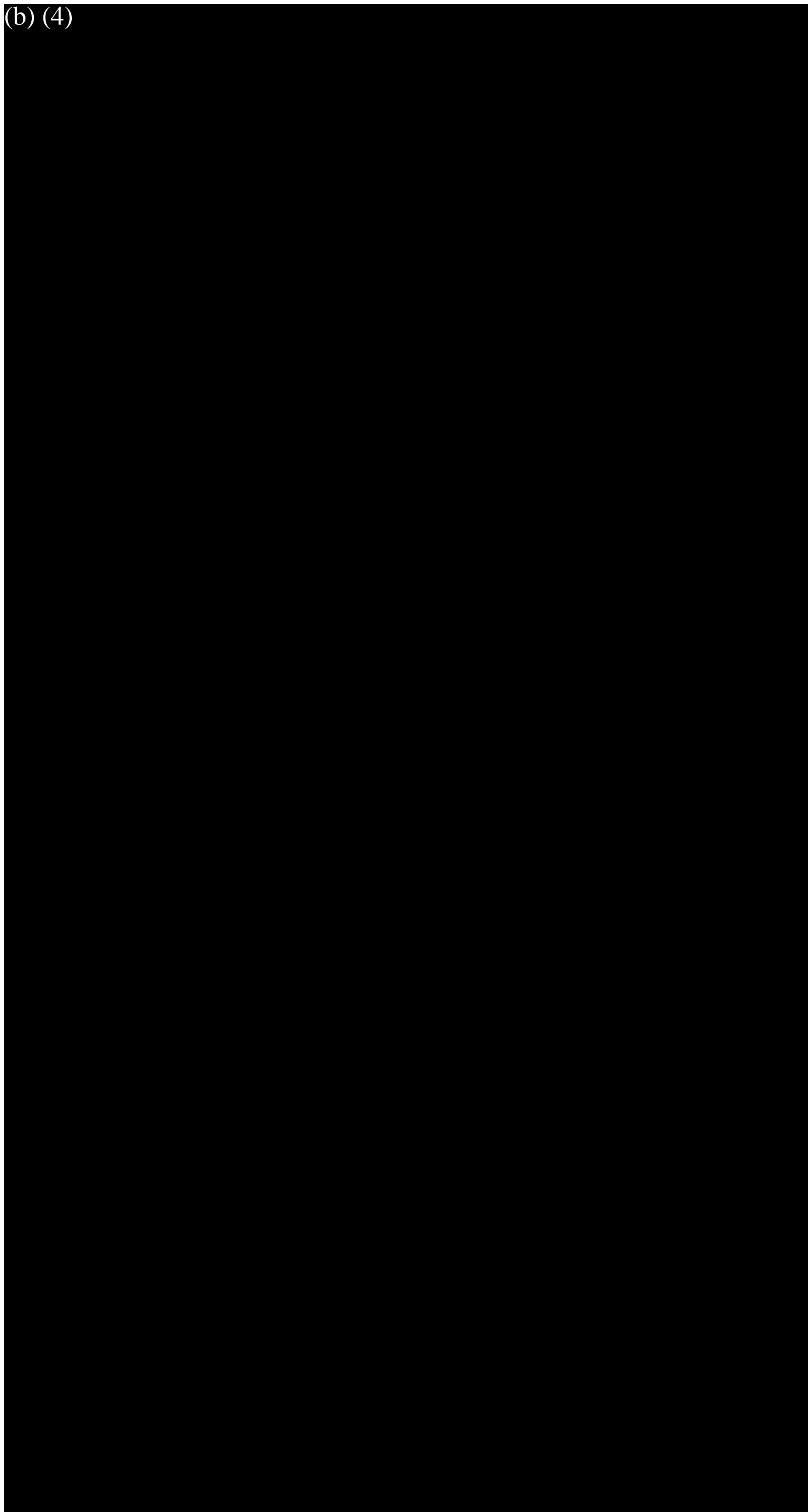
NEW LOANS


(b) (4)


(b) (4)



(b) (4)


(b) (4)

(b) (4)

Estimated Capital Ratios during the 2009 BAU/PT Sc[illegible]

5

Overview

Like most companies in the financial services sector, the deteriorating economy and recent market volatility had a significant negative impact on the Company's 2008 results of operations and on the price of the Company's common stock. The effect of these events and concerns that the economy may be weak for some period of time, have been reflected in the compensation of the Company's named executive officers for 2008, and in a number of executive compensation-related actions that have been taken by the Company and the Compensation Committee with respect to 2009.

The objectives of the Company's executive compensation program are to align a significant portion of each executive officer's total compensation with the annual and long-term performance of the Company and the interests of the Company's shareholders. The Company's Performance-Based Annual Incentive Compensation Plan ("Incentive Plan"), which plays a key role in fulfilling this objective, is designed specifically to establish a direct correlation between the annual incentives awarded to the participants and the financial performance of the Company.

The Company and the Compensation Committee believe our compensation philosophy, policies and objectives outlined within this Compensation Discussion and Analysis ("CD&A") are appropriately designed to allow us to effectively compensate our employees both during times of positive performance and in times of weak performance such as today's difficult economy. Consistent with our philosophy and objectives, as the Company's performance fell below "threshold" level, none of the Named Executive Officers received annual incentive bonuses with respect to the corporate objective portion of the 2008 incentive plan. In addition, the Compensation Committee used its discretion in determining not to make any cash incentive payments to the Named Executive Officers for achievement of individual or department performance goals, even though certain individual performance levels exceeded the threshold level. The Committee determined that specific individual performance by the Named Executive Officers in achieving Incentive Plan targets would be rewarded through equity compensation and all such payouts would be in the form of restricted stock, subject to restrictions in the amended Emergency Economic Stabilization Act of 2008.

In 2009, the Compensation Committee has taken a number of additional actions in response to the adverse economic conditions, including a freeze on all employees' base salaries (except for employee promotions) for 2009. Given concerns about performance targets and long-range forecasting during these uncertain times, the Committee, with the assistance of its compensation consultant, is reviewing our 2009 incentive plan to assure goals will result in shareholder value and continue to motivate and retain our senior management.

