

PACWEST BANCORP
Form 10-K
February 29, 2016

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, 2015
Commission File No. 001-36408

PACWEST BANCORP

(Exact name of registrant as specified in its charter)

Delaware

(State of Incorporation)

9701 Wilshire Blvd., Suite 700

Beverly Hills, CA 90212

(Address of Principal Executive Offices, Including Zip Code)

(310) 887-8500

(Registrant's Telephone Number, Including Area Code)

Common Stock, par value \$0.01 per share

(Title of Each Class)

33-0885320

(I.R.S. Employer

Identification No.)

The Nasdaq Stock Market, LLC

(Name of Exchange on Which Registered)

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

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

☒ Large accelerated filer

☐ Accelerated filer

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

☐ Smaller reporting company

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

Edgar Filing: PACWEST BANCORP - Form 10-K

As of June 30, 2015, 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, 2015, was approximately \$4.8 billion. Registrant does not have any nonvoting common equities. As of February 22, 2016, there were 120,208,695 shares of registrant's common stock outstanding, excluding treasury shares and 1,517,356 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 2016 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.

PACWEST BANCORP
2015 ANNUAL REPORT ON FORM 10-K
TABLE OF CONTENTS

PART I

Item 1.	Business	<u>4</u>
	General	<u>4</u>
	Our Business Strategy	<u>4</u>
	Loan Concentrations	<u>10</u>
	Current Developments	<u>11</u>
	Financing	<u>11</u>
	Information Technology Systems	<u>11</u>
	Risk Oversight and Management	<u>12</u>
	Competition	<u>12</u>
	Employees	<u>12</u>
	Financial and Statistical Disclosure	<u>13</u>
	Supervision and Regulation	<u>13</u>
	Available Information	<u>21</u>
	Forward Looking Information	<u>21</u>
Item 1A.	Risk Factors	<u>23</u>
Item 1B.	Unresolved Staff Comments	<u>35</u>
Item 2.	Properties	<u>35</u>
Item 3.	Legal Proceedings	<u>35</u>
Item 4.	Mine Safety Disclosure	<u>35</u>

PART II

ITEM 5.	Market For Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities	<u>36</u>
	Marketplace Designation, Sales Price Information and Holders	<u>36</u>
	Dividends	<u>36</u>
	Securities Authorized for Issuance under Equity Compensation Plans	<u>37</u>
	Recent Sales of Unregistered Securities and Use of Proceeds	<u>37</u>
	Repurchases of Common Stock	<u>37</u>
	Five Year Stock Performance Graph	<u>37</u>
ITEM 6.	Selected Financial Data	<u>39</u>
ITEM 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	<u>41</u>
	Overview	<u>41</u>
	Key Performance Indicators	<u>42</u>
	Critical Accounting Policies	<u>44</u>
	Non-GAAP Measurements	<u>47</u>
	Results of Operations	<u>50</u>
	Financial Condition	<u>62</u>
	Capital Resources	<u>77</u>
	Liquidity	<u>77</u>
	Contractual Obligations	<u>80</u>
	Off-Balance Sheet Arrangements	<u>80</u>
	Recent Accounting Pronouncements	<u>80</u>
ITEM 7A.	Quantitative and Qualitative Disclosures About Market Risk	<u>81</u>

PACWEST BANCORP
2015 ANNUAL REPORT ON FORM 10-K
TABLE OF CONTENTS

ITEM 8. Financial Statements and Supplementary Data	<u>84</u>
Contents	<u>84</u>
Management's Report on Internal Control Over Financial Reporting	<u>85</u>
Report of Independent Registered Public Accounting Firm	<u>86</u>
Consolidated Balance Sheets as of December 31, 2015 and 2014	<u>87</u>
Consolidated Statements of Earnings for the Years Ended December 31, 2015, 2014 and 2013	<u>88</u>
Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2015, 2014 and 2013	<u>89</u>
Consolidated Statements of Changes in Stockholders' Equity for the Years Ended December 31, 2015, 2014 and 2013	<u>90</u>
Consolidated Statements of Cash Flows for the Years Ended December 31, 2015, 2014 and 2013	<u>91</u>
Notes to Consolidated Financial Statements	<u>92</u>
ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	<u>146</u>
ITEM 9A. Controls and Procedures	<u>146</u>
ITEM 9B. Other Information	<u>146</u>
PART III	
ITEM 10. Directors, Executive Officers and Corporate Governance	<u>147</u>
ITEM 11. Executive Compensation	<u>147</u>
ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	<u>147</u>
ITEM 13. Certain Relationships and Related Transactions, and Director Independence	<u>147</u>
ITEM 14. Principal Accountant Fees and Services	<u>147</u>
PART IV	
ITEM 15. Exhibits and Financial Statement Schedules	<u>147</u>
SIGNATURES	<u>150</u>
CERTIFICATIONS	

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, or "BHCA", with our corporate headquarters located in Los Angeles, California. Our principal business is to serve as the holding company for our wholly-owned subsidiary, Pacific Western Bank. References to "Pacific Western" or the "Bank" refer to Pacific Western Bank together with its wholly-owned subsidiaries. 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. We are focused on relationship-based business banking to small, middle-market and venture-backed businesses nationwide. The Bank offers a broad range of loan and deposit products and services through 80 full-service branches located throughout the state of California, one branch located in Durham, North Carolina, and several loan production offices located in cities across the country. We provide commercial banking services, including real estate, construction, and commercial loans, and comprehensive deposit and treasury management services to small and middle-market businesses. We offer products and services under the brand names of Pacific Western as well as its business groups, CapitalSource and Square 1 Bank. CapitalSource focuses on providing cash flow, asset-based, equipment and real estate loans and treasury management services to established middle market businesses on a national basis. Square 1 Bank focuses on providing a comprehensive suite of financial products tailored to service entrepreneurial businesses and their venture capital and private equity investors, with offices located in key innovation hubs across the United States. Square 1 Asset Management, Inc., a wholly-owned subsidiary of the Bank and a SEC-registered investment adviser, provides investment advisory and asset management services to select clients.

We were established 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 model, service-driven focus, and presence in attractive markets, as well as 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 28 acquisitions since 2000 which have contributed to our growth and expanded our market presence throughout the United States.

As of December 31, 2015, we had total assets of \$21.3 billion, gross loans and leases of \$14.5 billion, total deposits of \$15.7 billion and stockholders' equity of \$4.4 billion.

From the second quarter of 2012 to the third quarter of 2015, we operated as three reportable segments: Community Banking, National Lending (formerly Asset Financing) and Other. As a result of the Square 1 Financial, Inc., or "Square 1" acquisition, along with changes in personnel, reporting structure, and operations, we re-evaluated our segment reporting for year-end 2015.

At December 31, 2015, we operated as one reportable segment. The factors considered in making this determination include the nature of products and offered services, the geographic regions in which we operate, the applicable regulatory environment, and the discrete financial information reviewed by our key decision makers.

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 credit underwriting standards. We continue to focus on originating high-quality loans and leases and growing our low-cost deposit base through our relationship-based business lending. These core strengths enable us to maintain our operational efficiency and increase profitability, increase our core deposits and grow loans and leases in a sound manner.

Our loan and lease portfolio consists primarily of real estate mortgage loans, real estate construction and land loans, and commercial and industrial, or "C&I", loans and leases. We pursue attractive growth opportunities to expand and enter new markets aligned with our business model and strategic plans. Additionally, we focus on cultivating strong relationships with firms within the private equity and venture capital community nationwide, many of which are also our clients and/or may invest in our clients.

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

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. The acquisition of Square 1 accelerated this process as nearly all of the \$3.8 billion of acquired deposits were core deposits.

Our management team has extensive expertise and a successful track record in evaluating, executing and integrating attractive, franchise-enhancing acquisitions. We have successfully completed 28 acquisitions since 2000, including the Square 1 acquisition in 2015 and the 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
May 2000	Rancho Santa Fe National Bank
May 2000	First Community Bank of the Desert
January 2001	Professional Bancorp, Inc.
October 2001	First Charter Bank
January 2002	Pacific Western National Bank
March 2002	W.H.E.C., Inc.
August 2002	Upland Bank
August 2002	Marathon Bancorp
September 2002	First National Bank
January 2003	Bank of Coronado
August 2003	Verdugo Banking Company
March 2004	First Community Financial Corporation
April 2004	Harbor National Bank
August 2005	First American Bank
October 2005	Pacific Liberty Bank
January 2006	Cedars Bank
May 2006	Foothill Independent Bancorp
October 2006	Community Bancorp Inc.
June 2007	Business Finance Capital Corporation
November 2008	Security Pacific Bank (deposits only) ⁽¹⁾
August 2009	Affinity Bank ⁽¹⁾
August 2010	Los Padres Bank ⁽¹⁾
January 2012	Pacific Western Equipment Finance (formerly Marquette Equipment Finance)
April 2012	Celtic Capital Corporation
August 2012	American Perspective Bank
May 2013	First California Financial Group, Inc. ⁽²⁾
April 2014	CapitalSource Inc.
October 2015	Square 1 Financial, Inc.

(1)FDIC assisted.

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

Depository Products and Services

Deposits are our primary source of funds to support our revenue-generating assets and provide a source of low-cost funds and deposit-related fee income. 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, asset management 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 allows us to gather deposits, expand our brand presence and service our customers' banking and cash management needs. In addition, as the banking industry continues to experience broader customer acceptance of on-line and mobile banking tools for conducting basic banking functions we are able to serve our customers through a wide range of non-branch channels, including on-line and telephone banking platforms, which allows us to attract new depositors without a commensurate increase in branch traffic.

At December 31, 2015, we had ATMs at 63 of our branches and had another two at off-site locations located in California. We are part of the MoneyPass network that enables our customers to withdraw 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.

At December 31, 2015, our total deposits consisted of \$10.6 billion in core deposits, \$4.2 billion in time deposits and \$0.9 billion in brokered non-maturity deposits. Core deposits represented 67% of total deposits at December 31, 2015, and were comprised of \$6.2 billion in noninterest-bearing deposits, \$0.9 billion in interest-bearing checking accounts, \$2.8 billion in money market accounts and \$0.7 billion in savings accounts. Our deposit base is also diversified by client type. As of December 31, 2015, no individual depositor represented more than 1.2% of our total deposits, and our top ten depositors represented 8.6% of our total deposits.

The composition of our deposit mix changed as a result of the CapitalSource Inc. merger, which lowered the proportion of core deposits and increased the proportion of more expensive time deposits. Since the CapitalSource Inc. merger, we have focused on shifting the mix of our deposits to include a higher proportion of core deposits. Our dedicated team of professionals has been successful in growing our low-cost, core deposit base by attracting deposits from our business customers and offering alternative cash management solutions intended to help retain business customers. The Square 1 acquisition completed in October 2015 accelerated this shift in deposit mix.

We face strong competition in gathering deposits. Our most direct competition for deposits comes from nationwide, regional, and community banks, savings banks and associations, credit unions, insurance companies, money market funds, brokerage firms and other non-bank financial services companies 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 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.

Client Investment Funds

In addition to deposit products, we also offer select clients non-depository cash investment options through Square 1 Asset Management, Inc. ("S1AM"), our registered investment adviser subsidiary, and third-party money market sweep products. S1AM provides customized investment advisory and asset management solutions. At December 31, 2015, total off-balance sheet client investment funds were \$2.0 billion, of which \$1.6 billion was managed by S1AM. Subsequent to the completion of the Square 1 acquisition, we launched an initiative to migrate client investment funds into on-balance sheet deposit products, and approximately \$300 million were transferred as of December 31, 2015.

Lending Activities

We conduct a range of commercial lending activities that includes real estate mortgage, real estate construction and land loans and C&I loans and leases. Our commercial real estate loans are secured by a range of property types. Our C&I loan offerings are diverse and generally include various asset-secured loans, equipment-secured loans and leases, cash flow loans (leveraged loans) to finance business acquisitions and recapitalizations, and venture loans to support the operations of entrepreneurial companies during the various phases of their start-up operations. We price loans to preserve our interest spread and maintain our net interest margin. Loan interest rates may be floating throughout the loan term or fixed. The rates on hybrid loans typically are fixed for a set period and then become floating later in the loan term. While we do not actively solicit consumer loans, we hold consumer loans, which are primarily purchased participation interests in student loans originated and serviced by a third-party lender.

Real Estate Loans

Our real estate lending activities focus primarily on loans to professional developers and real estate investors for the acquisition, refinancing and construction of commercial real estate. Our real estate loans generally are collateralized by first deeds of trust on specific commercial properties. The most prevalent types of properties securing our real estate loans are various healthcare properties such as skilled nursing facilities and assisted living facilities, multi-family properties, office properties, hotels, industrial properties, and retail properties. This includes loans provided to owners of commercial real estate properties that use such premises to conduct their operations. The properties are located across the United States, primarily in central business districts, but a substantial percentage of our real estate collateral is in California. Our real estate loans generally have an initial interest-only period followed by an amortization schedule with a lump sum balloon payment due in one to ten years or may, more immediately, have interest and principal payments due on an amortization schedule ranging from 15 to 30 years with a lump sum balloon payment due in one to ten years. Construction loans typically finance from 50% to 70% of the costs to construct commercial or multi-family residential properties. The terms are generally two to four years.

We also provide real estate secured loans under the Small Business Administration's (or "SBA") 7(a) Program and 504 Program. Compliant Small Business Administration 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 SBA 7(a) and SBA 504 mortgage loans repay on a twenty-five year amortization schedule.

Our real estate portfolio is subject to certain risks including, but not limited to, the following:

- increased competition in pricing and loan structure;
- the economic conditions of the United States, particularly Southern California;
- interest rate increases;
- decreased real estate values in the markets where we lend;
- the borrower's inability to repay our loan due to decreased cash flow or operating losses;
- the borrower's inability to refinance or payoff our loan upon maturity;
- loss of our loan principal stemming from a collateral foreclosure; 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; and
- buyers of the completed projects not being able to secure financing.

The risks related to buyer inability to secure permanent financing and loss through foreclosure are affected by market conditions and are not entirely controllable by us. 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 real estate 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 that are reviewed by our appraisal department;
- obtaining 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 7(a) 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.

C&I Loans and Leases

Our C&I loan and lease offerings are diverse and generally include various cash flow loans (leveraged loans) to finance business acquisitions and recapitalizations, asset-based loans, equipment-secured loans and leases, and venture-backed loans to support the operations of entrepreneurial companies during the various phases of their start-up operations.

Our C&I loans include the following specific lending products:

Cash flow loans. These loans include senior secured loans provided to entities in conjunction with equity contributions from private equity groups to finance the acquisition or recapitalization of a business, SBA 7(a) loans, loans to professionals and other specialty finance products, and leveraged loans (defined below). Our cash flow lending focuses on borrowers with a high degree of contractual recurring revenues operating primarily in the technology, healthcare and security monitoring sectors. The primary source of repayment is cash flow from operations, the refinancing of the loan, and/or the proceeds from the sale of the company. The loan terms are three to six years with some amortization during the term. According to regulatory guidance, the majority of cash flow loans are considered leveraged loans. Leveraged loans are typically loans where the proceeds are used for buyouts or acquisitions and where the resulting total debt levels are four or more times the in-place historical adjusted earnings of the borrower. Leveraged loans are supported by underwriting that indicates the debt levels relative to earnings will decline meaningfully over the terms of the loans and for which the enterprise value provides sufficient coverage for our debt. The SBA 7(a) loans are secured by the value of a business and its equipment and are fully-amortizing term loans generally over a 10-year period.

Asset-based loans. These loans are used for working capital and are secured by trade accounts receivable and/or inventory. In conjunction with our healthcare real estate loans, we may provide healthcare operators with asset-based loans secured by healthcare accounts receivable to support working capital needs. This loan segment also includes lender finance loans or loans to finance companies and timeshare operators. These loans are used to purchase finance receivables or extend finance receivables to the underlying obligors and are secured primarily by the finance receivables owed to our borrowers. The primary sources of repayment are the operating income of the borrower, the collection of the receivables securing the loan, and/or the sale of the inventory securing the loan. The loans are typically revolving lines of credit with terms of one to three years. Also included in this segment are loans used to finance annual life insurance premiums and are fully secured by the corresponding cash surrender value of life insurance contracts and other liquid collateral with one-year terms that generally renew annually.

Equipment-secured loans and leases. These loans and leases are used to purchase equipment essential to the operations of our borrower or lessee and are secured by the specific equipment financed. The primary source of repayment is the operating income of the borrower or lessee. The loan and lease terms are two to ten years and generally amortize to either a full repayment or residual balance or investment that is expected to be collected through a sale of the equipment to the lessee or a third party.

Venture capital loans. These loans are to venture-backed companies to support their operations, including operating losses, working capital requirements and fixed asset acquisitions. Our borrowers are at various stages in their development and are generally reporting operating losses. The primary sources of repayment are future additional venture capital equity investments, or the sale of the company or its assets. This loan segment also includes loans directly to venture capital firms, venture capital funds, and venture capital management companies to provide a bridge to the receipt of capital calls and to support the borrowers' working capital needs, such as the cost of raising a new venture fund or leasehold improvements for new office space. The primary sources of repayment are receipt of capital calls, exits from portfolio company investments, or management fees. The loan terms for venture loans are generally one to four years.

Our portfolio of C&I 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 underwriting C&I loans and leases, we seek to mitigate risk by using the following framework:

- consider the prospects for the borrower's industry;
- consider our past experience with the borrower, the borrower's industry, and the collateral type;
- consider our current loan and lease portfolio concentration by loan type and collateral type;
- 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.

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 participation interests in student loans originated and serviced by a third-party lender. We do not currently originate first trust deed home mortgage loans. Home equity lines of credit are revolving lines of credit collateralized by junior deeds of trust on residential real estate properties. During 2013, 2014 and 2015 we purchased participation interests in student loans that are not guaranteed by any program of the U.S. Government. These loans refinanced the outstanding student loan debt of borrowers who met certain underwriting criteria, with terms that fully amortize the debt over terms ranging from five to twenty years.

Our consumer loan portfolio is subject to certain risks, including, but not limited to, the following:

- the economic conditions of the United States and the levels of unemployment;
- the amount of credit offered to consumers in the market;
- interest rate increases;
- consumer bankruptcy laws which allow consumers to discharge certain debts (excluding student loans);
- compliance with consumer lending regulations;
- additional regulations and oversight by the Consumer Financial Protection Bureau ("CFPB"); and
- the ability of the sub-servicer of the Bank's student loan participation interests to service the loans in accordance with the terms of the loan purchase agreement.

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.

Loan Concentrations

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

	December 31, 2015			December 31, 2014		
	Amount	% of Total		Amount	% of Total	
	(Dollars in thousands)					
Real estate mortgage:						
Commercial	\$4,645,533	33	%	\$4,583,350	38	%
Residential	1,211,209	8	%	1,010,022	9	%
Total real estate mortgage	5,856,742	41	%	5,593,372	47	%
Real estate construction and land:						
Commercial	345,991	2	%	220,927	2	%
Residential	184,382	1	%	96,749	1	%
Total real estate construction and land	530,373	3	%	317,676	3	%
Total real estate	6,387,115	44	%	5,911,048	50	%
Commercial:						
Cash flow ⁽¹⁾	3,073,965	21	%	2,665,654	22	%
Asset-based	2,547,665	18	%	2,234,474	19	%
Equipment finance	890,349	6	%	969,489	8	%
Venture capital	1,458,013	10	%	—	—	%
Total commercial	7,969,992	55	%	5,869,617	49	%
Consumer	121,147	1	%	101,767	1	%
Total loans and leases, net of deferred fees ⁽²⁾	\$14,478,254	100	%	\$11,882,432	100	%

(1) Includes leveraged loans of \$2.2 billion and \$1.7 billion at December 31, 2015 and 2014.

(2) Includes purchased credit impaired ("PCI") loans of \$189.0 million and \$290.9 million at December 31, 2015 and 2014, of which the majority are included in the Real Estate Mortgage category in this table.

Real estate mortgage loans and real estate construction and land loans together comprised 44% and 50% of our total portfolio at December 31, 2015 and 2014. The decline in real estate loans as a percentage of total loans was attributable to commercial loans acquired in connection with the Square 1 acquisition and net loan originations and repayment activity during 2015.

Commercial real estate mortgage loans are diversified among various property types. At December 31, 2015, our largest property type concentration was healthcare property, totaling \$1.2 billion or 21% 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, 2014, healthcare property totaled \$1.0 billion and comprised 19% of real estate mortgage loans.

Other significant real estate concentrations were office properties at 12% and 14% of real estate mortgage loans at December 31, 2015 and 2014, and multi-family properties at 14% of real estate mortgage loans at December 31, 2015 and 2014.

Commercial loans and leases comprised 55% and 49% of our total portfolio at December 31, 2015 and 2014. The increase in the commercial loan and lease portfolio composition in 2015 is attributable to commercial loans acquired in connection with the Square 1 acquisition and net loan originations and repayment activity.

Commercial loans and leases are diversified among various loan types and industries. At December 31, 2015, our largest commercial loan type concentration was cash flow loans, totaling \$3.1 billion or 21% of our total portfolio compared to 22% at December 31, 2014. Other significant commercial concentrations were asset-based loans at 18% and 19% of the total portfolio at December 31, 2015 and December 31, 2014, and equipment finance at 6% and 8% of the total portfolio at December 31, 2015 and December 31, 2014. Venture capital loans were 10% of the total portfolio at December 31, 2015, and represent venture capital loans acquired in the Square 1 acquisition.

Current Developments

Square 1 Financial, Inc. Acquisition

PacWest acquired Square 1 Financial, Inc. (“Square 1”) on October 6, 2015. As part of the acquisition, Square 1 Bank, a wholly-owned subsidiary of Square 1, merged with and into Pacific Western and we formed the Square 1 Bank Division of the Bank. We provide a comprehensive suite of financial services focused on entrepreneurial businesses and their venture capital and private equity investors nationwide marketed under the Square 1 Bank Division brand. We completed this acquisition to increase our core deposits, expand our nationwide lending platform, and increase our presence in the technology and life-sciences credit markets. We recorded the acquired assets and liabilities, both tangible and intangible, at their estimated fair values as of the acquisition date and increased total assets by approximately \$4.6 billion. The application of the acquisition method of accounting resulted in goodwill of \$448 million.

CapitalSource Inc. Merger

PacWest acquired CapitalSource Inc. on April 7, 2014. As part of the merger, CapitalSource Bank (“CSB”), a wholly-owned subsidiary of CapitalSource Inc., merged with and into Pacific Western. At closing, we formed the CapitalSource Division of the Bank. We provide a full spectrum of financing solutions across numerous industries and property types to middle market businesses nationwide marketed under the CapitalSource Division brand. We completed this acquisition in order to increase our loan and lease generation capabilities and to diversify our loan portfolio. We recorded the acquired assets and liabilities, both tangible and intangible, at their estimated fair values as of the merger date and increased total assets by approximately \$10.7 billion. The application of the acquisition method of accounting resulted in goodwill of \$1.5 billion.

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 capacity with the FHLB as of December 31, 2015 of \$2.5 billion, collateralized by a blanket lien on certain qualifying loans.

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, automates numerous internal controls, improves customer experiences and reduces costs. Most customer records are maintained digitally. We also provide on-line and telephone banking services to further improve the overall client experience. We expect to convert from the core processing system that is used to manage customer accounts to a processing system offered by another software vendor with the initial phase occurring during the second quarter of 2016.

We maintain a strategic plan with respect to information technology. The information technology strategic plan outlines how specific solutions will support our overall goals, analyzes infrastructure for capacity planning, details migration plans to replace aging hardware and software, provides baseline projections for allocating information technology staff, discusses information security trends and measures, considers future technologies, and provides details on information technology initiatives over the next several years.

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, and maintain comprehensive incident response plans to reduce the risk that any cyber 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 our customers and products. 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 by the Company's Board of Directors (the "Board") and its standing committees. The committees each report to the Board and the Board has overall oversight responsibility for 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 based upon our business strategy, risk appetite and financial plans approved by our Board. Our risk framework is supported by an enterprise risk management program. Our enterprise risk management program integrates all risk efforts under one common framework. 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 is highly competitive. We compete for loans and leases, deposits, employees 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 our operations. Our most direct competition for loans comes from larger regional and national banks, diversified finance companies, venture debt funds 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 non-bank specialty lenders, insurance companies, private investment funds, investment banks, and other financial and non-financial institutions. Competition is based on a number of factors, including interest rates charged on loans and leases 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. Because of economies of scale, our larger, nationwide competitors may offer loan pricing that is more attractive than what we can offer.

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 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.

We differentiate ourselves in the marketplace 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 efficient decision-making of our lending business units. We compete effectively based on our 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. 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 the marketplace.

Employees

As of January 31, 2016, we had 1,670 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. Quantitative and Qualitative 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 and Bank are subject to extensive regulation under federal and state banking laws that establish a comprehensive framework for our operations. Such regulation is intended to, among other things, 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 or the Bank. 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, operations, and results of our Company or the Bank.

Bank Holding Company Regulation

As a bank holding company, PacWest is registered with and subject to supervision, regulation and examination by the Board of Governors of the Federal Reserve System ("FRB") under the Bank Holding Company Act of 1956, as amended, or "BHCA", and we are 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.

The Dodd Frank Wall Street Reform and Consumer Protection Act, or "Dodd-Frank Act" or "Dodd Frank", requires the Company to act as a source of financial strength to the Bank including committing resources to support the Bank even at times when the Company 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.

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 certain merger or acquisition transactions, the federal regulators will consider the assessment of 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, our performance record under the Community Reinvestment Act of 1977, or "CRA," our compliance with fair housing and other consumer protection laws, and the effectiveness of all organizations involved in combating money laundering activities. 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 may elect to operate as financial holding companies permitting them to engage in, or own shares in companies engaged in, a wider range of nonbanking activities. We have not elected to be treated as a financial holding company.

The federal regulatory agencies also 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,” we are 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 Shareholder Matters-Dividends” and Note 19. Dividend Availability and Regulatory Matters, of the Notes to Consolidated Financial Statements contained in “Item 8. Financial Statements and Supplementary Data.”

The Dodd-Frank Act

The Dodd Frank Act, 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. 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, our total consolidated assets exceeded \$15 billion, which subjects us 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.

Transactions with Affiliates

Transactions between the Bank and its affiliates are regulated under federal banking law. Subject to certain exceptions set forth in the Federal Reserve Act, a bank may enter into “covered transactions” with its affiliates if the aggregate amount of the covered transactions to any single affiliate does not exceed 10 percent of the Bank’s capital stock and surplus or 20 percent of the Bank’s capital stock and surplus for covered transaction with all affiliates. Covered transactions include, among other things, extension of credit, the investment in securities, the purchase of assets, the acceptance of collateral or the issuance of a guaranty. The Dodd-Frank Act significantly expanded the coverage and scope of the limitations on affiliate transactions within a banking organization.

Volcker Rule

The Volcker Rule adopted pursuant to the Dodd Frank Act prohibits 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”). Since the implementation of the Volcker Rule, the FRB has granted an extension of the Volcker Rule conformance period to July 21, 2016 for existing investments in and relationships with covered funds (relationships existing as of December 31, 2013). A similar one-year extension by the FRB is expected to further extend the Volcker Rule conformance period for existing investments in and relationships with such covered funds to July 21, 2017. We do not currently anticipate that the Volcker Rule will have a material effect on our operations, however, 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, or “DGCL” (b) covenants contained in our subordinated debentures and borrowing agreements, and (c) the regulatory authority of the FRB and the California Department of Business Oversight, or “DBO”. Our ability to pay dividends to our stockholders is subject to the restrictions set forth in the 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.

In addition, notification to the FRB is required prior to our declaring and paying a cash dividend to our stockholders during any period in which our quarterly and/or cumulative twelve month net earnings are insufficient to fund the dividend amount, 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.

In connection with the decision regarding dividends, we expect that 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. 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. Dividends paid by Pacific Western are regulated by the DBO and FDIC under their general supervisory authority as it relates to a bank’s capital requirements. Pacific Western 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. Since the Bank had a retained deficit of \$609 million at December 31, 2015, for the foreseeable future, any further cash dividends from the Bank to the Company will continue to require DBO and FDIC approval. 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.

See “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations-Liquidity” and Note 19. 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

Prior to January 1, 2015, the risk-based capital standards applicable to the Company and the Bank (the “general risk-based capital rules”) were based on the 1988 Capital Accord, known as Basel I, of the Basel Committee. In 2013, the FRB and the FDIC approved final rules, or “Basel III”, establishing a new comprehensive capital framework for U.S. banking organizations. Basel III generally implemented the Basel Committee’s December 2010 final capital framework for strengthening international capital standards. Basel III substantially revised the risk based capital requirements applicable to bank holding companies and their depository institution subsidiaries, including the Company and the Bank, as compared to the general risk based capital rules. Basel III became effective for the Company and the Bank as of January 1, 2015, subject to phase in periods for certain of its components and other provisions.

Basel III, among other things, (i) required increased capital levels for the Company and the Bank, (ii) introduced a new capital measure called Common Equity Tier 1 (“CET1”) and related regulatory capital ratio of CET1 to risk weighted assets, (iii) specified that Tier 1 capital consists of CET1 and “Additional Tier 1 capital” instruments meeting certain revised requirements, (iv) mandated that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital, and (v) expanded the scope of the deductions from and adjustments to capital as compared to existing regulations. Under Basel III, for most banking organizations the most common form of Additional Tier 1 capital is non cumulative perpetual preferred stock and the most common form of Tier 2 capital is subordinated notes and a portion of the allowance for loan and lease losses, in each case, subject to Basel III specific requirements.

Pursuant to Basel III, the minimum capital ratios as of January 1, 2015 are as follows:

- 4.5% CET1 to risk weighted assets;
- 6.0% Tier 1 capital (that is, CET1 plus Additional Tier 1 capital) to risk weighted assets;
- 8.0% Total capital (that is, Tier 1 capital plus Tier 2 capital) to risk weighted assets; and
- 4% Tier 1 capital to average consolidated assets as reported on regulatory financial statements (known as the “leverage ratio”).

Basel III also introduced a new “capital conservation buffer”, composed entirely of CET1, on top of the minimum risk weighted asset ratios. The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of CET1 to risk weighted assets above the minimum but below the capital conservation buffer will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall. The implementation of the capital conservation buffer began on January 1, 2016 at a 0.625% level and will increase by 0.625% on each subsequent January 1 until it reaches 2.5% on January 1, 2019. When fully phased in, the Company and the Bank will be required to maintain such additional capital conservation buffer of 2.5% of CET1, effectively resulting in minimum ratios of (i) CET1 to risk weighted assets of at least 7%, (ii) Tier 1 capital to risk weighted assets of at least 8.5%, and (iii) total capital to risk weighted assets of at least 10.5%.

Basel III provided for a number of deductions from and adjustments to CET1. These include, for example, the requirement that mortgage servicing rights, deferred tax assets arising from temporary differences that could not be realized through net operating loss carrybacks and significant investments in non consolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such items, in the aggregate, exceed 15% of CET1.