The Company and the Compensation Committee have taken and will continue to take all steps necessary to comply with the requirements imposed in connection with the Company's participation in the Capital Purchase Program (as discussed below). These steps included the Compensation Committee undertaking an analysis to review the

relationship between the Company's risk management policies and practices and its incentive compensation arrangements for the Named Executive Officers in order to identify any features in the executive compensation program that might lead to unnecessary or excessive risk taking that could threaten the value of the Company.

Effect of the Emergency Economic Stabilization Act of 2008

On October 14, 2008, the U.S. Department of the Treasury ("U.S. Treasury") announced a program under the Emergency Economic Stabilization Act of 2008 ("EESA"). Pursuant to this program, the U.S. Treasury would make preferred stock investments in participating financial institutions (the "Capital Purchase Program" or "TARP CPP"). We participated in the Capital Purchase Program in November 2008 by selling preferred stock and common stock purchase warrants to the U.S. Treasury. As a result, we became subject to certain executive compensation requirements under EESA, U.S. Treasury regulations, and the contract pursuant to which we sold such preferred stock. Those requirements apply to what the U.S. Treasury refers to as our Senior Executive Officers (SEOs). Presently, our SEOs are the same individuals who are our NEOs. Those requirements are:

- *Prohibition on Compensation that Provides an Incentive to Take Unnecessary and Excessive Risks.* EESA prohibits us from providing incentive compensation arrangements that encourage our SEOs to take unnecessary and excessive risks that threaten the value of the financial institution.

- *Risk Review.* U.S. Treasury regulations require the Committee to review SEO incentive compensation arrangements with our senior risk officers to ensure that SEOs are not encouraged to take such risks. The regulations also require the Committee to meet at least annually with our senior risk officers to discuss and review the relationship between our risk management policies and practices and the SEO incentive compensation arrangements. The Compensation Committee has performed this review, and its conclusions are included in its report within this Proxy Statement. The Committee concluded that our incentive compensation arrangements do not encourage our SEOs to take unnecessary and excessive risks that threaten the value of the financial institution in part because:

    - Our cash incentive plan imposes a specific dollar maximum amount for each participant.

    - Our equity incentive plan imposes annual grant limits that apply on an individual basis.

    - The Committee targets the median of peer practice effectively limits the size of awards.

- *Clawback.* EESA requires the Company to recover any bonus or incentive compensation paid to an SEO where the payment was later found to have been based on statements of earnings, gains, or other criteria which prove to be

materially inaccurate. Each SEO has contractually agreed to abide by this provision.

- *Golden Parachutes.* The Company contractually agreed to abide by a provision of EESA which limits the amounts that can be paid under change in control and similar agreements which provide payments upon separation of service. EESA also amended Section 280G of the Internal Revenue Code by expanding the definition of a parachute payment to include certain severance payments paid by reason of an involuntary termination or in connection with bankruptcy, liquidation or receivership of the employer. Each SEO has contractually agreed to abide by the limits imposed by EESA for so long as the limit applies to the Company and to the SEO. The changes to our Change in Control agreements as a result of EESA and Section 280G are discussed below under the heading "Tax Considerations" and "Change in Control Agreements."

- *Limit on Tax Deduction*. We contractually agreed to abide by a provision of EESA and Treasury Department regulations which limits our tax deduction for compensation paid to any SEO to $500,000 annually. The provision of EESA amended the Internal Revenue Code by adding 162(m)(5). Section 162(m)(5) imposes a $500,000 deduction limit. In addition, prior to the amendment, certain performance based compensation paid under shareholder approved plans did not count toward such deduction limit. EESA and Section 162(m)(5) eliminate that exclusion for the Company. We discuss the effect of this provision in greater detail under the heading, "Tax Considerations."

- *Binding SEO Agreements*. Prior to selling the Company's preferred stock to the U.S. Treasury, each of our SEOs executed an agreement which reduces his compensation and other benefits to the extent necessary to comply with these EESA requirements. These agreements will remain effective for so long as Treasury owns any of the Company's CPP debt or equity securities.

Effect of the America Reinvestment and Recovery Act of 2009

On February 17, 2009, President Barack Obama signed the American Recovery and Reinvestment Act of 2009 ("ARRA") into law. ARRA amends Section 111 of EESA to delete it in its entirety to add new Section 111 executive compensation requirements for TARP CPP participants. ARRA also includes provisions directing the Secretary of the U.S. Treasury and the SEC to impose additional limits on compensation of executives of companies that participate in the Capital Purchase Program as long as the U.S. Treasury owns preferred stock and/or stock purchase warrants of such companies under the Capital Purchase Program.

Key features of the ARRA as they apply to the Company are:

- A prohibition of the payment of any "bonus, retention award, or incentive compensation" to the five most highly-compensated employees for as long as any TARP CPP related obligations are outstanding. The prohibition does not

apply to bonuses payable pursuant to "employment agreements" in effect prior to February 11, 2009.

- "Long−term" restricted stock is excluded from ARRA's bonus prohibition, but only to the extent the value of the stock does not exceed one−third of the total amount of annual compensation of the employee receiving the stock, the stock does not "fully vest" until after all TARP CPP obligations have been satisfied, and any other conditions which the Treasury may specify have been met.

- Prohibition on making any severance/golden parachute payments to any SEO or any of the next five most highly compensated employees upon termination of employment for any reason for as long as any TARP CPP obligations remain outstanding.

- Recovery of any bonus or other incentive payments paid to any SEO or the next 20 most highly compensated employees that were made based on financial statements or other criteria that are later found to be materially inaccurate.

- Prohibition on compensation plans that "encourage" earnings manipulation

- A requirement that the CEO and CFO provide a written certification of compliance with the executive compensation restrictions in ARRA in the Company's annual filings with the SEC.

- Implementation of a company−wide policy regarding excessive or luxury expenditures.