In addition, under the current general risk based capital rules, the effects of accumulated other comprehensive income or loss (“AOCI”) items included in stockholders’ equity (for example, unrealized gains and losses of securities held in the available-for-sale portfolio) under U.S. GAAP are reversed for the purposes of determining regulatory capital ratios. Pursuant to Basel III, the effects of certain AOCI items are not excluded; however, non advanced approaches banking organizations, including the Company and the Bank, are permitted to make a one time permanent election to continue to exclude these items. The Company and the Bank made this election in order to avoid significant variations in the level of capital depending upon the impact of interest rate fluctuations on the fair value of our securities portfolio. Implementation of the deductions and other adjustments to CET1 commenced on January 1, 2015 and will be phased in over a 4 year period (beginning at 40% on January 1, 2015 and an additional 20% increase per year thereafter until reaching 100%).

With respect to the Bank, Basel III revised the prompt corrective action regulations as described below under “-Prompt Corrective Action”.

Basel III prescribed a new standardized approach for risk weightings that expand the risk weighting categories from the current four Basel I derived categories (0%, 20%, 50% and 100%) to a larger and more risk sensitive number of categories, depending on the nature of the assets, generally ranging from 0% for U.S. government and agency securities, to 600% for certain equity exposures, resulting in higher risk weights for a variety of asset classes. The Company has outstanding subordinated debentures issued to trusts, which, in turn, issued trust preferred securities. The amount of subordinated debentures totaled \$436.0 million at December 31, 2015 and includes \$297.2 million of debentures assumed in connection with the CapitalSource Inc. merger. Under Basel III, as a result of the Company having exceeded \$15 billion in consolidated total assets, beginning in 2015 only 25% of the \$131.0 million of trust preferred securities issued prior to the CapitalSource Inc. merger (and none of the trust preferred securities acquired in the CapitalSource Inc. merger) is included in Tier 1 capital, and in 2016, none of the Company's trust preferred securities will be included in Tier 1 capital. Under Basel III, trust preferred securities no longer included in the Company's Tier 1 capital may be included as a component of Tier 2 capital on a permanent basis without phase-out. We believe that, as of December 31, 2015, the Company and the Bank met all capital adequacy requirements under Basel III. 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, 2015 for the Company and the Bank.

Stress Testing

As an institution with total assets in excess of \$10 billion, the stress testing rules of the FRB and the FDIC require the Company and the Bank 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 publicly disclose its first stress test results in October 2016.

Prompt Corrective Action

The Federal Deposit Insurance Corporation Improvement Act, or FDICIA, requires each federal banking agency to take prompt corrective action to resolve the problems of insured depository institutions, including but not limited to those that fall below one or more prescribed minimum capital ratios. Pursuant to FDICIA, the FDIC promulgated regulations defining the following five categories in which an insured depository institution will be placed, based on the level of its capital ratios: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. A bank's category is determined solely for the purpose of applying prompt corrective action regulations, and the capital category may not constitute an accurate representation of the bank's overall financial condition or prospects for other purposes.

Under the prompt corrective action, or "PCA", provisions of the FDICIA, an insured depository institution generally will be classified as undercapitalized if its total risk based capital is less than 8% or its Tier 1 risk based capital or leverage ratio is less than 4%. Basel III revised the PCA regulations by: (i) introducing a CET1 ratio requirement at each PCA category (other than critically undercapitalized), with the required CET1 ratio being 6.5% for well capitalized status; (ii) increasing the minimum Tier 1 capital ratio requirement for each category, with the minimum Tier 1 capital ratio for well capitalized status being 8% (as compared to the prior 6%); and (iii) eliminating the provision that provides that a bank with a composite supervisory rating of 1 may have a 3% leverage ratio and still be adequately capitalized (under Basel III a 5% leverage ratio is required for an institution to be well capitalized and a 4% leverage ratio is required to be adequately capitalized). Basel III does not change the total risk based capital requirement for any PCA category. An institution that, based upon its capital levels, is classified as "well capitalized", "adequately capitalized" or "undercapitalized" may be treated as though it were in the next lower capital category if the appropriate federal banking agency, after notice and opportunity for hearing, determines that an unsafe or unsound condition or an unsafe or unsound practice warrants such treatment. At each successive lower capital category, an insured depository institution is subject to more restrictions and prohibitions, including restrictions on growth, restrictions on interest rates paid on deposits, prohibitions on payment of dividends and restrictions on the acceptance

of brokered deposits. Furthermore, if a bank is classified in one of the undercapitalized categories, it is required to submit a capital restoration plan to its federal bank regulator, and the holding company must guarantee the performance of that plan. The obligation of a controlling bank holding company to fund a capital restoration plan is limited to the lesser of 5% of an undercapitalized subsidiary's assets or the amount required to meet regulatory capital requirements.

In addition to measures taken under the prompt corrective action provisions, commercial banking organizations, such as the Bank, may be subject to potential enforcement actions by the federal or state banking agencies for unsafe or unsound

practices in conducting their businesses or for violations of any law, rule, regulation or any condition imposed in writing by the agency or any written agreement with the agency. Enforcement actions may include the imposition of a conservator or receiver, the issuance of a cease and desist order that can be judicially enforced, the termination of insurance for deposits (in the case of a depository institution), the imposition of civil money penalties, the issuance of directives to increase capital, the issuance of formal and informal agreements, the issuance of removal and prohibition orders against institution affiliated parties. The enforcement of such actions through injunctions or restraining orders may be based upon a judicial determination that the agency would be harmed if such equitable relief was not granted.

Safety and Soundness Standards

As required by the FDIA, guidelines adopted by the federal bank regulatory agencies establish general standards relating to internal controls and information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth and quality, and compensation, fees and benefits. Bank holding companies with total consolidated assets of \$10 billion or more are required to establish and maintain risk management committees for their boards of directors to oversee the bank holding companies' risk management framework. In April 2014, our Board of Directors formed the Risk Committee to oversee our risk management framework.

Deposit Insurance

The Bank is a state chartered, "non member" bank and therefore is regulated by the DBO and the FDIC. Pacific Western accepts deposits, and those deposits have the benefit of FDIC insurance up to the applicable limits. The applicable limit for FDIC insurance for most types of accounts is \$250,000.

Pursuant to the Dodd Frank Act, the FDIC amended its regulations to determine insurance assessments based on the average consolidated assets less the average tangible equity of the insured depository institution during the assessment period. In 2010, the FDIC adopted its Deposit Insurance Fund restoration plan to ensure that the fund reserve ratio reaches 1.35% of total deposits by September 30, 2020. Insured institutions with assets over \$10 billion, such as the Bank, are responsible for funding the increase. The FDIC has established a long-term target for the fund reserve ratio of 2.0%. At least semi annually, the FDIC will update its loss and income projections for the fund and, if needed, will increase or decrease assessment rates. For the year ended December 31, 2015, we recorded \$12.7 million of FDIC assessment expense.

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

Incentive Compensation

In 2010, federal banking regulators issued final joint agency guidance on Sound Incentive Compensation Policies. This guidance applies to executive and non-executive incentive plans administered by the Bank. The guidance notes that incentive compensation programs must (i) provide employees incentives that appropriately balance risk and reward, (ii) be compatible with effective controls and risk management and (iii) be supported by strong corporate governance, including oversight by the board. The FRB reviews, as part of its regular examination process, the Company's incentive compensation programs.

In addition, the Dodd-Frank Act required the federal bank regulatory agencies and the SEC to establish joint regulations or guidelines prohibiting incentive based payment arrangements at specified regulated entities having at least \$1 billion in total assets, such as the Company and the Bank, that encourage inappropriate risks by providing an executive officer, employee, director or principal stockholder with excessive compensation, fees, or benefits that could lead to material financial loss to the entity. In addition, these regulators must establish regulations or guidelines requiring enhanced disclosure of incentive based compensation arrangements to regulators. The agencies proposed such regulations in April 2011, but these regulations have not yet been finalized. If the regulations are adopted in the form initially proposed, they will impose limitations on the manner in which we may structure compensation for our executives.

Consumer Regulation

We are subject to a number of federal and state consumer protection laws that extensively govern our relationship with our customers. These laws include the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Truth in Lending Act, the Truth in Savings Act, the Electronic Fund Transfer Act, the Expedited Funds Availability Act, the Home Mortgage Disclosure

Act, the Fair Housing Act, the Real Estate Settlement Procedures Act, the Fair Debt Collection Practices Act, the Service Members Civil Relief Act and these laws' respective state-law counterparts, as well as state usury laws and laws regarding unfair and deceptive acts and practices. Violations of applicable consumer protection laws can result in significant potential liability from litigation brought by customers, including actual damages, restitution and attorneys' fees. Federal bank regulators, state attorneys general and state and local consumer protection agencies may also seek to enforce consumer protection requirements and obtain these and other remedies, including regulatory sanctions, customer rescission rights, action by the state and local attorneys general in each jurisdiction in which we operate and civil money penalties. Failure to comply with consumer protection requirements may also result in our failure to obtain any required bank regulatory approval for merger or acquisition transactions we may wish to pursue or our prohibition from engaging in such transactions even if approval is not required.

The Dodd Frank Act established the CFPB with broad rulemaking, supervisory and enforcement powers under various federal consumer financial protection laws. The CFPB is also authorized to engage in consumer financial education, track consumer complaints, request data and promote the availability of financial services to underserved consumers and communities. Banking organizations with more than \$10 billion in assets, such as the Bank, are subject to direct oversight and examination by the CFPB. The consumer protection provisions of the Dodd-Frank Act and the examination, supervision and enforcement of those laws and implementing regulations by the CFPB have created a more intense and complex environment for consumer finance regulation. The ultimate impact of this heightened scrutiny is uncertain but could result in changes to pricing, practices, products and procedures. It could also result in increased costs related to regulatory oversight, supervision and examination, additional remediation efforts and possible penalties. In addition, the Dodd-Frank Act provides the CFPB with broad supervisory, examination and enforcement authority over various consumer financial products and services, including the ability to require reimbursements and other payments to customers for alleged legal violations and to impose significant penalties, as well as injunctive relief that prohibits lenders from engaging in allegedly unlawful practices. The CFPB also has the authority to obtain cease and desist orders providing for affirmative relief or monetary penalties. The Dodd-Frank Act does not prevent states from adopting stricter consumer protection standards. State regulation of financial products and potential enforcement actions could also adversely affect our business, financial condition or results of operations.

Depositor Preference

The FDIA provides that, in the event of the "liquidation or other resolution" of an insured depository institution, the claims of depositors of the institution, including the claims of the FDIC as subrogee of insured depositors, and certain claims for administrative expenses of the FDIC as a receiver, will have priority over other general unsecured claims against the institution. If an insured depository institution fails, insured and uninsured depositors, along with the FDIC, will have priority in payment ahead of unsecured, non deposit creditors, including the parent bank holding company, with respect to any extensions of credit they have made to such insured depository institution.

USA PATRIOT Act and Anti-Money Laundering

The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, or "PATRIOT Act," designed to deny terrorists and others the ability to obtain access to the United States financial system, has significant implications for depository institutions, brokers, dealers and other businesses involved in the transfer of money. The PATRIOT Act, as implemented by various federal regulatory agencies, requires the Company and the Bank to establish and implement policies and procedures with respect to, among other matters, anti money laundering, compliance, suspicious activity and currency transaction reporting and due diligence on customers and prospective customers. The PATRIOT Act and its underlying regulations permit information sharing for counter terrorist purposes between federal law enforcement agencies and financial institutions, as well as among financial institutions, subject to certain conditions, and require the FRB, the FDIC and other federal banking agencies to evaluate the effectiveness of an applicant in combating money laundering activities when considering a bank holding company acquisition and/or a bank merger act application.

We regularly evaluate and continue to enhance our systems and procedures to continue to comply with the PATRIOT Act and other anti money laundering initiatives. Failure of a financial institution to maintain and implement adequate programs to combat money laundering and terrorist financing, or to comply with all of the relevant laws or regulations, could have serious legal, strategic, and reputational consequences for the institution and result in material

finances and sanctions.

Office of Foreign Assets Control Regulation

The United States has imposed economic sanctions that affect transactions with designated foreign countries, designated nationals and others. These rules are based on their administration by the U.S. Treasury Department Office of Foreign Assets Control, or “OFAC”. The OFAC administered sanctions targeting designated countries take many different forms. Generally, however, they contain one or more of the following elements: (i) restrictions on trade with or investment in a sanctioned

country, including prohibitions against direct or indirect imports from and exports to a sanctioned country and prohibitions on “U.S. persons” engaging in financial transactions relating to making investments in, or providing investment related advice or assistance to, a sanctioned country; and (ii) a blocking of assets in which the government or specially designated nationals of the sanctioned country have an interest, by prohibiting transfers of property subject to U.S. jurisdiction (including property in the possession or control of U.S. persons). Blocked assets (e.g., property and bank deposits) cannot be paid out, withdrawn, set off or transferred in any manner without a license from OFAC. Failure to comply with these sanctions could have serious legal, strategic, and reputational consequences, and result in civil money penalties on the Company and the Bank.

Community Reinvestment Act

The CRA generally requires the Bank to identify the communities we serve and to make loans and investments, offer products, make donations in, and provide services designed to meet the credit needs of these communities. The CRA also requires the Bank to maintain comprehensive records of its CRA activities to demonstrate how we are meeting the credit needs of our communities. These documents are subject to periodic examination by the FDIC. During these examinations, the FDIC rates such institutions’ compliance with CRA as “Outstanding,” “Satisfactory,” “Needs to Improve” or “Substantial Noncompliance.” The CRA requires the FDIC to take into account the record of a bank in meeting the credit needs of all of the communities served, including low and moderate income neighborhoods, in determining such rating. Failure of an institution to receive at least a “Satisfactory” rating could inhibit such institution or its holding company from undertaking certain activities, including acquisitions. The Bank received a CRA rating of “Satisfactory” as of its most recent examination. In the case of a bank holding company, such as the Company, when applying to acquire a bank, savings association, or a bank holding company, the FRB will assess the CRA record of each depository institution of the applicant bank holding company in considering the application.

Customer Information Security

The FRB and other bank regulatory agencies have adopted guidelines for safeguarding confidential, personal, non public customer information. These guidelines require each financial institution, under the supervision and ongoing oversight of its board of directors or an appropriate committee thereof, to create, implement and maintain a comprehensive written information security program designed to ensure the security and confidentiality of customer information, protect against any anticipated threats or hazard to the security or integrity of such information and protect against unauthorized access to or use of such information that could result in substantial harm or inconvenience to any customer. We have adopted a customer information security program to comply with these requirements.

Privacy

The Gramm Leach Bliley Act of 1999 and the California Financial Information Privacy Act require financial institutions to implement policies and procedures regarding the disclosure of non-public personal information about consumers to non affiliated third parties. In general, the statutes require explanations to consumers on policies and procedures regarding the disclosure of such non-public personal information and, except as otherwise required by law, prohibit disclosing such information except as provided in the Bank’s policies and procedures. We have implemented privacy policies addressing these restrictions, which are distributed regularly to all existing and new customers of the Bank.

Hazardous Waste Clean Up and Climate Related Risk

Our primary exposure to environmental laws is through our lending activities and through properties or businesses we may own, lease or acquire, or which are collateral for our loans, since we are not involved in any business that manufactures, uses or transports chemicals, waste, pollutants or toxins that might have a material adverse effect on the environment. Based on a general survey of the Bank’s loan portfolio, conversations with local appraisers and the type of lending currently and historically done by the Bank, we are not presently aware of any actual liability for hazardous waste contamination that would be reasonably likely to have a material adverse effect on the Company as of February 20, 2016. In addition, we are not aware of any physical or regulatory consequence resulting from climate change that would have a material adverse effect upon the Company.