- The U.S. Treasury will review bonuses, retention awards, and other compensation paid to the SEOs and the next 20 most highly compensated employees of each company receiving TARP CPP assistance before ARRA was enacted, and may "seek to negotiate" with the TARP CPP recipient and affected employees for reimbursement if it finds any such payments were inconsistent with the TARP CPP or otherwise in conflict with the public interest.

In accordance with the ARRA and based on recent guidance issued by the SEC, the Board of Directors authorized a non-binding advisory shareholder vote on the Company's executive compensation plans, programs and arrangements. See "Proposal 3 – Approval of a Non-binding Advisory Proposal on the Compensation of our Named Executive Officers.

Named Executive Officers

Throughout this proxy statement, the individuals listed below, are referred to as the "Named Executive Officers" ("NEOs"):

- President and Chief Executive Officer, Mr. Leis;
- Executive Vice President and Chief Financial Officer, Mr. Masterson;

- Vice Chairman, Executive Vice President, Banking Operations, Mr. Larson;
- Executive Vice President and General Counsel, Mr. Clough;
- Executive Vice President, Commercial Banking & Wealth Management Group, Mr. Toussaint; and
- Interim Chief Financial Officer, Mr. Cowie (August 3, 2007 through March 24, 2008)

Roles and Responsibilities in Determining Executive Compensation

The Role of the Compensation Committee, The Compensation Committee has responsibility, authority and oversight of Pacific Capital Bancorp's overall compensation strategy and compensation programs. The Compensation Committee establishes our compensation philosophy and policies; assures that our compensation practices promote shareholder interests; and administers compensation plans for both executive officers and non-executive employees. The Committee's responsibilities in determining executive compensation include:

- Establishing goals and objectives relevant to compensation of the CEO; evaluating and approving goals and objectives for other executive officers; and evaluating performance in light of those goals and objectives;

- Evaluating and recommending the compensation (including equity-based compensation) for the CEO to the independent members of the Board of Directors for approval; and

- Evaluating and approving the compensation (including equity-based compensation) for the other executive officers.

The Committee determines the compensation of the CEO in its sole discretion and is assisted by its compensation consultant, Amalfi Consulting, for recommendation to the independent members of the Board of Directors for approval. In executive session with the non-employee directors, the Committee Chairman presents the Committee's recommendations on CEO compensation and reviews the Committee's process and deliberations in evaluating the CEO's performance against his pre-established goals to reach a determination of fair and reasonable compensation for the CEO. The non-employee directors vote on the Committee's recommendation.

In making determinations regarding compensation for other executive officers, the Committee considers the recommendations of the CEO and the input received from its compensation consultant. Because Mr. Leis works most closely with and supervises our executive team, the Committee believes that Mr. Leis provides valuable insight in evaluating their performance. Accordingly, Mr. Leis provides the Committee with his assessment of each individual's performance relative to their responsibilities and pre-established corporate and individual goals for the fiscal year. The Committee also considers publicly available information regarding the competitive market for talent, and reviews the peer group compensation analysis provided by its compensation consultant. Mr. Leis also provides the Committee with additional information regarding

the effect, if any, of market forces, changes in strategy or priorities, as well as any specific challenges faced or overcome by each individual during the prior fiscal year.

The Committee has absolute discretion as to whether it approves the CEO's recommendations for the other executive officers, or makes adjustments as it deems appropriate. The Committee advises the Board of its deliberations and decisions.

The chart below summarizes the authorities and decision process in determining executive compensation.

		Role in Decision Process		
	Plan/Governance	**CEO**	**Compensation Committee**	**Board of Directors**
CEO				
Base Salary		No input	Reviews and recommends	Approves
Variable Compensation	Performance-Based Annual Incentive Plan	No input	Reviews and recommends	Approves
Long-Term Incentives	2008 Stock Plan	No input	Reviews and recommends	Approves
Section 16 Officers (includes NEOs)				
Base Salary		Reviews and recommends	Approves	
Variable Compensation	Performance-Based Annual Incentive Plan	Reviews and recommends	Approves	
Long-Term Incentives	2008 Stock Plan	Reviews and recommends	Approves	

The Role of our Compensation Consultant. The Committee has engaged Amalfi Consulting to act as consultant to the Committee on all compensation matters. The scope of the engagement for 2008 included:

- Total compensation analysis for the CEO (including base salary, annual cash incentive targets, long-term incentive targets and other compensation

- Total compensation analysis for the NEOs and other senior officers (including base salary, annual cash incentive targets, long-term incentive targets and other compensation)

- Proxy Statement review and assistance

- Board of Directors compensation review
- Review and comment on recommendations by management, including executive pay programs, the peer group, and benefit programs
- Market trends analysis and review of legislative actions related to executive compensation

The compensation consultant also provides services to management from time to time, which are pre-approved by the Committee. We do not believe that this arrangement represents a conflict of interest as the consulting contract is with the Compensation Committee, and the Committee Chairman pre-approves any services provided by Amalfi Consulting to management. During 2008, management engaged Amalfi Consulting to provide assistance in the design and structure of our high-performance annual incentive plan ("Incentive Plan") for the organization and to provide market-based compensation analysis for certain mid-management positions.

The Peer Group

A peer group of 20 banking institutions ranging in asset size from $4 billion to $16.5 billion (the "Peer Group") is utilized to assist the Committee in evaluating the competitiveness of the Company's executive compensation programs. The Peer Group banks are targeted to have business model concentrations in wealth management and consumer and commercial loans similar to the Company. The Committee generally reassesses its Peer Group on an annual basis and modifies the list as it believes necessary to reflect those banking institutions it considers to be similar to Pacific Capital Bancorp's business model. The Peer Group is also constructed with attention to geographical disbursement to enhance the group's regional and national representations.

The Committee reviews our relative ranking to the Peer Group with regard to various measures including total assets, asset growth, return on average assets, return on average equity, net interest margin, efficiency ratio, core EPS growth, non-performing assets as a percent of total assets, total three-year returns, number of branches, and consumer and commercial loan percentages. The term "core" refers to all operations of the Company, excluding the RAL/RT Programs. The Committee believes that surveying measures such as base salaries, cash compensation and total compensation paid by companies in the Peer Group can serve as a useful comparative tool to determine market competitiveness for executive talent. However, the Committee recognizes that executives in different companies can play significantly different roles, even though they may hold the same nominal positions. Moreover, it is not possible to determine from the available information about Peer Group compensation anything relating to the respective qualitative factors that may influence compensation, such as the performance of individual executives or their perceived importance to their company's business. The Committee looks to information about the Peer Group only as a guide to "benchmark" compensation for the NEOs.

The specific Peer Group is listed below.

City National Corporation, Beverly Hills, CA
Susquehanna Bancshares, Inc., Lititz, PA
UCBH Holdings, Inc., San Francisco, CA
East West Bancorp, Inc., Pasadena, CA
Cathay General Bancorp, Los Angeles, CA
Wintrust Financial Corporation, Lake Forest, IL
SVB Financial Group, Santa Clara, CA
First Niagara Financial Group, Inc., Lockport, NY
MB Financial, Inc., Chicago, IL
Umpqua Holdings Corporation, Portland, OR
First Midwest Bancorp, Inc., Itasca, IL
Boston Private Financial Holdings, Inc., Boston, MA
CVB Financial Corp., Ontario, CA
Central Pacific Financial Corp., Honolulu, HI
Western Alliance Bancorporation, Las Vegas, NV
Sterling Bancshares, Inc., Houston, TX
AMCORE Financial, Inc., Rockford, IL
Banner Corporation, Walla Walla, WA
PacWest Bancorp, San Diego, CA
Westamerica Bancorporation, San Rafael, CA

Elements of Total Compensation

The executive compensation program for our executives, including the NEOs, is comprised of three principal elements: base salary; cash incentive bonuses and long-term equity-based compensation. Cash incentive payments and long-term equity awards are awarded contingent upon satisfaction of corporate, departmental, and individual performance goals. Total executive compensation elements offer executives an opportunity to earn up to the 75th percentile of our Peer Group market compensation for superior performance, balanced by the risk of lower compensation when performance is less successful.

Our executives, including the NEOs, are generally eligible for the same health and dental insurance, life and accidental death insurance, disability insurance, and other similar benefits as the rest of our salaried employees. Our 401(k) Plan offers a Company match as follows: $1.00 for every $1.00 of voluntary employee contributions up to 3% of employee compensation and $0.50 for every $1.00 of the next 3% of compensation up to a maximum of 4.5% of compensation.

We do not offer a non-qualified defined benefit pension plan. To develop business relationships and potential clients, we also reimburse certain senior executives for membership dues and provide a monthly car allowance of $1,000 for those executives whose responsibilities require automobile travel within our market area.

Base Salary

Our philosophy is to position base salaries at close to market median levels in order to remain competitive in attracting and retaining executive talent. The Committee reviews the NEOs' base salaries annually and considers a number of factors, including: the

executive's experience, sustained level of performance in the position, and average base salaries paid to comparable executives of the Peer Group. Base salaries paid by companies in the Peer Group are viewed as useful comparative information, but in order to obtain the most representative compensation data for an executive officer based on his/her unique scope or responsibility, the Committee may look at compensation data for senior executives at companies other than the primary Peer Group in setting base salary.

CEO 2008 Base Salary Decision

The Committee reviews CEO performance throughout the year, but generally makes adjustments to compensation, if any, in February following its review of performance in the prior fiscal year. The Committee met in February 2008 to establish the CEO's compensation for 2008. In establishing CEO compensation, the Committee considered corporate financial performance, the CEO's specific performance against goals, including qualitative goals, and Peer Group analysis of compensation for this position. The Committee was assisted in its deliberations by Amalfi Consulting. In determining CEO base salary for 2008, some of the factors considered by the Committee included:

- In April 2007, Mr. Leis assumed the role of CEO, and within 60 days laid out a transition plan for management and operations within several areas of the organization;

- he moved quickly to successfully divest business units that did not fit the Company's long-range strategic business model;

- he was highly effective in elevating engagement of the employee base in pursuit of the Company's vision and strategic plan for the Company; and

- he demonstrated leadership in implementing a high-performance culture by re-aligning compensation programs to focus on strategic initiatives critical to Company performance.

The Peer Group analysis showed that Mr. Leis' base salary of $500,000 compared to the 16th percentile of the Peer Group. Based upon the Committee's evaluation of corporate performance and the CEO's specific goal based performance, the Committee recommended to the non-employee Directors a $100,000 increase to Mr. Leis' base salary to reflect his performance and leadership of the Company. This adjustment brought his base salary compensation up to the 40th percentile of the Peer Group. This action was approved by the independent members of the Board of Directors and became effective on March 1, 2008.

2008 Base Salary Decisions for the Other NEOs

Pursuant to our compensation philosophy and policies, the CEO recommends compensation for the NEOs to the Committee. In January 2008, Mr. Leis met with the

Committee to review the performance of each of the NEOs against pre-established objectives, as well as their individual contributions and leadership abilities. Mr. Leis recommended base salary adjustments for certain NEOs. In evaluating Mr. Leis' recommendations, the Committee also considered the Executive Officers' Peer Group analysis presented by Amalfi Consulting and compared base salary ranges for the NEOs to the 50th percentile

The table below identifies actions taken with respect to NEO salaries by the Committee, and such actions became effective on March 1, 2008.

NEOs	Base Salary Action
Mr. Masterson	$325,000*
Mr. Larson	$265,000 (no change)
Mr. Clough	$230,000 (no change)
Mr. Toussaint	Increased base salary by $14,000 to $220,000 (represents 6.8% increase)
Mr. Cowie (interim CFO)	Increased base salary from $175,000 to $180,250 (represents 3% increase)

*On February 6, 2008, Mr. Masterson accepted an offer of employment and agreed to the terms of an offer letter with the Company in connection with his pending position as Executive Vice President and Chief Financial Officer, which included a base salary of $325,000. Please see "Executive Employment Agreements and Other Arrangements" section within this Proxy Statement for further information about the terms of his offer letter.