Regulation of Certain Subsidiaries

Our subsidiary, Square One Asset Management, Inc. is registered with the SEC under the Investment Advisers Act of 1940, as amended, and is subject to its rules and regulations. Following the completion of various studies on investment advisers and broker-dealers required by the Dodd-Frank Act, the SEC has, among other things, recommended to Congress that it consider

various means to enhance the SEC's examination authority over investment advisers, which may have an impact on Square One Asset Management that we cannot currently assess.

Available Information

We maintain an Internet website at <http://www.pacwestbancorp.com>, and a website for Pacific Western at <http://www.pacificwesternbank.com>. At <http://www.pacwestbancorp.com> and via the "Investor Relations" link at the Bank's website, our Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to such reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") are available, free of charge, as soon as reasonably practicable after such forms are electronically filed with, or furnished to, the SEC. The public may read and copy any materials we file with the SEC at the SEC's Public Reference Room, located at 100 F Street, NE, Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet website at <http://www.sec.gov> that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. You may obtain copies of the Company's filings on the SEC website. These documents may also be obtained in print upon request by our stockholders to our Investor Relations Department.

We have adopted a written code of ethics that applies to all directors, officers and employees of the Company, including our principal executive officer and senior financial officers, in accordance with Section 406 of the Sarbanes-Oxley Act of 2002 and the rules of the SEC promulgated thereunder. The code of ethics, which we call our Code of Business Conduct and Ethics, is available on our corporate website, <http://www.pacwestbancorp.com> in the section entitled "Corporate Governance." In the event that we make changes in, or provide waivers from, the provisions of this code of ethics that the SEC requires us to disclose, we intend to disclose these events on our corporate website in such section. In the Corporate Governance section of our corporate website, we have also posted the charters for our Audit Committee, our Compensation, Nominating and Governance Committee, our Asset-Liability Management Committee and our Risk Committee, as well as our Corporate Governance Guidelines. In addition, information concerning purchases and sales of our equity securities by our executive officers and directors is posted on our website.

Our Investor Relations Department can be contacted at PacWest Bancorp, 130 S. State College Blvd., Brea, CA 92821, Attention: Investor Relations, telephone (714) 671-6800, or via e-mail to investor_relations@pacwestbancorp.com.

All website addresses given in this document are for information only and are not intended to be an active link or to incorporate any website information into this document.

Forward-Looking Information

This Form 10-K contains certain "forward-looking statements" about the Company and its subsidiaries within the meaning of the Private Securities Litigation Reform Act of 1995, including certain plans, strategies, goals, and projections and including statements about our expectations regarding our operating expenses, profitability, allowance for loan and lease losses, net interest margin, net interest income, deposit growth, loan and lease portfolio growth and production, acquisitions, maintaining capital adequacy, liquidity, goodwill, interest rate risk management, and realization of our deferred tax asset. All statements contained in this Form 10-K that are not clearly historical in nature are forward-looking, and the words "anticipate," "assume," "intend," "believe," "forecast," "expect," "estimate," "plan," "contingent," "should," "look forward" and similar expressions are generally intended to identify forward-looking statements. All forward-looking statements involve risks, uncertainties and contingencies, many of which are beyond our control, which may cause actual results, performance, or achievements to differ materially from results, performance or achievements expressed or implied by these forward-looking statements. Actual results could differ materially from those contained or implied by such forward-looking statements for a variety of factors, including without limitation: the Company's ability to complete future acquisitions and to successfully integrate such acquired entities or achieve expected benefits, synergies and/or operating efficiencies within expected time frames or at all; business disruption following the Square 1 acquisition; changes in the Company's stock price;

the reaction to the Square 1 acquisition of the companies' customers, employees and counterparties;
change in interest rates and lending spreads;
unfavorable changes in asset mix;
compression of the net interest margin due to changes in our loan products or spreads on newly originated loans and leases;
a change in the interest rate environment reduces net interest margins;
credit quality deterioration or pronounced and sustained reduction in market values or other economic factors which adversely affect our borrowers' ability to repay loans and leases;
changes in economic or competitive market conditions could negatively impact investment or lending opportunities or product pricing and services;
reduced demand for our services due to strategic or regulatory reasons;
our inability to grow deposits and access wholesale funding sources;
legislative or regulatory requirements or changes could negatively impact our business, including an increase to capital requirements;
loan repayments higher than expected;
higher than anticipated delinquencies, charge-offs, and loan and lease losses;
the impact of asset/liability repricing risk and liquidity risk on net interest margin and the value of investments;
increased costs to manage and sell foreclosed assets;
higher than anticipated increases in operating expenses;
increased litigation;
increased asset workout or loan servicing expenses;
higher compensation costs and professional fees to retain and/or incent employees;
lower than expected dividends paid from the Bank to the holding company;
a deterioration in the overall macroeconomic conditions or the state of the banking industry that could warrant further analysis of the carrying value of goodwill and could result in an adjustment to its carrying value resulting in a non-cash charge to net income;
the success and timing of other business strategies and asset sales;
changes in the relationship between yields on investment securities and loans repaid and yields on assets reinvested;
changes in the forward yield curve;
changes in tax laws or regulations affecting our business;
our inability to generate sufficient earnings;
tax planning or disallowance of tax benefits by tax authorities; and
other risk factors described in our audited consolidated financial statements, and other risk factors described in this Form 10-K and other documents filed or furnished by PacWest with the SEC.

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

ITEM 1A. RISK FACTORS

In the course of conducting our business operations, we are exposed to a variety of risks, some of which are inherent in the financial services industry and others of which are more specific to our own businesses. The discussion below addresses the most significant factors, of which we are currently aware, that could affect our businesses, results of operations and financial condition. Additional factors that could affect our businesses, results of operations and financial condition are discussed in "Item 1. Business - Forward-Looking Information." However, other factors not discussed below or elsewhere in this Annual Report on Form 10-K could adversely affect our businesses, results of operations and financial condition. Therefore, the risk factors below should not be considered a complete list of potential risks we may face.

Any risk factor described in this Annual Report on Form 10-K or in any of our other SEC filings could by itself, or together with other factors, materially adversely affect our liquidity, cash flows, competitive position, business, reputation, results of operations, capital position or financial condition, including by materially increasing our expenses and decreasing our revenues, which could result in material losses.

General Economic and Market Conditions Risk

Our business has been and may continue to be adversely affected by current conditions in the financial markets and economic conditions generally.

The global financial markets have undergone and may continue to experience pervasive and fundamental disruptions, which have an adverse effect on our business. In some cases, the markets have produced downward pressure on stock prices and credit availability for certain issuers without regard to those issuers' underlying financial strength. While economic conditions have improved since 2009, the sustainability of an economic recovery is uncertain as economic activity continues to face difficulties due to cautious business spending, the variable rate of U.S. economic growth, weak commodity prices, low oil prices, low wage growth offsetting the improved levels of unemployment, currency exchange rate volatility and its effect on export growth, and the slowing and negative economic growth and other continuing economic developments in Europe and Asia.

A sustained weakness or further weakening in business and economic conditions generally or specifically in the principal markets in which we do business could have one or more of the following adverse effects on our business:

- a decrease in the demand for loans and leases and other products and services offered by us;
- a decrease in deposit balances due to overall reductions in the accounts of customers;
- a decrease in the value of our loans or other assets secured by real estate;
- a decrease in net interest income derived from our lending and deposit gathering activities;
- an impairment of certain intangible assets; or

an increase in the number of borrowers who become delinquent, file for protection under bankruptcy laws or default on their loans or other obligations to us. An increase in the number of delinquencies, bankruptcies or defaults could result in a higher level of nonperforming assets, net charge-offs and provisions for credit losses.

Higher crude oil production levels have led to increased global oil supplies resulting in significant declines in market oil prices. As of December 31, 2015, the price per barrel of West Texas Intermediate crude oil was approximately \$37 compared to approximately \$53 as of December 31, 2014, and has since declined to \$29 as of February 16, 2016.

Decreased market oil prices have compressed margins for many U.S.-based oil producers, particularly those that utilize higher-cost production technologies such as hydraulic fracking and horizontal drilling, as well as oilfield service providers, energy equipment manufacturers and transportation suppliers, among others. A prolonged period of low oil prices could also have a negative impact on the U.S. economy. As of December 31, 2015, oil and gas-related loans and leases totaled \$137.3 million and comprised less than 1% of our loan and lease portfolio.

Unfavorable changes in economic conditions generally have an adverse effect on our business, and there can be no assurance that the economic recovery will be sustainable in the near term. If economic conditions worsen or remain volatile, we expect our business, financial condition and results of operations to be adversely affected.

Public equity offerings and mergers and acquisitions involving our Square 1 Bank Division clients or a slowdown in venture capital investment levels may reduce the market for venture capital investment and the borrowing needs of our current and potential clients, which could adversely affect our ability to grow and our financial performance. Our Square 1 Bank Division's strategy is focused on providing banking products and services to entrepreneurial businesses, including in particular early- and expansion-stage companies that receive financial support from sophisticated investors, including venture capital or private equity firms, and corporate investors. We derive a meaningful share of deposits from these companies and provide them with loans as well as other banking products and services. In many cases, our credit decisions are based on our analysis of the likelihood that our venture capital-backed client will receive additional rounds of equity capital from investors. If the amount of capital available to such companies decreases, it is likely that the number of new clients and investor financial support to our existing borrowers would decrease, which could have a material adverse effect on the loan and deposit growth prospects of this division.

Credit Risk

Credit Risk is the Risk of Loss Arising from the Inability or Failure of a Borrower or Counterparty to Meet its Obligation.

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

We are dependent on loan and lease principal, interest, and fee collections to partially fund our operations. A shortfall in collections and proceeds may impair our ability to fund our operations or to repay our existing debt.

When we loan money, commit to loan money or enter into a letter of credit or other contract with a counterparty, we incur credit risk. The credit quality of our portfolio can have a significant impact on our earnings. We expect to experience charge-offs and delinquencies on our loans and leases in the future. Our clients' actual operating results may be worse than our underwriting indicated when we originated the loans and leases, and in these circumstances, if timely corrective actions are not taken, we could incur substantial impairment or loss of the value on these loans and leases. We may fail to identify problems because our client did not report them in a timely manner or, even if the client did report the problem, we may fail to address it quickly enough or at all. Even if clients provide us with full and accurate disclosure of all material information concerning their businesses, we may misinterpret or incorrectly analyze this information. Mistakes may cause us to make loans and leases that we otherwise would not have made, to fund advances that we otherwise would not have funded, result in losses on one or more of our loans and leases, or necessitate that we significantly increase our allowance for loan and lease losses. As a result, we could suffer loan losses and have nonperforming loans and leases, which could have a material adverse effect on our revenues, net income and results of operations and financial condition, to the extent the losses exceed our allowance for loan and lease losses.

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

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

Commercial loans and leases comprised 55% of our total portfolio at December 31, 2015. At December 31, 2015, our largest commercial loan type concentration was cash flow loans, which includes leveraged loans as defined by regulatory guidance, totaling 21% of our portfolio. Cash flow loans are provided to sophisticated buyers and private equity groups, financial investors, strategic companies and sponsors to finance the acquisition or recapitalization of a business. Other significant commercial concentrations by loan type include asset-based loans at 18% and equipment finance at 6% of the total portfolio at December 31, 2015. Venture capital loans were 10% of the total portfolio at December 31, 2015, and represent venture capital loans acquired in the Square 1 acquisition.

As of December 31, 2015, real estate mortgage loans and real estate construction and land loans (which are predominantly commercial real estate mortgage loans) comprised 44% of our total portfolio and our largest property type concentration was healthcare property, totaling 21% of real estate mortgage loans. Other significant real estate mortgage loan property type concentrations were multi-family properties at 14% and office properties at 12% at December 31, 2015. In addition, 49% of our loans secured by real estate were in California at December 31, 2015.

If any particular industry or geographic region were to experience economic difficulties, the overall timing and amount of collections on our loans to clients operating in those industries or geographic regions may differ from what we expected, which could have a material adverse impact on our financial condition or results of operations. Additionally, compared to larger, publicly owned firms, privately owned small and medium-sized companies generally have limited access to capital and higher funding costs, may be in a weaker financial position and therefore more susceptible to economic downturns or volatility and may need more capital to expand or compete. These financial challenges may make it difficult for our clients to make scheduled payments of interest or principal on our loans and leases. Accordingly, loans and leases made to these types of clients entail higher risks than loans and leases made to companies that are able to access a broader array of credit sources. The concentration of our portfolio in loans and leases to these types of clients could amplify these risks.

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

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

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

In particular, cash flow lending involves lending money to a client based primarily on the expected cash flow, profitability and enterprise value of a client rather than on the value of its assets. As of December 31, 2015, approximately 21% of our portfolio was comprised of cash flow loans, which includes leveraged loans as defined by regulatory guidance. Although the estimated value of the enterprise is significantly in excess of our loan balance at the time of origination, the value of the stand-alone assets which we hold as collateral for these loans is typically substantially less than the amount of money we advance to a client under these loans. When a cash flow loan becomes nonperforming, our primary recourse to recover some or all of the principal of our loan is to force the sale of the entire company as a going concern or restructure the company in a way we believe would enable it to generate sufficient cash flow over time to repay our loan. Neither of these alternatives may be an available or viable option or generate enough proceeds to repay the loan.

Our allowance for credit losses may not be adequate to cover actual losses.

In accordance with generally accepted accounting principles in the United States, we maintain an allowance for loan and lease losses to provide for loan and lease defaults and non-performance and a reserve for unfunded loan commitments, which, when combined, we refer to as the allowance for credit losses. Our allowance for credit losses may not be adequate to absorb actual credit losses, and future provisions for credit losses could materially and adversely affect our operating results. Our allowance for credit losses is based on prior experience and an evaluation of the risks inherent in the current portfolio. The amount of future losses is susceptible to changes in economic, operating and other conditions, including changes in interest rates that may be beyond our control, and these losses may exceed current estimates. Our federal and state regulators, as an integral part of their examination process, review our loans and leases and allowance for credit losses. While we believe our allowance for credit losses is appropriate for the risk identified in our loan and lease portfolio, we cannot provide assurance that we will not further increase the allowance for credit losses, that it will be sufficient to address losses, or that regulators will not require us to increase

this allowance. Any of these occurrences could materially and adversely affect our financial condition and results of operations. See "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" for more information.

Market Risk

Market Risk is the Risk that Market Conditions May Adversely Impact the Value of Assets or Liabilities or Otherwise Negatively Impact Earnings. Market Risk is Inherent to the Financial Instruments Associated with our Operations, Including Loans, Deposits, Securities, Short-term Borrowings, Long-term Debt, Trading Account Assets and Liabilities, and Derivatives.

Our business is subject to interest rate risk, and variations in interest rates may materially and adversely affect our financial performance.

Changes in the interest rate environment may reduce our profits. It is expected that we will continue to realize income from the differential or "spread" between the interest earned on loans, securities and other interest-earning assets, and interest paid on deposits, borrowings and other interest-bearing liabilities. Net interest spreads are affected by the difference between the maturities and repricing characteristics of interest-earning assets and interest-bearing liabilities. Changes in market interest rates generally affect loan volume, loan yields, funding sources and funding costs. Our net interest spread depends on many factors that are partly or completely out of our control, including competition, federal economic monetary and fiscal policies, and general economic conditions.

While an increase in interest rates may increase our loan yield, it may adversely affect the ability of certain borrowers with variable-rate loans to pay the interest on and principal of their obligations. Following an increase in interest rates, our ability to maintain a positive net interest spread is dependent on our ability to increase our loan offering rates, replace loan maturities with new originations, minimize increases on our deposit rates, and maintain an acceptable level and mix of funding. We cannot provide assurances that we will be able to increase our loan offering rates and continue to originate loans due to the competitive landscape in which we operate. Additionally, we cannot provide assurances that we can minimize the increases in our deposit rates while maintaining an acceptable level of deposits. Finally, we cannot provide any assurances that we can maintain our current levels of noninterest-bearing deposits as customers may seek higher-yielding products when rates increase.

Accordingly, changes in levels of market interest rates could materially and adversely affect our net interest spread, asset quality, loan origination volume, liquidity, and overall profitability.

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

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

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

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

As of December 31, 2015, we owned \$3.6 billion of investment securities available-for-sale, or 17% of our total assets. The fair value of our investment securities may be adversely affected by market conditions, including changes in interest rates, and the occurrence of any events adversely affecting the issuer of particular securities in our investments portfolio. We analyze our securities on a quarterly basis to determine if an other-than-temporary impairment has occurred. The process for determining whether impairment is other-than-temporary usually requires complex, subjective judgments about the future financial performance of the issuer in order to assess the probability of receiving all contractual principal and interest payments on the security. Because of changing economic and market conditions affecting issuers, we may be required to recognize other-than-temporary impairment in future periods, which could have a material adverse effect on our business, financial condition or results of operations.

Liquidity Risk

Liquidity Risk is the Potential Inability to Meet our Contractual and Contingent Financial Obligations, On- or Off-balance Sheet, as they Become Due.

We are subject to liquidity risk, which could adversely affect our financial condition and results of operations. Effective liquidity management is essential for the operation of our business. An inability to raise funds through deposits, borrowings, the sale of investment securities and other sources could have a material adverse effect on our liquidity. Our access to funding sources in amounts adequate to finance our activities could be impaired by factors that affect us specifically or the financial services industry in general. Factors that could detrimentally impact our access to liquidity sources include a decrease in the level of our business activity due to a market disruption, a decrease in the borrowing capacity assigned to our pledged assets by our secured creditors, or adverse regulatory action against us. Our ability to acquire deposits or borrow could also be impaired by factors that are not specific to us, such as a severe disruption of the financial markets or negative views and expectations about the prospects for the financial services industry generally as a result of conditions faced by banking organizations in the domestic and worldwide credit markets.

We may need to raise additional capital in the future and such capital may not be available when needed or at all. We may need to raise additional capital in the future to provide us with sufficient capital resources and liquidity to meet our commitments, regulatory requirements, and business needs. As a publicly traded company, a likely source of additional funds is the capital markets, accomplished generally through the issuance of equity, both common and preferred stock, and the issuance of subordinated debentures. Our ability to raise additional capital, if needed, will depend on, among other things, conditions in the capital markets at that time, which are outside of our control, and our financial performance. Deterioration in economic conditions and the loss of confidence in financial institutions may increase our cost of funding and limit our access to some of our customary sources of liquidity, including, but not limited to, inter-bank borrowings, repurchase agreements and borrowings from the discount window of the Federal Reserve Bank of San Francisco ("FRBSF"), as well as to capital markets.

We cannot assure you that access to such capital and liquidity will be available to us on acceptable terms or at all. Any occurrence that may limit our access to the capital markets, such as a decline in the confidence of debt purchasers or counterparties participating in the capital markets, may materially and adversely affect our capital costs and our ability to raise capital and, in turn, our liquidity. Further, if we need to raise capital in the future, we may have to do so when many other financial institutions are also seeking to raise capital and would then have to compete with those institutions for investors. An inability to raise additional capital on acceptable terms when needed could have a materially adverse effect on our business, financial condition or results of operations.

We may be adversely affected by changes in the actual or perceived soundness or condition of other financial institutions.

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

The primary source of the holding company's liquidity from which, among other things, we pay dividends is the receipt of dividends from the Bank.

The holding company, PacWest, is a legal entity separate and distinct from the Bank and our other subsidiaries. The availability of dividends from the Bank is limited by various statutes and regulations. It is possible, depending upon the financial condition of the Bank and other factors, that the FRB, the FDIC and/or the DBO could assert that payment of dividends or other payments is an unsafe or unsound practice, or that such regulatory authority may impose restrictions on the Bank's ability to pay dividends as a condition to the Bank's participation in any stabilization program. In the event the Bank is unable to pay dividends to the holding company, it is likely that we, in turn, would have to stop paying dividends on our common stock and may have difficulty meeting our other financial obligations, including payments in respect of any outstanding indebtedness or trust preferred securities. Since the Bank had a retained deficit of \$609 million at December 31, 2015, for the foreseeable future, any further cash dividends from the Bank to the Company will continue to require DBO and FDIC approval. The inability of the Bank to pay dividends to us could have a material adverse effect on our business, including the market price of our common stock.

We may reduce or discontinue the payment of dividends on common stock.

Our stockholders are only entitled to receive such dividends as our Board of Directors may declare out of funds legally available for such payments. Although we have historically declared cash dividends on our common stock, we are not required to do so and may reduce or eliminate our common stock dividend in the future. Our ability to pay dividends to our stockholders is subject to the restrictions set forth in Delaware law, by our federal regulator, and by certain covenants contained in our subordinated debentures. Notification to the FRB is also required prior to our declaring and paying a cash dividend to our stockholders during any period in which our quarterly and/or cumulative twelve-month net earnings are insufficient to fund the dividend amount, among other requirements. We may not pay a dividend if the FRB objects or until such time as we receive approval from the FRB or we no longer need to provide notice under applicable regulations. In addition, we may be restricted by applicable law or regulation or actions taken by our regulators, or as a result of our participation in any future specific government stabilization programs, now or in the future, from paying dividends to our stockholders. We cannot assure you that we will continue paying dividends on our common stock at current levels or at all. A reduction or discontinuance of dividends on our common stock could have a material adverse effect on our business, including the market price of our common stock.

Regulatory, Compliance and Legal Risk

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

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

The Dodd-Frank Act significantly revised and expanded the rulemaking, supervisory and enforcement authority of federal bank regulators and created the CFPB, which is now one of our regulators. Regulations affecting banks and other financial institutions, such as the Dodd-Frank Act, are undergoing continuous review and change frequently. The ultimate effect of such changes cannot be predicted. Because our business is highly regulated, compliance with such regulations and laws may increase our costs and limit our ability to pursue business opportunities. Also, participation in any future specific government stabilization programs may subject us to additional restrictions. There can be no assurance that laws, rules and regulations will not be proposed or adopted in the future, which could (i) make compliance much more difficult or expensive, (ii) restrict our ability to originate, broker or sell loans or accept certain deposits, (iii) further limit or restrict the amount of commissions, interest or other charges earned on loans originated or sold by us, or (iv) otherwise materially and adversely affect our business or prospects for business. The Dodd-Frank Act has had and will continue to have material implications for us and the entire financial services industry. Among other things it has, had, or will or potentially could have the following effects:

- together with regulations implementing Basel III reforms, affect the levels of capital and liquidity with which we must operate and how we plan capital and liquidity levels;
- subject us to new and/or higher fees paid to various regulatory entities, including but not limited to deposit insurance fees to the FDIC;
- subject us to annual stress tests;
- impact our ability to invest in certain types of entities or engage in certain activities;
- restrict the nature of our incentive compensation programs for executive officers;
- subject us to the supervision of the CFPB, with its broad authority to implement new consumer protection regulations and to examine and enforce compliance with federal consumer financial protection laws; and
- subject us to new and different litigation and regulatory enforcement risks.

The full impact of the Dodd-Frank Act on us, our business strategies, and financial performance cannot be known at this time, and may not be known for a number of years. Some aspects of Dodd-Frank continue to be subject to rulemaking and many of the rules that have been adopted will take effect over several additional years, or may be subject to interpretation or clarification, making it difficult to anticipate the overall financial impact on us or across the industry. However, these impacts are expected to be substantial and some of them may adversely affect us and our financial performance. The Dodd-Frank Act and related regulations may also require us to invest significant management attention and resources to make any necessary or desired changes, and could therefore also adversely affect our business, financial condition and results of operations.

In October 2012, as required by the Dodd-Frank Act, the FRB and FDIC published final rules regarding company-run stress testing. As a result of these final rules we invest a significant amount of time and resources into conducting an annual company-run stress test of capital, consolidated earnings and losses under various stress scenarios provided by our regulators. Our stress test results are considered by the FRB and FDIC in evaluating our capital adequacy and could have a negative impact on our ability to make capital distributions in the form of dividends or share repurchases.

The Volcker Rule prohibits us from, among other things, (i) engaging in short-term proprietary trading for our own accounts, and (ii) having certain ownership interests in and relationships with hedge funds or private equity funds. The Volcker Rule also requires us to establish an internal compliance program that is consistent with the extent to which we engage in activities covered by the Volcker Rule, which must include making regular reports about those activities to regulators. We established our internal compliance program prior to the initial conformance period. The conformance period for certain legacy investments and relationships ends July 21, 2016. The FRB has indicated that it intends to extend this conformance deadline to July 2017. In addition, the FRB may extend the conformance deadline for up to an additional five years (until July 2022) for investments that are considered illiquid. Under the Volcker Rule, we are required to wind-down, transfer, divest or otherwise ensure the termination or expiration of any prohibited interests prior to the end of our applicable conformance period. While we intend to seek the maximum extensions available to us, there is no assurance that we will be granted any of these extensions, and thus, we may be required to divest our prohibited interests within a short period of time and/or at possibly distressed prices. Our equity investments subject to the Volcker Rule had an aggregate carrying value of \$1.9 million at December 31, 2015. Because many of the effects of the Volcker Rule may become apparent only over the next several years as the federal financial regulatory agencies apply the rules in practice, the precise financial impact of the rule on us, our customers, or the financial industry more generally cannot currently be determined. The actual impact from the Volcker Rule will be dependent on a variety of factors, including our ability to obtain regulatory extensions, our ability to sell the investments, our carrying value at the time of any sale, the actual sales price realized, the timing of such sales, and any additional regulatory guidance or interpretations of the Volcker Rule.

We are subject to capital adequacy standards, and a failure to meet these standards could adversely affect our financial condition.

The Company and the Bank are each subject to capital adequacy and liquidity rules and other regulatory requirements specifying minimum amounts and types of capital that must be maintained. From time to time, the regulators implement changes to these regulatory capital adequacy and liquidity guidelines. If we fail to meet these minimum capital and liquidity guidelines and other regulatory requirements, we or our subsidiaries may be restricted in the types of activities we may conduct and may be prohibited from taking certain capital actions, such as paying dividends and repurchasing or redeeming capital securities.

We are subject to Basel III that is being phased-in between January 1, 2015 and January 1, 2019. As a result of Basel III, we will be required to satisfy additional and more stringent capital adequacy and liquidity standards than we have in the past. Additionally, stress testing requirements may have the effect of requiring us to comply with certain aspects of the requirements of Basel III, or potentially even greater capital requirements, sooner than expected. While we expect to meet the requirements of Basel III, inclusive of the phased-in capital conservation buffer, these requirements could have a negative impact on our ability to lend, grow deposit balances, make acquisitions or make capital distributions in the form of dividends or share repurchases.

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

PacWest acquired Square 1 on October 6, 2015. As merger consideration, we issued approximately 18.1 million shares of common stock to the Square 1 shareholders. The issuance of these shares caused us to experience an ownership change under Section 382 of the Internal Revenue Code. Consequently, the utilization of our net operating loss carryforwards, tax credits and other tax attributes are subject to an annual limitation. We estimate that such annual limitation will not impose additional restrictions on our usage of Square 1's acquired existing tax attributes. Generally, upon a change in ownership of more than 50% of our capital stock over a three-year period as measured under Section 382 of the Internal Revenue Code, our ability to utilize our net operating loss carryforwards and other

tax attributes after the ownership change generally would be limited. The annual limit would generally equal the product of the applicable long term tax exempt rate and the value of the relevant taxable entity's capital stock immediately before the ownership change. These change of ownership rules generally focus on ownership changes involving stockholders owning directly or indirectly

5% or more (the "5-Percent Shareholders") of a company's outstanding stock, including certain public groups of stockholders as set forth under Section 382, and those arising from new stock issuances and other equity transactions. In May 2015, our stockholders ratified a tax benefit preservation plan (the "Tax Plan") which was designed to preserve our net operating loss carryforwards and other tax attributes of the Company. The Tax Plan is intended to discourage persons from becoming 5-Percent Shareholders and existing 5-Percent Shareholders from increasing their beneficial ownership of shares.

Although the Tax Plan is intended to reduce the likelihood of an ownership change that could adversely affect us, there can be no assurance that such restrictions would prevent all transfers that could result in such an ownership change and thus no assurance can be given as to whether we could utilize the net operating losses to offset future taxable income. Additionally, because the Tax Plan may have the effect of restricting a stockholder's ability to dispose of or acquire the common stock of the Company, the liquidity and market value of our common stock might suffer. The determination of whether an ownership change occurs is complex and not entirely within our control. No assurance can be given as to whether we will undergo another ownership change under Section 382 of the Internal Revenue Code in the future.

The Company and its subsidiaries are subject to changes in federal and state tax laws, interpretation of existing laws and examinations and challenges by taxing authorities.

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

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

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

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

Risk of the Competitive Environment in which We Operate

We face strong competition from financial services companies and other companies that offer banking services, which could materially and adversely affect our business.

We conduct our banking operations through branches located throughout California. Increased competition in our market may result in reduced deposits or less favorable deposit terms. Ultimately, we may not be able to compete successfully against current and future competitors. Many competitors offer the same banking services that we offer. These competitors include national banks, regional banks and community banks. We also face competition from many other types of financial institutions, including without limitation, non-bank specialty lenders, insurance companies, private investment funds, investment banks, and other financial intermediaries. While there are a limited number of direct competitors in the venture banking market, some of our competitors have long-standing relationships with venture firms and the companies that are funded by such firms. The market for our Square 1 Bank Division is extremely competitive and several of our competitors have significantly greater resources, established customer bases, more locations and longer operating histories.

Additionally, the financial services industry has become even more competitive as a result of legislative, regulatory and technological changes and continued banking consolidation. Banks and other financial institutions with larger capitalization and financial intermediaries not subject to bank regulatory restrictions have larger or no lending limits and are thereby able to serve the credit needs of larger customers. Areas of competition include interest rates for loans and deposits, efforts to obtain deposits, and the range and quality of products and services provided, including new technology driven products and services. Technological innovation continues to contribute to greater competition in domestic and international financial services markets as technological advances enable more companies to provide financial services. We also face competition from financial intermediaries that have opened production offices or that solicit deposits in our market areas. Should competition in the financial services industry intensify, our ability to market our products and services may be adversely affected. If we are unable to attract and retain banking customers, we may be unable to grow or maintain the levels of our loans and deposits and our results of operations and financial condition may be adversely affected as a result.

Competition from financial institutions seeking to maintain adequate liquidity places upward pressure on the rates paid on certain deposit accounts relative to the level of market interest rates during times of both decreasing and increasing market liquidity. To maintain adequate levels of liquidity, without exhausting secondary sources of liquidity, we may incur increased deposit costs.

Our ability to maintain, attract and retain customer relationships is highly dependent on our reputation.

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

In addition, various rating services publish unsolicited ratings of the financial performance and relative financial health of many banks, including Pacific Western, based on publicly available data. As these ratings are publicly available, a decline in the Bank's ratings from these agencies may damage our reputation and result in deposit outflows or the inability of the Bank to raise deposits in the secondary market as broker-dealers and depositors may use such ratings in deciding where to deposit their funds.

Risks Related to Risk Management

Failure to keep pace with technological change could adversely affect our business and we are in the process of converting to a new core processing system.

The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. Our future success depends, in part, upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in our operations. Many of our competitors have substantially greater resources to invest in technological improvements. We may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our customers. In addition, we depend on internal and outsourced technology to support all aspects of our business operations. We expect to convert from the core processing system that is used to manage customer accounts to a processing system offered by another software vendor with the initial phase occurring during the second quarter of 2016. Interruption or failure of these systems creates a risk of business loss as a result of adverse customer experiences and possible diminishing of our reputation, damage claims or civil fines. Failure to successfully keep pace with technological change affecting the financial services industry or to successfully convert to a new core processing system could have a material adverse impact on our business and, in turn, our financial condition and results of operations.