Incentive Compensation

The Performance-Based Annual Incentive Plan ("Incentive Plan") is designed to support a pay-for-performance culture and is intended to reward and retain high performers and to create an environment where employees are rewarded in cash, equity and/or both if the Company and individuals/departments achieve or exceed pre-determined annual performance criteria. It is prospective in design with the utilization of a defined payout formula that is based upon the achievement of a combination of pre-determined Company and department/individual performance criteria. The Compensation Committee and the Board of Directors approve the Incentive Plan and any changes on an annual basis.

Annual Cash Incentive Compensation

The Incentive Plan design incorporates a tiered approach with annual cash incentive awards that are linked to the achievement of pre-defined performance goals. The incentive ranges (as a percent of salary) are designed to provide market competitive

payouts for the achievement of threshold, target and maximum performance goals. Establishment of the performance levels (threshold, target, and maximum) takes into account all factors that the Committee deems relevant, including market conditions and the Committee's assessment of the aggressiveness of the level of growth reflected in the financial performance ranges.

Setting award opportunity levels under the Incentive Plan

Each NEO is assigned a target award opportunity expressed as a percentage of base salary. Actual cash incentives/bonuses awarded could be higher or lower than the target depending on the Company's corporate performance and the officer's individual and/or department performance. If the Company does not meet its threshold performance level, there is no payout for the Company's performance objective portion of the annual cash incentive payout, but executives remain eligible to receive payouts related to their department or individual performance objectives. The table below provides a summary of the incentive award opportunities for the CEO and the other NEOs for fiscal 2008.

	Incentive Award Opportunities (Percent of 2008 Base Earnings)			Performance Objectives (Weighting)	
Named Executive Officers	Threshold	Target	Maximum	Company	Dept/ Individual
Mr. Leis	0%	75%	150%	100%	0%
Mr. Masterson	0%	50%	100%	40%	60%
Mr. Larson	0%	50%	100%	50%	50%
Mr. Clough	0%	50%	100%	60%	40%
Mr. Toussaint	0%	50%	100%	50%	50%
Mr. Cowie	0%	25%	50%	50%	25%

Incentive Plan Funding and Payouts

Each year the Compensation Committee receives recommendations from senior management for financial performance targets and performance ranges for the Company that are deemed by management to be worthy of incentive payout if achieved. The Committee reviews the recommendations with senior management and the Committee's compensation consultant. From the approved recommendations, the Committee and management agree on the overall Company goal, which is the metric that the Company must achieve for the Company portion of the Incentive Plan to be funded at the budgeted level. The Committee reports their determination to the full Board. For fiscal year 2008, the overall Company metric was based on "net income after taxes" for the core Bank.

For 2008, the Committee approved a $7 million annual cash incentive bonus accrual amount to fund targeted Incentive Plan performance. In March 2008, recognizing that actual results were not meeting 2008 plan projections, Mr. Leis recommended the Company reduce the annual cash incentive bonus accrual amount in the budget to $3.5

million, which the Committee endorsed. The actual cash payout amount for fiscal 2008 was $2.4 million, all of which was paid to Incentive Plan participants other than the NEOs and direct reports of the CEO. The NEOs and direct reports of the CEO did not receive any annual cash incentive awards for fiscal year 2008. Mr. Cowie served as interim CFO from August 2007 until March 2008, and therefore is shown in this Compensation Discussion and Analysis as an NEO. However, subsequent to March 2008, Mr. Cowie was not a direct report to the CEO. The Committee determined that he was eligible to receive a cash incentive for his individual goal component.

Measuring performance under the Incentive Plan

At the end of the fiscal year, the Committee reviews performance results compared to the pre-established goals and determines the applicable cash incentive/bonus payouts, if any, earned by the NEOs. Under the terms of the Incentive Plan, performance goals are limited to certain Company, affiliate, operating unit and division financial performance measures. Performance goals may be expressed on an absolute or relative basis, and may take into account the exclusion of certain items deemed appropriate by the Committee. The Compensation Committee of the Board of Directors has the sole ability to decide if an extraordinary occurrence totally outside of management's influence, be it a windfall or a shortfall, has occurred during the current Incentive Plan year, and whether the awards should be adjusted to reflect the effects of these events. The Committee utilized this discretion to reduce 2008 annual cash incentive payouts below formula.

Equity-Based Compensation

The Committee believes that equity-based compensation aligns the interest of our executives with those of our shareholders. While short-term cash incentives support our "pay-for-performance" compensation philosophy, the Committee believes that long-term incentives serve both as a retention mechanism and as a means to focus our executives on long-range strategic goals, sustainable growth and overall performance.

The Compensation Committee approves all equity awards, and our annual equity incentive awards are not approved until after the release of our year-end earnings. The Committee has the authority to approve equity awards for the NEOs, and in the case of Mr. Leis, the non-employee Directors meet in executive session to consider the recommendation of the Compensation Committee and approve his equity award.

Equity Plan Summary

Our 2008 Equity Incentive Plan (the "2008 Plan) is an omnibus equity plan which provides the Company with flexibility and the ability to use different equity vehicles to meet strategic compensation goals, including: stock options, stock appreciation rights, restricted stock; and performance units ("Awards"). The 2002 Stock Plan was retired upon the adoption of the 2008 Plan by our shareholders on April 29, 2008, and no further grants are issued under the 2002 Plan.

Pursuant to the 2008 Plan, Awards may be granted to non-employee directors, officers, employees and consultants of the Company and its subsidiaries. Stock options may be either "incentive stock options", as defined in Section 422 of the Internal Revenue Code of 1986, as amended, or non-qualified stock options. In addition, the 2008 Plan contains a number of provisions that the Board believes are consistent with the interests of shareholders and sound corporate governance practices. These provisions include: no stock option repricings without the approval of shareholders; no participant may be granted Awards in any one year to purchase more than an aggregate of 200,000 shares; no annual "evergreen" provision; and no discount stock option grants.

In general, long-term incentive awards are targeted at the median grant level of the Peer Group with appropriate adjustments for individual, department and Company performance. The exercise price of equity awards, including stock options, is the closing stock price of the Company's common stock on the date of grant. Generally, stock options vest in 20% annual increments on each anniversary date, and restricted stock vests in either one-third annual increments or one-fourth annual increments on each anniversary date. Participants receive quarterly dividends on their restricted stock and vote their shares. For further information about additional provisions applied to NEO restricted stock grants in 2009 to comply with EESA and ARRA, please see the "Compliance with Capital Purchase Program – Executive Compensation Requirements" section within this CD&A.

CEO Performance Goals Analysis

The Committee's assessment of the CEO's performance is based on Company performance against pre-determined financial goals, as well as performance against broader corporate objectives. In setting target incentive amounts for the CEO, 70% of his target incentive is based on corporate financial performance goals, and 30% is based on long-term corporate objectives beyond purely financial measures.

The following chart includes several of the Company financial "target" performance goals and actual performance results for Mr. Leis in 2008:

Company Performance Metric	"Target" Metric	"Actual" Performance Metric
EPS (consolidated)	$2.72	($0.52)
Core deposit growth	5.2%	6.3%
Core Loan growth	9.0%	7.7%
Core Net interest margin	3.80%	3.47%
RAL charge-off rate	1.0%	<1%
RAL net income	$60 million	$63 million

There were several key components that affected below threshold financial performance, including substantial increases in loan loss reserves; goodwill impairment; interest rate declines; and consulting and acquisition expenses. Positive financial performance components included Refund Anticipation Loan / Refund Transfer (RAL/RT) net income of $63.35 million (maximum performance); core deposit growth of 6% (between target and maximum); and a RAL charge-off rate less than 1% (between target and maximum). However, these positive performance factors were not sufficient to offset loan losses and goodwill impairment.

As a result of the Company's reported consolidated net loss of ($23.8) million and consistent with our pay-for-performance philosophy, the Committee determined that Mr. Leis was not eligible to receive a cash incentive payment related to his corporate financial performance goals. They also determined that no Incentive Plan participant, including the NEOs, was eligible to receive a cash incentive/bonus for the corporate goal component. The Committee also determined that Mr. Leis was not eligible for a long-term equity award based upon the Company's financial performance.

In evaluating performance against non-financial corporate objectives, the Committee concluded that Mr. Leis had accomplished the majority of his non-financial objectives including the following:

- Led a reorganization of senior staff and recruited top talent into key positions;
- Successfully increased deposit gathering, leading to near maximum performance against the targeted goal
- Successfully completed the integration of the Wealth Management and the Commercial Banking Groups to better position the Company for future growth;
- Controlled RAL Program loss rate to less than 1%; and
- Successfully generated $109.3 million in pre-tax RAL / RT income;

In the Committee's judgment, Mr. Leis achieved 80% of his non-financial goals, and the Committee awarded 8,872 shares of restricted stock (valued at $70,000) for his achievement of the non-financial corporate objectives component of his incentive plan. Mr. Leis' total incentive award represents 12% of his 2008 base salary earnings, against a target incentive opportunity of 75% of base salary. The restricted stock award is compliant with amended EESA and will not fully vest during the period that our TARP CPP obligation is outstanding.

Other NEO's Performance Goals Analysis

Annual Incentive Award

Participants in the Incentive Plan, including the other NEOs, have a percentage of their incentive award tied to a specific corporate goal – "Core Bank" net income (after tax). If the Company "threshold" goal is not met, participants are not eligible to receive an incentive award for the corporate component goal, but executives remain eligible to receive payouts related to their department or individual performance objective. For 2008, the "threshold" goal for "Core Bank" net income was $66 million, and actual performance resulted in a net loss for the core Bank. As a result and consistent with our pay-for-performance philosophy, the Committee determined that Messrs. Masterson, Larson, Toussaint, Clough, and Cowie were not eligible to receive an incentive payment related to this specific corporate goal component. This same determination applied to all other participants in the Incentive Plan.

Participants in the Incentive Plan, including the other NEOs, remain eligible for incentive awards tied to individual performance even when the threshold corporate performance objective is not achieved. Mr. Leis reviewed performance against individual target objectives, leadership abilities and individual contributions made by each of the NEOs during fiscal 2008 with the Committee.

For 2008, performance objectives for the NEOs included one or more of the following corporate goals in addition to their individual/departmental goals:

net income growth
growth in total assets
growth of deposits
targeted loan growth
target EPS
EPS growth
efficiency ratio improvement
charge offs
non-performing loans to total loans
other strategic performance initiatives

Examples of goals for the NEOs included the following:

- Mr. Larson led the enterprise-wide efforts that enabled PCB to achieve its deposit growth performance goals in a very challenging environment for deposit gathering. Additionally, as senior leader overseeing the Company's Refund Anticipation Loan / Refund Transfer businesses, Mr. Larson was very instrumental in returning that unit's net income performance to its historic levels of profitability (including a loss rate of <1.00%), returning the most successful RAL/RT season in the Company's history.

- Mr. Masterson, new to the Company in 2008, was diligent and successful in the restructure of the accounting and financial reporting units, including making very important high-level staffing additions, and selecting key new reporting systems and packages to improve operational efficiencies. He was also a key driver in controlling PCB's audit fees and provided critical leadership in improving PCB's asset liability management processes.

- Mr. Toussaint met or exceeded targets in loan growth, deposit growth and in controlling non-interest expenses for the Company's Commercial Banking Group, in a very difficult environment for financial services companies. Under his leadership, in the fourth quarter of 2008, PCB extended nearly $200 million in loans to its business customers, in the spirit of strengthening the weak economies of the Company's local markets.

- Mr. Clough, General Counsel, made important progress in reducing the Company's outside legal fees.

- Mr. Cowie served as Interim Chief Financial Officer during the first quarter of 2008 while also continuing to serve in a dual role as Chief Risk Officer of the Company, both critically important roles in the financial services industry.