Our acquisitions may subject us to unknown risks.

Certain events may arise after the date of an acquisition, or we may learn of certain facts, events or circumstances after the closing of an acquisition, that may affect our financial condition or performance or subject us to risk of loss. These events include, but are not limited to: litigation resulting from circumstances occurring at the acquired entity prior to the date of acquisition; loan downgrades and credit loss provisions resulting from underwriting of certain acquired loans determined not to meet our credit standards; personnel changes that cause instability within a department; delays in implementing new policies or procedures or the failure to apply new policies or procedures; and other events relating to the performance of our business. Acquisitions involve inherent uncertainty and we cannot determine all potential events, facts and circumstances that could result in loss or increased costs or give assurances that our due diligence or mitigation efforts will be sufficient to protect against any such loss or increased costs.

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

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

Our communications, information technology and customer systems supporting our operations are important to our efficiency and vulnerable to unforeseen problems. Our operations depend on our ability, as well as that of third-party service providers, to protect computer systems and network infrastructure against damage from fires, other natural disasters and pandemics, power or telecommunications failures, acts of terrorism or wars or other catastrophic events, or other physical failures. Risk management programs are expensive to maintain and will not protect us from all risks associated with maintaining the security of customer information, proprietary data, external and internal intrusions, disaster recovery and failures in the controls used by vendors. Any damage or failure, interruption or breach in security of these systems, including, but not limited to, denial-of-service attacks, unauthorized access, computer viruses, phishing schemes and other security breaches, could result in loss of or delay in access to customer information and/or failures or disruptions in our customer relationship management, general ledger, deposit, loan and other systems. While we have policies and procedures designed to prevent or limit the effect of the possible failure, interruption or security breach of our information and customer systems, there can be no assurance that any such failure, interruption or security breach will not occur or, if they do occur, that they will be adequately addressed. The occurrence of any failure, interruption or security breach of our communications, information, technology and customer systems could result in liability to clients or loss of customer business, subject us to additional regulatory scrutiny or expose us to civil litigation and possible financial liability, any of which could have an adverse effect on our business, financial condition, reputation, or results of operations. In addition, recovery from any of the mentioned areas of concern may be costly in terms of employee attention and out-of-pocket expenses.

We maintain insurance policies that we believe provide appropriate coverage at a reasonable cost for an institution of our size and scope with similar technological systems. However, we cannot provide assurance that these policies will afford coverage for all possible losses or would be sufficient to cover all financial losses, damages, penalties, including lost revenues, should we experience any one or more of our or a third party's systems failing or experiencing an attack.

We rely on other companies to provide key components of our business infrastructure.

We rely on certain third parties to provide products and services necessary to maintain day-to-day operations, such as data processing and storage, recording and monitoring transactions, on-line banking interfaces and services, Internet connections and network access. While we select and monitor the performance of third parties carefully, we do not control their actions. The failure of a third-party to perform in accordance with the contracted arrangements under service level agreements as a result of changes in the third party's organizational structure, financial condition, support for existing products and services or strategic focus or for any other reason, could be disruptive to our operations, which could have a material adverse effect on our business, financial condition and results of operations. Replacing these third parties could also create significant delays and expense.

Our controls and procedures may fail or be circumvented.

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

A natural disaster could harm the Company's business.

The nature and level of natural disasters cannot be predicted and may be exacerbated by global climate change. These natural disasters could harm our operations through interference with communications, including the interruption or loss of our computer systems, which could prevent or impede us from gathering deposits, originating loans and processing and controlling the flow of business, as well as through the destruction of facilities and our operational, financial and management information systems. California, in which a substantial portion of our business is located and a substantial portion of our loan collateral is located, is susceptible to natural disasters such as earthquakes, floods, droughts and wild fires, and is currently in the midst of an ongoing drought. Such natural disasters could negatively impact our business operations, the values of collateral securing our loans and/or interrupt our borrowers' abilities to conduct their business in a manner to support their debt obligations, which could result in losses and increased provisions for credit losses. We have implemented a business continuity and disaster recovery program which is reviewed and updated no less often than annually. There is no assurance that our business continuity and disaster recovery program can adequately mitigate the risks of such business disruptions and interruptions.

Risk from Accounting Estimates

Our decisions regarding the fair value of assets acquired could be inaccurate which could materially and adversely affect our business, financial condition, results of operations, and future prospects.

To comply with generally accepted accounting principles, management must exercise judgment in selecting, determining, and applying accounting methods, assumptions, and estimates. Management makes various estimates and judgments about the collectability of acquired loans, including the creditworthiness of borrowers and the value of the real estate and other assets serving as collateral for the repayment of secured loans. If the actual performance of the acquired loans and/or the value of the collateral differs materially from management's estimates, any resulting losses or increased credit loss provisions could have a negative effect on our operating results.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

As of January 31, 2016, we had a total of 145 properties consisting of 81 full-service branch offices and 64 other offices. We own eight locations and the remaining properties are leased. Our properties are located throughout the United States, however, approximately 75% are located in California. We lease our principal office, which is located at 9701 Wilshire Blvd., Suite 700, Beverly Hills, CA 90212.

For additional information regarding properties of the Company and Pacific Western, see Note 9. Premises and Equipment, Net, of the Notes to Consolidated Financial Statements contained in "Item 8. Financial Statements and Supplementary Data."

ITEM 3. LEGAL PROCEEDINGS

See Note 12. Commitments and Contingencies, of the Notes to Consolidated Financial Statements contained in "Item 8. Financial Statements and Supplementary Data." That information is incorporated into this item by reference.

ITEM 4. MINE SAFETY DISCLOSURE

Not applicable.

PART II

ITEM MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND
5. ISSUER PURCHASES OF EQUITY SECURITIES

Marketplace Designation, Sales Price Information and Holders

Our common stock is listed on The Nasdaq Global Select Market and is traded under the symbol "PACW." The following table summarizes the high and low sale prices for each quarterly period during the last two years for our common stock, as quoted and reported by The Nasdaq Stock Market, or Nasdaq:

	Stock Sales Prices		Dividends
	High	Low	Declared During Quarter
2014			
First quarter	\$46.08	\$37.70	\$0.25
Second quarter	\$47.37	\$38.04	\$0.25
Third quarter	\$44.80	\$39.50	\$0.25
Fourth quarter	\$48.03	\$37.63	\$0.50
2015			
First quarter	\$47.47	\$41.41	\$0.50
Second quarter	\$48.86	\$43.69	\$0.50
Third quarter	\$48.54	\$40.00	\$0.50
Fourth quarter	\$48.00	\$41.11	\$0.50

As of February 16, 2016, the closing price of our common stock on Nasdaq was \$31.81 per share. As of that date, based on the records of our transfer agent, there were approximately 1,742 record holders of our common stock.

Dividends

The table above shows the dividends we declared and paid during the two most recent fiscal years. For a discussion of dividend restrictions on the Company's common stock, or of dividends from the Company's subsidiaries to the Company, see "Item 1. Business-Supervision and Regulation - Dividends" and Note 19. Dividend Availability and Regulatory Matters, of the Notes to Consolidated Financial Statements contained in "Item 8. Financial Statements and Supplementary Data."

Securities Authorized for Issuance Under Equity Compensation Plans

The following table provides information as of December 31, 2015, regarding securities issued and to be issued under our equity compensation plans in effect during fiscal year 2015:

Plan Category	Plan Name	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
		(a)	(b)	(c)
Equity compensation plans approved by security holders	The PacWest Bancorp 2003 Stock Incentive Plan ⁽¹⁾	—	(2) —	12,978,460 (3)
Equity compensation plans not approved by security holders	None	—	—	—

The PacWest Bancorp 2003 Stock Incentive Plan (the “Incentive Plan”) was last approved by our stockholders at our 2014 Special Stockholders Meeting. The authorized number of shares available for issuance under the Incentive Plan was increased to 9,000,000 shares at our 2014 Special Stockholders Meeting. Upon consummation of the (1) CapitalSource Inc. merger on April 7, 2014, an additional 10,686,565 shares were added to the Incentive Plan.

Such shares were available for grant under the former CapitalSource Inc. Equity Incentive Plan and remain available for: (a) former employees of CapitalSource Bank who remain employed with the Company, and (b) newly hired employees of the Company.

(2) Amount does not include the 1,211,951 shares of unvested time-based restricted stock outstanding with a zero exercise price as of December 31, 2015.

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

(3) The amount includes 9,550,459 shares remaining from those added to the Incentive Plan from the CapitalSource Inc. merger.

Recent Sales of Unregistered Securities and Use of Proceeds

None.

Repurchases of Common Stock

The following table presents stock repurchases we made during the fourth quarter of 2015:

Purchase Dates:	Total Number of Shares Purchased (1)	Average Price Paid Per Share
October 1 – October 31, 2015	—	\$ —
November 1 – November 30, 2015	188	47.14
December 1 – December 31, 2015	—	—
Total	188	\$47.14

(1) Shares repurchased pursuant to net settlement by employees and directors, in satisfaction of income tax withholding obligations incurred through the vesting of Company restricted stock. We did not repurchase any

shares as part of publicly announced plans or programs.

Five Year Stock Performance Graph

The following chart compares the yearly percentage change in the cumulative stockholder return on our common stock based on the closing price during the five years ended December 31, 2015, with (1) the Total Return Index for U.S. companies traded on The Nasdaq Stock Market (the "NASDAQ Composite Index"), and (2) the Total Return Index for KBW NASDAQ Regional Bank Stocks (the "KBW Regional Banking Index"). This comparison assumes \$100 was invested on December 31, 2010, in our common stock and the comparison groups and assumes the reinvestment of all cash dividends prior to any tax effect and retention of all stock dividends. The Company's total cumulative gain was 134.4% over the five year period ending December 31, 2015 compared to gains of 100.0% and 61.2% for the NASDAQ Composite Index and KBW Regional Banking Index.

* \$100 invested on December 31, 2010 in stock or index, including reinvestment of dividends.

Index:	Year Ended December 31,					
	2010	2011	2012	2013	2014	2015
PacWest Bancorp	\$100.00	\$89.64	\$121.24	\$213.38	\$236.68	\$234.44
NASDAQ Composite	100.00	100.53	116.92	166.19	188.78	199.95
KBW Regional Banking	100.00	93.41	103.69	150.50	153.45	161.16

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth certain of our financial and statistical information for each of the years in the five year period ended December 31, 2015. This data should be read in conjunction with our audited consolidated financial statements as of December 31, 2015 and 2014, and for each of the years in the three year period ended December 31, 2015 and related Notes to Consolidated Financial Statements contained in “Item 8. Financial Statements and Supplementary Data.”

	At or For the Year Ended December 31,				
	2015	2014	2013	2012	2011
	(In thousands, except per share amounts and percentages)				
Results of Operations ⁽¹⁾ :					
Interest income	\$883,938	\$704,775	\$309,914	\$296,115	\$295,284
Interest expense	(60,592)	(42,398)	(12,201)	(19,648)	(32,643)
Net interest income	823,346	662,377	297,713	276,467	262,641
Total (provision) negative provision for credit losses	(45,481)	(11,499)	4,210	12,819	(26,570)
Gain on securities	3,744	4,841	5,359	1,239	—
FDIC loss sharing (expense) income, net	(18,246)	(31,730)	(26,172)	(10,070)	7,776
Other noninterest income	98,812	69,076	25,057	24,703	23,650
Total noninterest income	84,310	42,187	4,244	15,872	31,426
Foreclosed assets (expense) income, net	668	(5,401)	1,503	(10,931)	(10,676)
Acquisition, integration and reorganization costs	(21,247)	(101,016)	(40,812)	(4,089)	(600)
Debt termination expense	—	—	—	(22,598)	—
Other noninterest expense	(361,460)	(299,175)	(188,856)	(172,996)	(168,589)
Total noninterest expense	(382,039)	(405,592)	(228,165)	(210,614)	(179,865)
Earnings from continuing operations before					
income tax expense	480,136	287,473	78,002	94,544	87,632
Income tax expense	(180,517)	(117,005)	(32,525)	(37,743)	(36,928)
Net earnings from continuing operations	299,619	170,468	45,477	56,801	50,704
Loss from discontinued operations before					
income tax benefit	—	(2,677)	(620)	—	—
Income tax benefit	—	1,114	258	—	—
Net loss from discontinued operations	—	(1,563)	(362)	—	—
Net earnings (loss)	\$299,619	\$168,905	\$45,115	\$56,801	\$50,704
Adjusted net earnings ⁽²⁾	\$287,422	\$219,701	\$76,367	\$76,682	\$43,724
Per Common Share Data:					
Basic and diluted earnings per share (EPS):					
Net earnings from continuing operations	\$2.79	\$1.94	\$1.09	\$1.54	\$1.37
Net earnings	\$2.79	\$1.92	\$1.08	\$1.54	\$1.37
Dividends declared during year	\$2.00	\$1.25	\$1.00	\$0.79	\$0.21
Book value per share ⁽²⁾⁽³⁾	\$36.22	\$34.03	\$17.65	\$15.74	\$14.66
Tangible book value per share ⁽²⁾⁽³⁾	\$17.86	\$17.17	\$12.72	\$13.22	\$13.14
Shares outstanding at year-end ⁽³⁾	121,414	103,022	45,823	37,421	37,254
Average shares outstanding for basic and diluted EPS	106,327	86,853	40,823	35,685	35,491

	At or For the Year Ended December 31,					
	2015	2014	2013	2012	2011	
	(In thousands, except per share amounts and percentages)					
Balance Sheet Data:						
Total assets	\$21,288,490	\$16,234,605	\$6,533,168	\$5,463,658	\$5,528,237	
Cash and cash equivalents	396,486	313,226	147,422	164,404	295,617	
Investment securities	3,579,147	1,607,786	1,522,684	1,392,511	1,372,464	
Non-purchased credit impaired (Non-PCI) loans and leases	14,339,070	11,613,832	3,930,539	3,074,947	2,841,071	
Allowance for credit losses, Non-PCI loans and leases	122,268	76,767	67,816	72,119	93,783	
Purchased credit impaired (PCI) loans	189,095	290,852	382,796	517,885	705,332	
Goodwill	2,176,291	1,720,479	208,743	79,866	39,141	
Core deposit and customer relationship intangibles	53,220	17,204	17,248	14,723	17,415	
Deposits	15,666,182	11,755,128	5,280,987	4,709,121	4,577,453	
Borrowings	621,914	383,402	113,726	12,591	225,000	
Subordinated debentures	436,000	433,583	132,645	108,250	129,271	
Stockholders' equity	4,397,691	3,506,230	808,898	589,121	546,203	
Performance Ratios:						
Return on average assets	1.70	% 1.27	% 0.74	% 1.04	% 0.92	%
Return on average equity	7.99	% 6.11	% 6.28	% 10.01	% 9.92	%
Return on average tangible equity ⁽²⁾	15.76	% 11.88	% 8.25	% 11.76	% 11.33	%
Net interest margin	5.60	% 6.01	% 5.48	% 5.52	% 5.26	%
Efficiency ratio	38.5	% 41.6	% 60.7	% 56.4	% 54.3	%
Stockholders' equity to total assets ratio ⁽²⁾	20.7	% 21.6	% 12.4	% 10.8	% 9.9	%
Tangible common equity ratio ⁽²⁾	11.4	% 12.2	% 9.2	% 9.2	% 9.0	%
Average equity to average assets	21.3	% 20.7	% 11.8	% 10.4	% 9.3	%
Dividend payout ratio	71.8	% 67.7	% 90.9	% 50.7	% 15.0	%
Tier 1 leverage ratio ⁽⁴⁾	11.67	% 12.34	% 11.22	% 10.53	% 10.42	%
Tier 1 capital ratio ⁽⁴⁾	12.60	% 13.16	% 15.12	% 15.17	% 15.97	%
Total capital ratio ⁽⁴⁾	15.65	% 16.07	% 16.38	% 16.43	% 17.25	%
Non-PCI Credit Quality Metrics:						
Non-PCI nonaccrual loans and leases	\$129,019	\$83,621	\$46,774	\$41,762	\$61,619	
Foreclosed assets	22,120	43,721	55,891	56,414	81,918	
Total nonperforming assets	151,839	127,342	102,665	98,176	143,537	
Non-PCI nonaccrual loans to Non-PCI loans and leases	0.90	% 0.72	% 1.19	% 1.36	% 2.17	%
Nonperforming assets to Non-PCI loans and leases and foreclosed assets	1.06	% 1.09	% 2.58	% 3.14	% 4.91	%
Allowance for credit losses to Non-PCI nonaccrual loans and leases	94.8	% 91.8	% 145.0	% 172.7	% 152.2	%

Edgar Filing: PACWEST BANCORP - Form 10-K

Allowance for credit losses to Non-PCI loans and leases	0.85	%	0.66	%	1.73	%	2.35	%	3.30	%
Net charge-offs to average Non-PCI loans and leases ⁽²⁾	0.06	%	0.02	%	0.12	%	0.33	%	0.80	%

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

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

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

(3) Includes 1,211,951 shares, 1,108,505 shares, 1,216,524 shares, 1,698,281 shares, and 1,675,730 shares of unvested restricted stock outstanding at December 31, 2015, 2014, 2013, 2012, and 2011.