While the NEOs did exceed threshold levels of individual and/or department performance for payout under the Incentive Plan, in recognition of weak overall performance by the Company and the decline in shareholder value, it was determined that no cash incentive would be paid for individual performance to any NEO or direct report to the CEO. Mr. Cowie, who served as interim CFO from August 2007 through March 2008, but was not a direct report subsequent to that period, was deemed to be exempt from this determination and eligible for a cash incentive payment for his individual performance.

Equity Compensation

Our long-term incentives serve both as a retention mechanism and as a means to focus our executives on long-range strategic goals, sustainable growth and overall

performance. In their deliberations regarding individual performance, the Committee determined that specific individual performance by the NEOs on strategic and department/individual goals per the Incentive Plan targets had been achieved. Additionally, the Committee recognized that retention and motivation of our senior executives is critical to managing through these difficult times. In light of these determinations, the Committee approved granting equity awards to the NEOs.

Again, acknowledging overall Company performance, Mr. Leis recommended the award levels be reduced from formula, and the Committee concurred in this decision. The table below identifies actions taken with respect to restricted stock awards by the Committee.

NEOs	Restricted Shares	$ Value	Actual Payout of Base Salary	Base Salary Target Opportunity
Mr. Masterson	6,337	$50,000	20.5%	60%
Mr. Larson	4,702	37,100	14%	50%
Mr. Clough	3,802	30,000	13%	40%
Mr. Toussaint	3,717	29,331	13.5%	50%
Mr. Cowie	2,598	20,502	11.4	25%

The value of the restricted stock awards, on average, represent ranges of 11% to 21% of the NEO's 2008 base salary earnings, which are well below the target incentive opportunity levels reflected in the Incentive Award Opportunity chart shown previously. All equity awards have an effective date of February 17, 2009, with a closing stock price of $7.89. The February 17, 2009 restricted stock award to Messrs. Masterson, Larson, Clough, and Toussaint are subject to provisions of EESA, as amended by the American Recovery and Reinvestment Act of 2009, and will not fully vest during the period that the Company's TARP CPP obligation is outstanding. This vesting prohibition does not apply, however, to any awards to this group prior to February 11, 2009.

In 2008, Mr. Masterson received 5,000 shares of restricted stock and 7,500 stock options pursuant to his offer letter of employment as Executive Vice President and CFO. Both the restricted stock and stock options have a 10-year term. Restricted stock vests in three equal installments on each anniversary grant date, and stock options vest in 20% equal annual installments on each anniversary of the grant date. As restricted stock and stock options were granted pursuant to an agreement prior to the enactment of ARRA in 2009, Mr. Masterson is entitled to receive the shares as they continue to vest under the original vesting schedule. For further information about these grants, see the "Equity Awards Table" following this CD&A.

Tally Sheet and Stock Ownership Review

The Committee examines each NEO's tally sheet for an overview of all their equity holdings and benefits —personal stock holdings, stock holdings from past incentive-based awards, and stock holdings within the executive's 401(k) plan account and Employee Stock Ownership Plan (ESOP), if any. The Committee feels that the use of equity-based compensation furthers the goal of aligning executives' interests with those of Company stockholders by linking compensation to the growth of shareholder value.

Significant Events After December 31, 2008

2009 Base Salary Decisions

Recognizing that the Company reported a consolidated net loss of ($23.8 million) for the 2008 fiscal year and acknowledging the continuing disruption in financial services and deterioration in the economy, the Committee accepted Mr. Leis' recommendation that his base salary, along with base salaries for all employees, be "frozen" for 2009 as part of the Company's efforts to reduce costs and improve profitability. Only employees who qualify for a promotion are exempt from the salary freeze. The Committee may reevaluate the decision to freeze base salaries should economic conditions and the Company's performance improve during 2009.

In recognition of his January 2009 promotion to include his additional responsibilities for the Commercial & Wealth Management Group, Mr. Toussaint's base salary was increased by 10% to $242,000 effective March 1, 2009.

Compliance with Capital Purchase Program – Executive Compensation Requirements

Risk Assessment of Incentive Compensation Arrangements.

In connection with its participation in the Capital Purchase Program, the Compensation Committee is required to meet at least annually with the Company's Chief Risk Officer or other senior risk officers to discuss and review the relationship between the Company's risk management policies and practices and its senior executive officer ("SEO") incentive compensation arrangements, identifying and making reasonable efforts to limit any features in such compensation arrangements that might lead to the SEOs taking unnecessary or excessive risks that could threaten the value of the Company. The Compensation Committee, on behalf of the Company, must certify that it has completed the review and taken any necessary actions.

In response to this requirement, the Compensation Committee met with the Company's Chief Risk Officer in December 2008 and February 2009. The Chief Risk Officer presented the Compensation Committee with a report on the Company's overall risk structure and the top risks identified within the Company, and discussed the process by which he had analyzed the risks associated with the executive compensation program.

This process included, among other things, a comprehensive review of the program and discussions with senior Human Resources personnel of the Company and Amalfi Consulting about the structure of the Company's overall executive compensation program. This review also included the upside and downside compensation potential under the Company's annual incentive plans; the long-term view encouraged by the design and vesting features of the Company's long-term incentive arrangements; and the extent to which the Compensation Committee and the Company's management monitor the program. The Chief Risk Officer advised that goals appeared properly aligned with the Strategic Plan approved by the Board and that he had validated the supporting documentation associated with the achievement of targeted goals for the SEOs.

Based on its analysis of these and other factors, the Compensation Committee determined that the Company's executive compensation program does not encourage the SEOs to take unnecessary and excessive risks that threaten the value of the Company, and that no changes to the program were required for this purpose. The required certification of the Compensation Committee is provided in the Compensation Committee Report following this CD&A.

Deductibility Compliance

The accounting treatment for compensation of the Company's employees is discussed in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008 ("Form 10 -K") in the following notes to the Consolidated Financial Statements of the Company: Note 1, Summary of Significant Accounting Policies; Note 15, Postretirement Benefits; Note 16, Income Taxes; Note 17, Employee Benefit Plans; and Note 19, Shareholders' Equity.

While the Treasury holds an equity or debt position in the Company under the TARP CPP, no deduction will be claimed for federal income tax purposes for executive compensation that would not be deductible if 26 U.S.C. 162(m)(5) were to apply to the financial institution. This requirement effectively limits deductible compensation paid to the CEO, CFO and the three most highly compensated executive officers (other than the CEO and CFO) to $500,000. The Company anticipates that approximately $12,000 of executive compensation for Mr. Leis will be nondeductible for the 2008 tax year under this limitation.

Section 162(m) of the Internal Revenue Code generally disallows a tax deduction to public corporations for compensation over $1,000,000 paid for any fiscal year to the Company's highest paid executive officers, however, the statute exempts qualifying performance-based compensation from the deduction limit when specified requirements are met.

In general the Compensation Committee has structured awards to executive officers under the Company's incentive programs to qualify for this exemption. However, the Compensation Committee retains the discretion to award compensation that exceeds

Section 162(m)'s deductibility limit. As part of our overall review of executive compensation, the Compensation Committee will continue to monitor the cost of the lost tax deduction. At this time, we believe that our compensation practices are market based and appropriate.

Change in Control/Severance Arrangements

The Company also maintains severance arrangements with certain executives, which entitle them to certain payments and benefits if their employment is terminated following a change-in-control of the Company. Agreements for the NEOs, however, have been revised to comply with provisions of the EESA and ARRA. We have shown the severance and/or change-in-control payouts that would be payable to each NEO if the triggering event occurred on December 31, 2008 in the "Potential Payments upon Termination or Change-in-Control Arrangements" section in this Proxy Statement.

Executive Employment Agreements and Other Arrangements

CEO Employment Agreement

Mr. Leis entered into a three-year Employment Agreement with the Company and the Bank upon his appointment by the Board of Directors to serve as President and Chief Executive Officer, effective as of April 2, 2007 and amended as of February 13, 2008, which provides severance payments and benefits if his employment is terminated for various reasons including a change in control of the Company. He is also eligible to receive a tax "gross-up" payment in the event that his total payments under the Employment Agreement were subject to an excise tax under Section 4999 of the Internal Revenue Code. Mr. Leis received restricted stock and stock options upon his appointment to President and CEO.

Mr. Leis' Employment Agreement has been revised to comply with the EESA and ARRA; namely, to comply with:

- Clawback provisions (recover any bonus or incentive compensation where the payment was later found to have been based on statements of earnings, gains or other criteria which prove to be materially inaccurate);
- Golden parachutes (limits the amounts that can be paid under change in control and similar agreements which provide payments upon separation of service);

As restricted stock and stock options were granted prior the enactment of ARRA in 2009, Mr. Leis is entitled to receive the shares as they continue to vest under the original vesting schedule. Please see the table "Outstanding Equity Awards at Fiscal Year-End" in this Proxy statement.

A summary of the terms of Mr. Leis' Employment Agreement prior to the enactment of the EESA and ARRA are listed below:

- He received grants of stock options and restricted shares, each with a value on April 2, 2007 of $100,000.

- Mr. Leis is eligible to receive cash and long-term incentive bonus payments based upon his performance and accomplishments of business, financial, and other goals established by the Board of Directors. The cash portion of the bonus ranges from 0% to 150% of Mr. Leis' base salary. The equity portion is awarded in the form of either stock option grants or restricted stock grants (or a combination of both). He has an opportunity to earn up to 75% of his base salary in equity for "Target Performance" and up to 150% of his base salary for "Maximum Performance."

- He is eligible to participate in the Company's Deferred Compensation program and group benefit programs.

- If Mr. Leis' employment is terminated for cause, he will be paid his base salary earned to the date of termination. If Mr. Leis' employment is terminated without cause (other than in connection with a change in control as defined in the Agreement), he is entitled to (i) his base salary earned to the termination date; and (ii) a one-time lump sum payment equal to two times his then current annual base salary.

- If Mr. Leis' employment is terminated in connection with a disability, he would be entitled to receive for a period of 12 months an amount equal to the difference between any disability payments provided by the Company's insurance plans and his then current base salary. In addition, all of his unvested stock options and restricted stock would vest. As a result of his death, Mr. Leis' estate would be entitled to an amount equal to his base salary through the date of his death; and any compensation previously deferred by him. In addition, all of his unvested stock options and restricted stock would vest.

- If Mr. Leis' employment is terminated in connection with a change-in-control, he would be entitled to receive a severance payment equal to three times his annual total compensation (salary and bonuses) averaged over a three-year period immediately preceding the change-in-control.

- He is eligible to receive a tax "gross-up" payment in the event that his total payments under the Employment Agreement were subject to an excise tax under Section 4999 of the Internal Revenue Code.

CFO Offer Letter

As an NEO, Mr. Masterson has also complied with provisions in the EESA and ARRA. He entered into an offer letter of employment with the Company, effective as of February 5, 2008, which provided an annual salary of $325,000 and a sign-on bonus of $100,000, the first $50,000 paid upon hire and an additional $50,000 paid in June 2008. Mr. Masterson was reimbursed for relocation expenses in the amount of $3,525 and received a nonqualified stock option for 7,500 shares and a grant of 5,000 shares of restricted stock approved by the Compensation Committee at its meeting on April 21, 2008. As restricted stock and stock options were granted pursuant to an agreement prior to the enactment of ARRA in 2009, Mr. Masterson is entitled to receive the shares as they continue to vest under the original vesting schedule. Please see the Outstanding Equity Awards at December 31, 2008 Table in this Proxy statement.

He is also eligible to participate in the Company's Performance-Based Annual Incentive Program, prorated to his date of hire for fiscal year 2008, and is a participant in the Management Retention Plan (Change in Control) and eligible to participate in the Company's Deferred Compensation Plan.

Compensation Committee Report

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis required by Item 401(b) of Regulation S-K with management and, based on such review and discussions, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in this Proxy Statement.

The Compensation Committee certifies that we have reviewed incentive compensation arrangements with our senior risk officers, and have made reasonable efforts to ensure that such arrangements do not encourage our Named Executive Officers to take unnecessary and excessive risks that threaten the value of Pacific Capital Bancorp.