(4) Capital ratios presented are for the consolidated Company. Capital ratios for 2015 calculated using Basel III capital rules.

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

Overview

PacWest Bancorp is a bank holding company registered under the Bank Holding Company Act of 1956, as amended. Our principal business is to serve as the holding company for our Los Angeles based wholly-owned banking subsidiary, Pacific Western Bank, which we refer to as “Pacific Western” or the “Bank.” References to “we,” “us,” or the “Company” refer to PacWest Bancorp together with its subsidiaries on a consolidated basis. When we refer to “PacWest” or to the “holding company,” we are referring to PacWest Bancorp, the parent company, on a stand-alone basis. References to “Pacific Western Bank” include the Bank’s wholly-owned subsidiaries.

We are focused on relationship-based business banking to small, middle-market and venture-backed businesses nationwide. The Bank offers a broad range of deposit products and services through 77 full-service branches located primarily in southern and central California, three branches in northern California, and one branch in Durham, North Carolina. The Bank provides commercial banking services, including real estate, construction, and commercial loans, and comprehensive deposit and treasury management services to small and middle-market businesses. Pacific Western offers additional products and services under the brands of its business groups, CapitalSource and Square 1 Bank. CapitalSource provides cash flow, asset-based, equipment and real estate loans and treasury management services to established middle-market businesses on a national basis. Square 1 Bank offers a comprehensive suite of financial services focused on entrepreneurial businesses and their venture capital and private equity investors, with offices located in key innovation hubs across the United States. Square 1 Asset Management, Inc., a wholly-owned subsidiary of the Bank and a SEC-registered investment adviser, provides investment advisory and asset management services to select clients.

At December 31, 2015, we had total assets of \$21.3 billion, including gross loans and leases of \$14.5 billion compared to \$16.2 billion of total assets and \$11.9 billion of gross loans and leases at December 31, 2014. The year-over-year increases in total assets and gross loans and leases of \$5.1 billion and \$2.6 billion were due mostly to the Square 1 acquisition. Excluding the acquired balances, organic loan and lease growth totaled \$1.0 billion during 2015, and was driven by \$4.2 billion in originations during 2015.

At December 31, 2015, we had total liabilities of \$16.9 billion, including total deposits of \$15.7 billion compared to \$12.7 billion of total liabilities and \$11.8 billion of total deposits at December 31, 2014. The year-over-year increase in total deposits of \$3.9 billion, including \$4.4 billion in core deposits, was due mainly to the Square 1 acquisition. Excluding the acquired balances, organic core deposit growth totaled \$650.8 million during 2015. At December 31, 2015, core deposits totaled \$10.6 billion, or 67% of total deposits, and time deposits totaled \$4.2 billion, or 27% of total deposits.

At December 31, 2015, we had total stockholders' equity of \$4.4 billion. During 2015, stockholders' equity increased \$0.9 billion, due mainly to the issuance of \$797.4 million in common stock in connection with the Square 1 acquisition and \$299.6 million in net earnings, offset by \$215.2 million in dividends paid. Capital ratios remained strong with Tier 1 capital and total capital ratios of 12.60% and 15.65% at December 31, 2015.

Net earnings for the year ended December 31, 2015 were \$299.6 million, or \$2.79 per diluted share, compared to net earnings for 2014 of \$168.9 million, or \$1.92 per diluted share. When certain income and expense items are excluded, adjusted net earnings were \$287.4 million for the year ended December 31, 2015 compared to \$219.7 million for 2014. The \$130.7 million increase in net earnings and the \$67.7 million increase in adjusted net earnings were due mostly to the Company's growth driven by our acquisitions completed in 2014 and 2015.

Square 1 Financial, Inc. Acquisition

PacWest acquired Square 1 Financial, Inc. (“Square 1”) on October 6, 2015. As part of the acquisition, Square 1 Bank, a wholly-owned subsidiary of Square 1, merged with and into Pacific Western. At closing, we formed the Square 1 Bank Division of the Bank which provides a comprehensive suite of financial services focused on entrepreneurial businesses and their venture capital and private equity investors nationwide marketed under the Square 1 Bank Division brand. We completed this acquisition to increase our core deposits, expand our lending products across the nation, and increase our presence in the technology and life-sciences credit markets. We recorded the assets and liabilities, both tangible and intangible, at their estimated fair values as of the acquisition date and increased total assets by approximately \$4.6 billion. The application of the acquisition method of accounting resulted in goodwill of

\$448 million. For further information, see Note 4. Acquisitions, in the Notes to Consolidated Financial Statements contained in “Item 8. Financial Statements and Supplementary Data.”

CapitalSource Inc. Merger

PacWest acquired CapitalSource Inc. on April 7, 2014. As part of the merger, CapitalSource Bank (“CSB”), a wholly-owned subsidiary of CapitalSource Inc., merged with and into Pacific Western and formed the CapitalSource Division of the Bank. We provide a full spectrum of financing solutions across numerous industries and property types to middle market businesses nationwide marketed under the CapitalSource Division brand. We completed this acquisition in order to increase our loan and lease generation capabilities and to diversify our loan portfolio. We recorded the assets and liabilities, both tangible and intangible, at their estimated fair values as of the merger date and increased total assets by approximately \$10.7 billion. The application of the acquisition method of accounting resulted in goodwill of \$1.5 billion. For further information, see Note 4. Acquisitions, in the Notes to Consolidated Financial Statements contained in “Item 8. Financial Statements and Supplementary Data.”

First California Financial Group Acquisition

PacWest acquired First California Financial Group, Inc. (“FCAL”) on May 31, 2013. As part of the acquisition, First California Bank (“FCB”), a wholly-owned subsidiary of FCAL, merged with and into Pacific Western. We completed this acquisition in order to expand our presence in Southern California. We recorded the assets and liabilities, both tangible and intangible, at their estimated fair values as of the acquisition date. The application of the acquisition method of accounting resulted in goodwill of \$129.1 million. For further information, see Note 4. Acquisitions, in the Notes to Consolidated Financial Statements contained in “Item 8. Financial Statements and Supplementary Data.”

Key Performance Indicators

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

The Level of Our Net Interest Income

Net interest income is the excess of interest earned on our interest earning assets over the interest paid on our interest bearing liabilities. Net interest margin is net interest income expressed as a percentage of average interest earning assets. A sustained low interest rate environment combined with low loan growth and high levels of marketplace liquidity may put pressure on both our net interest income and net interest margin.

Our primary interest earning assets are loans and investment securities, and our primary interest bearing liabilities are deposits. Contributing to our high net interest margin is our high yield on interest-earning assets and competitive cost of deposits. While our deposit balances will fluctuate depending on deposit holders’ perceptions of alternative yields available in the market, we seek to minimize the impact of these variances by attracting a high percentage of noninterest bearing deposits. As an industrial loan bank, the former CSB funded its balance sheet with a large proportion of higher-cost time deposits and as a result of the CapitalSource Inc. merger, \$5.3 billion of time deposits were assumed. Our goal is to continue replacing these higher-costing time deposits with core deposits through a dedicated deposit transformation initiative that includes sourcing core deposits from CapitalSource Division customers. As of December 31, 2015, total deposits obtained from CapitalSource Division borrowers totaled \$613.7 million, of which \$600.0 million were core deposits. The acquisition of Square 1 accelerated this shift in deposit mix as nearly all of the \$3.8 billion of acquired deposits were core deposits. The Square 1 acquisition increased our on-balance sheet liquidity and enables us to maintain adequate liquidity as we manage down the level of higher-cost time deposits.

Loan and Lease Growth

We actively seek new lending opportunities under an array of commercial real estate and commercial and industrial (“C&I”) lending products. Our targeted collateral for our real estate loan offerings includes healthcare properties, office properties, industrial properties, multi-family properties, hospitality properties, and retail properties. Our C&I loan products include equipment-secured loans and leases, asset-secured loans, loans to finance companies, cash flow loans (which are loans secured by borrower future cash flows and borrower enterprise value), and venture capital-backed loans to entrepreneurial companies to support early-stage operations. Our loan origination process emphasizes credit quality. We foster relationships with borrowers that have had proven loan repayment performance. Our credit commitment sizes vary by loan product and can range up to \$100 million for certain asset-based lending arrangements and multi-property real estate loans. We price loans to preserve our interest spread and maintain our net interest margin. Achieving net loan growth is subject to many factors, including maintaining strict credit standards, competition from other lenders, and successful borrowers that opt to prepay loans.

The Magnitude of Credit Losses

We emphasize credit quality in originating and monitoring our loans and leases, and we measure our success by the levels of our classified and nonperforming assets and net charge offs. We maintain an allowance for credit losses on loans and leases, which is the sum of our allowance for loan and lease losses and our reserve for unfunded loan commitments. Provisions for credit losses are charged to operations as and when needed for both on and off balance sheet credit exposure. Loans and leases which are deemed uncollectable are charged off and deducted from the allowance for loan and lease losses. Recoveries on loans and leases previously charged off are added to the allowance for loan and lease losses. The provision for credit losses on the loan and lease portfolio is based on our allowance methodology which considers various credit performance measures such as historical and current net charge offs, the levels and trends of nonaccrual and classified loans and leases, the migration of loans and leases into various risk classifications, and the overall level of outstanding loans and leases. For originated and acquired non impaired loans, a provision for credit losses may be recorded to reflect credit deterioration after the origination date or after the acquisition date, respectively. For purchased credit impaired ("PCI") loans, a provision for credit losses may be recorded to reflect decreases in expected cash flows on such loans compared to those previously estimated. We regularly review our loans and leases to determine whether there has been any deterioration in credit quality stemming from borrower operations or changes in collateral value or other factors which may affect collectability of our loans and leases. Changes in economic conditions, such as the rate of economic growth, the rate of inflation, the unemployment rate, increases in the general level of interest rates, declines in real estate values, changes in commodity prices (such as crude oil), and adverse conditions in borrowers' businesses, could negatively impact our borrowers and cause us to adversely classify loans and leases. An increase in classified loans and leases generally results in increased provisions for credit losses and an increased allowance for credit losses. Any deterioration in the commercial real estate market may lead to increased provisions for credit losses because of our concentration in commercial real estate loans.

The Level of Our Noninterest Expense

Our noninterest expense includes fixed and controllable overhead, the major components of which are compensation, occupancy, data processing, and other professional services. It also includes costs that tend to vary based on the volume of activity, such as loan and lease production and the number and complexity of foreclosed assets. We measure success in controlling both fixed and variable costs through monitoring of the efficiency ratio. We calculate the efficiency ratio by dividing noninterest expense (less intangible asset amortization, net foreclosed assets expense (income), and acquisition, integration and reorganization costs) by net revenues (the sum of tax-equivalent net interest income plus noninterest income, less gain (loss) on sale of securities and gain (loss) on sales of assets other than loans and leases).

The following table presents our consolidated efficiency ratios for the periods indicated:

Quarterly Period in 2015:	Efficiency Ratio
First	36.9%
Second	38.0%
Third	39.6%
Fourth	39.3%

The following table presents the calculation of our efficiency ratio for the years indicated:

Efficiency Ratio:	Year Ended December 31,			
	2015	2014	2013	
	(Dollars in thousands)			
Noninterest expense	\$382,039	\$405,592	\$228,165	
Less: Intangible asset amortization	9,410	6,268	5,402	
Foreclosed assets (income) expense, net	(668) 5,401	(1,503)
Acquisition, integration, and reorganization costs	21,247	101,016	40,812	
Noninterest expense used for efficiency ratio	\$352,050	\$292,907	\$183,454	
Net interest income (tax equivalent)	\$834,814	\$668,769	\$303,515	
Noninterest income	84,310	42,187	4,244	
Net revenues	919,124	710,956	307,759	
Less: Gain on securities	3,744	4,841	5,359	
Gain on sale of owned office building	—	1,570	—	
Net revenues used for efficiency ratio	\$915,380	\$704,545	\$302,400	
Efficiency ratio ⁽¹⁾	38.5	% 41.6	% 60.7	%

(1) Noninterest expense used for efficiency ratio divided by net revenues used for efficiency ratio.

Adjusted Net Earnings

Our net earnings for 2015 totaled \$299.6 million and our adjusted net earnings for 2015 totaled \$287.4 million. Adjusted net earnings is another measure of earnings used as an indicator of our earnings generating capability, excluding non-recurring and/or volatile items. We calculate adjusted net earnings by excluding accelerated discount accretion from the early payoff of acquired loans, net FDIC loss sharing expense, gain (loss) on the sale of assets (including loans and leases, securities, and an owned office building), covered OREO expense, and acquisition, integration and reorganization costs. This non-GAAP financial measure and others are presented for supplemental information purposes only in order to understand the Company's operating results and these non-GAAP financial measures should not be considered a substitute for financial information presented in accordance with United States generally accepted accounting principles ("U.S. GAAP"). See "-Non-GAAP Measurements" for a reconciliation of net earnings to adjusted net earnings.

Critical Accounting Policies

The following discussion and analysis of financial condition and results of operations are based upon our consolidated financial statements and the notes thereto, which have been prepared in accordance with U.S. GAAP. The preparation of the consolidated financial statements requires us to make a number of estimates and assumptions that affect the reported amounts and disclosures in the consolidated financial statements. On an ongoing basis, we evaluate our estimates and assumptions based upon historical experience and various other factors and circumstances. We believe that our estimates and assumptions are reasonable; however, actual results may differ significantly from these estimates and assumptions, which could have a material impact on the carrying value of assets and liabilities at the balance sheet dates and on our results of operations for the reporting periods.

Our significant accounting policies and practices are described in Note 1. Nature of Operations and Summary of Significant Accounting Policies, of the Notes to Consolidated Financial Statements contained in "Item 8. Financial Statements and Supplementary Data." We have identified several policies as being critical because they require management to make particularly difficult, subjective and/or complex judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts would be reported under different conditions or using different assumptions. These policies relate to the allowance for credit losses, the carrying values of intangible assets, the realization of deferred income tax assets, and the accounting for business combinations.

Allowance for Credit Losses on Non-Purchased Credit Impaired Loans and Leases

The allowance for credit losses on non-purchased credit impaired ("Non-PCI") loans and leases is the combination of the allowance for loan and lease losses and the reserve for unfunded loan commitments. The allowance for loan and lease losses is reported as a reduction of outstanding loan and lease balances and the reserve for unfunded loan commitments is included within "Accrued interest payable and other liabilities" on the consolidated balance sheets. The following discussion is for Non-PCI loans and leases and the allowance for credit losses thereon. Refer to "—Allowance for Credit Losses on Purchased Credit Impaired Loans" for the policy on PCI loans. For loans and leases acquired and measured at fair value and deemed non-impaired on the acquisition date, our allowance methodology measures deterioration in credit quality or other inherent risks related to these acquired assets that may occur after the acquisition date.

The allowance for loan and lease losses is maintained at a level deemed appropriate by management to adequately provide for known and inherent risks in the loan and lease portfolio and other extensions of credit at the balance sheet date. The allowance is based upon our continual review of the credit quality of the loan and lease portfolio, which includes loan and lease payment trends, borrowers' compliance with loan agreements, borrowers' current and budgeted financial performance, collateral valuation trends, and current economic factors and external conditions that may affect our borrowers' ability to pay. Loans and leases that are deemed to be uncollectable are charged off and deducted from the allowance. The provision for loan and lease losses and recoveries on loans and leases previously charged off are added to the allowance.

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

A loan or lease is considered impaired when it is probable that we will be unable to collect all amounts due according to the original contractual terms of the agreement. We assess our loans and leases for impairment on an on-going basis using certain criteria such as payment performance, borrower reported financial results and budgets, and other external factors when appropriate. We measure impairment of a loan based upon the fair value of the loan's collateral if the loan is collateral-dependent or the present value of cash flows, discounted at the loan's effective interest rate, if the loan is not collateral-dependent. We measure impairment of a lease based upon the present value of the scheduled lease and residual cash flows, discounted at the lease's effective interest rate. To the extent a loan or lease balance exceeds the estimated collectable value, a specific reserve or charge-off is recorded depending upon the certainty of the estimate of loss. Smaller balance loans and leases (under \$250,000), with a few exceptions for certain loan types, are generally not individually assessed for impairment but are evaluated collectively.

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

The subjective criteria we consider when establishing the loss factors include the following:

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

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

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

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

Special Mention: Loans and leases classified as "special mention" have a potential weakness that requires management's attention. If not addressed, these potential weaknesses may result in further deterioration in the borrower's ability to repay the loan or lease.

Substandard: Loans and leases classified as "substandard" have a well-defined weakness or weaknesses that jeopardize the collection of the debt. They are characterized by the possibility that we will sustain some loss if the weaknesses are not corrected.

Doubtful: Loans and leases classified as "doubtful" have all the weaknesses of those classified as "substandard," with the additional trait that the weaknesses make collection or repayment in full highly questionable and improbable. In addition, we may refer to the loans and leases with a credit risk rating of either "substandard" or "doubtful" as "classified" loans and leases. For further information on classified loans and leases, see Note 7. Loans and Leases, of the Notes to Consolidated Financial Statements contained in "Item 8. Financial Statements and Supplementary Data." We believe that the allowance for credit losses is appropriate for the known and inherent risks in our Non-PCI loan and lease portfolio and that the credit risk ratings and inherent loss rates currently assigned are appropriate. It is possible that others, given the same information, may at any point in time reach different conclusions that could result in a significant impact to the Company's financial statements. In addition, current credit risk ratings are subject to change as we continue to monitor our loans and leases. To the extent we experience, for example, increased levels of documentation deficiencies, adverse changes in collateral values, or negative changes in economic and business conditions that adversely affect our borrowers, our classified loans and leases may increase. Higher levels of classified loans and leases generally result in increased provisions for credit losses and an increased allowance for credit losses. Although we have established an allowance for credit losses that we consider appropriate, there can be no assurance that the established allowance will be sufficient to absorb related losses in the future.

Allowance for Credit Losses on Purchased Credit Impaired Loans

The purchased credit impaired ("PCI") loans are subject to our internal and external credit review. For PCI loans, the allowance for loan losses is measured at the end of each financial reporting period based on expected cash flows. Decreases or increases in the amount and changes in the timing of expected cash flows on the PCI loans as of the financial reporting date compared to those previously estimated are usually recognized by recording a provision or a negative provision for credit losses on such loans. If deterioration in the expected cash flows results in a reserve requirement, a provision for credit losses is charged to earnings.

Business Combinations

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

Goodwill and Other Intangible Assets

Goodwill and intangible assets arise from the acquisition method of accounting for business combinations. Goodwill and other intangible assets generated from business combinations and deemed to have indefinite lives are not subject to amortization and are instead tested for impairment at least annually.

Our other intangible assets with definite lives include core deposit and customer relationship intangibles. The establishment and subsequent amortization of these intangible assets requires several assumptions including, among other things, the estimated cost to service deposits acquired, discount rates, estimated attrition rates and useful lives. These intangibles are being amortized over their estimated useful lives up to 10 years and tested for impairment quarterly. If the value of the core deposit intangible or the customer relationship intangible is determined to be less than the carrying value in future periods, a write-down would be taken through a charge to our earnings. The most significant element in evaluation of these intangibles is the attrition rate of the acquired deposits or loan relationships. If such attrition rate were to accelerate from that which we expected, the intangible asset may have to be reduced by a charge to earnings. The attrition rate related to deposit flows or loan flows is influenced by many factors, the most significant of which are alternative yields for loans and deposits available to customers and the level of competition from other financial institutions and financial services companies.

Deferred Income Tax Assets

Our deferred income tax assets arise from differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and net operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. From an accounting standpoint, we determine whether a deferred tax asset is realizable based on facts and circumstances, including our current and projected future tax position, the historical level of our taxable income, and estimates of our future taxable income. In most cases, the realization of deferred tax assets is based on our future profitability. If we were to experience either reduced profitability or operating losses in a future period, the realization of our deferred tax assets may no longer be considered more likely than not and, accordingly, we could be required to record a valuation allowance on our deferred tax assets by charging earnings.

Non-GAAP Measurements

We use certain non-GAAP financial measures to provide meaningful supplemental information regarding the Company's operational performance and to enhance investors' overall understanding of such financial performance. The non-GAAP measures used in this Form 10-K include the following:

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

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

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

Adjusted allowance for credit losses to loans and leases: As the allowance for credit losses takes into consideration credit deterioration on acquired loans and leases only after the purchase date and an estimate of credit losses is included in their initial fair values, we disclose the adjusted allowance for credit losses to loans and leases in addition to the allowance for credit losses to loans and leases. The adjusted allowance for credit losses to loans and leases excludes acquired loans and leases and the related allowance.

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

The following tables present performance amounts and ratios in accordance with GAAP and a reconciliation of the non GAAP financial measurements to the GAAP financial measurements:

Adjusted Net Earnings and Related Ratios:	Year Ended December 31,			
	2015	2014	2013	
	(In thousands)			
Net earnings	\$299,619	\$168,905	\$45,115	
Less: Tax benefit on discontinued operations	—	(1,114)	(258))
Add: Tax expense on continuing operations	180,517	117,005	32,525	
Pre-tax earnings	480,136	284,796	77,382	
Add: Acquisition, integration, and reorganization costs	21,247	101,016	40,812	
Less: FDIC loss sharing expense, net	(18,246)	(31,730)	(26,172))
Gain on sale of loans and leases	373	601	1,791	
Gain on securities	3,744	4,841	5,359	
Covered OREO income, net	2,931	1,172	1,833	
Gain on sale of owned office building	—	1,570	—	
Adjusted pre-tax earnings before accelerated discount accretion	512,581	409,358	135,383	
Less: Accelerated discount accretion from early payoffs of acquired loans	51,969	38,867	4,393	
Adjusted pre-tax earnings	460,612	370,491	130,990	
Tax expense ⁽¹⁾	(173,190)	(150,790)	(54,623))
Adjusted net earnings	\$287,422	\$219,701	\$76,367	
Average assets	\$17,578,844	\$13,322,388	\$6,116,853	
Average stockholders' equity	\$3,751,995	\$2,763,726	\$718,920	
Less: Average intangible assets	1,850,988	1,342,286	172,096	
Average tangible common equity	\$1,901,007	\$1,421,440	\$546,824	
Return on average assets ⁽²⁾	1.70	% 1.27	% 0.74	%
Return on average equity ⁽³⁾	7.99	% 6.11	% 6.28	%
Return on average tangible equity ⁽⁴⁾	15.76	% 11.88	% 8.25	%
Adjusted return on average assets ⁽⁵⁾	1.64	% 1.65	% 1.25	%
Adjusted return on average equity ⁽⁶⁾	7.66	% 7.95	% 10.62	%
Adjusted return on average tangible equity ⁽⁷⁾	15.12	% 15.46	% 13.97	%

(1) Actual effective tax rate of 37.6%, 40.7% and 41.7% used in 2015, 2014 and 2013.

(2) Net earnings divided by average assets.

(3) Net earnings divided by average stockholders' equity.

(4) Net earnings divided by average tangible common equity.

(5) Adjusted net earnings divided by average assets.

(6) Adjusted net earnings divided by average stockholders' equity.

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

	December 31,		
	2015	2014	2013
Tangible Common Equity:	(Dollars in thousands)		
PacWest Bancorp Consolidated:			
Stockholders' equity	\$4,397,691	\$3,506,230	\$808,898
Less: Intangible assets	2,229,511	1,737,683	225,991
Tangible common equity	\$2,168,180	\$1,768,547	\$582,907
Total assets	\$21,288,490	\$16,234,605	\$6,533,168
Less: Intangible assets	2,229,511	1,737,683	225,991
Tangible assets	\$19,058,979	\$14,496,922	\$6,307,177
Equity to assets ratio	20.66	% 21.60	% 12.38
Tangible common equity ratio ⁽¹⁾	11.38	% 12.20	% 9.24
Book value per share	\$36.22	\$34.03	\$17.65
Tangible book value per share	\$17.86	\$17.17	\$12.72
Shares outstanding	121,413,727	103,022,017	45,822,834
Pacific Western Bank:			
Stockholders' equity	\$4,276,279	\$3,378,879	\$911,005
Less: Intangible assets	2,229,511	1,737,683	225,991
Tangible common equity	\$2,046,768	\$1,641,196	\$685,014
Total assets	\$21,180,689	\$15,995,719	\$6,523,547
Less: Intangible assets	2,229,511	1,737,683	225,991
Tangible assets	\$18,951,178	\$14,258,036	\$6,297,556
Equity to assets ratio	20.19	% 21.12	% 13.96
Tangible common equity ratio ⁽¹⁾	10.80	% 11.51	% 10.88

(1) Tangible common equity divided by tangible assets.

	December 31,		
	2015	2014	2013
Adjusted Allowance for Credit Losses to Loans and Leases (Excludes PCI Loans):	(Dollars in thousands)		
Allowance for credit losses	\$122,268	\$76,767	\$67,816
Less: Allowance related to acquired Non-PCI loans and leases	19,127	4,184	607
Adjusted allowance for credit losses	\$103,141	\$72,583	\$67,209
Gross Non-PCI loans and leases	\$14,339,070	\$11,613,832	\$3,930,539
Less: Carrying value of acquired Non-PCI loans and leases	6,030,921	6,562,237	1,060,172
Adjusted loans and leases	\$8,308,149	\$5,051,595	\$2,870,367
Allowance for credit losses to loans and leases ⁽¹⁾	0.85	% 0.66	% 1.73
Adjusted allowance for credit losses to loans and leases ⁽²⁾	1.24	% 1.44	% 2.34

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

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

Results of Operations

Acquisitions Impact Earnings Performance

The comparability of financial information is affected by our acquisitions. We completed the following three acquisitions during the three years ended December 31, 2015: (1) FCAL on May 31, 2013, (2) CapitalSource Inc. on April 7, 2014 and (3) Square 1 Financial, Inc. on October 6, 2015. These acquisitions have been accounted for using the acquisition method of accounting and, accordingly, their operating results have been included in the consolidated financial statements from their respective acquisition dates.

Net Interest Income

Net interest income, which is our principal source of revenue, represents the difference between interest earned on interest earning assets and interest paid on interest bearing liabilities. Net interest margin is net interest income expressed as a percentage of average interest earning assets. Net interest income is affected by changes in both interest rates and the volume of average interest earning assets and interest bearing liabilities.

Edgar Filing: PACWEST BANCORP - Form 10-K

The following table presents, for the years indicated, the distribution of average assets, liabilities and stockholders' equity, as well as interest income and yields earned on average interest earning assets and interest expense and rates paid on average interest bearing liabilities presented on a tax equivalent basis:

	Year Ended December 31, 2015			2014			2013		
	Average Balance	Interest Income/ Expense	Yields and Rates	Average Balance	Interest Income/ Expense	Yields and Rates	Average Balance	Interest Income/ Expense	Yields and Rates
	(Dollars in thousands)								
ASSETS:									
PCI loans	\$212,630	\$31,909	15.01 %	\$347,124	\$57,105	16.45 %	\$447,059	\$47,503	10.63 %
Non-PCI loans and leases	12,368,432	787,185	6.36 %	9,079,217	599,992	6.61 %	3,528,278	225,223	6.38 %
Total loans and leases ⁽¹⁾	12,581,062	819,094	6.51 %	9,426,341	657,097	6.97 %	3,975,337	272,726	6.86 %
Investment securities ⁽²⁾	2,150,408	75,836	3.53 %	1,574,294	53,737	3.41 %	1,460,516	42,725	2.93 %
Deposits in financial institutions	182,804	476	0.26 %	129,920	333	0.26 %	104,092	265	0.25 %
Total interest earning assets ⁽²⁾	14,914,274	895,406	6.00 %	11,130,555	711,167	6.39 %	5,539,945	315,716	5.70 %
Other assets	2,664,570			2,191,833			576,908		
Total assets	\$17,578,844			\$13,322,388			\$6,116,853		
LIABILITIES AND STOCKHOLDERS’ EQUITY:									
Interest checking deposits	\$786,702	\$1,041	0.13 %	\$634,435	\$434	0.07 %	\$582,408	\$303	0.05 %
Money market deposits	2,473,556	4,794	0.19 %	1,667,322	3,333	0.20 %	1,400,065	2,455	0.18 %
Savings deposits	747,688	2,020	0.27 %	618,398	1,709	0.28 %	194,300	63	0.03 %
Time deposits	5,128,028	33,648	0.66 %	4,363,819	21,856	0.50 %	753,122	5,047	0.67 %
Total interest bearing deposits	9,135,974	41,503	0.45 %	7,283,974	27,332	0.38 %	2,929,895	7,868	0.27 %
Borrowings	194,468	554	0.28 %	92,767	496	0.53 %	12,979	537	4.14 %
Subordinated debentures	433,752	18,535	4.27 %	353,828	14,570	4.12 %	122,649	3,796	3.10 %
Total interest bearing liabilities	9,764,194	60,592	0.62 %	7,730,569	42,398	0.55 %	3,065,523	12,201	0.40 %
Noninterest bearing demand deposits	3,916,702			2,652,076			2,186,697		
Other liabilities	145,953			176,017			145,713		
Total liabilities	13,826,849			10,558,662			5,397,933		
Stockholders’ equity	3,751,995			2,763,726			718,920		

Edgar Filing: PACWEST BANCORP - Form 10-K

Total liabilities and stockholders' equity	\$17,578,844	\$13,322,388	\$6,116,853
Net interest income (tax equivalent) ⁽²⁾	\$834,814	\$668,769	\$303,515
Net interest rate spread	5.38 %	5.84 %	5.30 %
Net interest margin	5.60 %		