

PACWEST BANCORP  
Form 10-Q  
August 08, 2017

---

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended June 30, 2017

Commission File No. 001-36408

PACWEST BANCORP

(Exact name of registrant as specified in its charter)

Delaware 33-0885320

(State of Incorporation) (I.R.S. Employer Identification No.)

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)

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 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

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

As of July 27, 2017, there were 120,048,067 shares of the registrant's common stock outstanding, excluding 1,397,993 shares of unvested restricted stock.

---



PACWEST BANCORP  
JUNE 30, 2017 QUARTERLY REPORT ON FORM 10-Q  
TABLE OF CONTENTS

|   | Page      |
|---|-----------|
| <b>PART I. FINANCIAL INFORMATION</b>  |           |
| Item 1. Condensed Consolidated Financial Statements (Unaudited)                               |           |
| Condensed Consolidated Balance Sheets (Unaudited)   | <u>4</u>  |
| Condensed Consolidated Statements of Earnings (Unaudited)                                     | <u>5</u>  |
| Condensed Consolidated Statements of Comprehensive Income (Unaudited)                         | <u>6</u>  |
| Condensed Consolidated Statement Changes in Stockholders' Equity (Unaudited)                  | <u>7</u>  |
| Condensed Consolidated Statements of Cash Flows (Unaudited)                                   | <u>8</u>  |
| Notes to Condensed Consolidated Financial Statements (Unaudited)                              | <u>10</u> |
| Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations | <u>41</u> |
| Item 3. Quantitative and Qualitative Disclosures About Market Risk                            | <u>71</u> |
| Item 4. Controls and Procedures   | <u>74</u> |
| <b>PART II. OTHER INFORMATION</b>   |           |
| Item 1. Legal Proceedings   | <u>75</u> |
| Item 1A. Risk Factors   | <u>75</u> |
| Item 2. Unregistered Sales of Equity Securities and Use of Proceeds                           | <u>75</u> |
| Item 6. Index to Exhibits   | <u>76</u> |
| Signatures  | <u>77</u> |

Edgar Filing: PACWEST BANCORP - Form 10-Q

PART I

Glossary of Acronyms, Abbreviations, and Terms

The acronyms, abbreviations, and terms listed below are used in various sections of this Form 10-Q, including "Item 1. Financial Statements" and "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations."

|                        |   |                                    |  |
|------------------------|---|------------------------------------|--|
| ALM                    | Asset Liability Management  | FRB                                | Board of Governors of the Federal Reserve System   |
| ASC                    | Accounting Standards Codification   | FRBSF                              | Federal Reserve Bank of San Francisco  |
| ASU                    | Accounting Standards Update   | IRR                                | Interest Rate Risk   |
| Basel III              | A comprehensive capital framework and rules for U.S. banking organizations approved by the FRB and the FDIC in 2013.  | MBS                                | Mortgage-Backed Securities   |
| BHCA                   | Bank Holding Company Act of 1956, as amended  | MVE                                | Market Value of Equity   |
| BOLI                   | Bank Owned Life Insurance   | NII                                | Net Interest Income  |
| CapitalSource Inc.     | A company acquired on April 7, 2014   | NIM                                | Net Interest Margin  |
| CapitalSource Division | A division of Pacific Western Bank, formed at the closing of the CapitalSource Inc. merger  | Non-PCI                            | Non-Purchased Credit Impaired  |
| C&I                    | Commercial and Industrial   | OREO                               | Other Real Estate Owned  |
| CDI                    | Core Deposit Intangible Assets  | PWEF                               | Pacific Western Equipment Finance, a leasing unit sold March 31, 2016  |
| CET1                   | Common Equity Tier 1  | PCI                                | Purchased Credit Impaired  |
| CMOs                   | Collateralized Mortgage Obligations   | PRSU <sub>s</sub>                  | Performance-Based Restricted Stock Units   |
| CRI                    | Customer Relationship Intangible Assets   | S1AM                               | Square 1 Asset Management, Inc.  |
| CUB                    | CU Bancorp  | SBA                                | Small Business Administration  |
| CU Bank                | California United Bank  | SEC                                | Securities and Exchange Commission   |
| DBO                    | California Department of Business Oversight   | Square 1                           | Square 1 Financial, Inc. (a company acquired on October 6, 2015)   |
| Dodd-Frank Act         | Dodd-Frank Wall Street Reform and Consumer Protection Act   | Square 1 Bank Division             | A division of Pacific Western Bank formed at the closing of the Square 1 acquisition                             |
| Efficiency Ratio       | Noninterest expense (less intangible asset amortization, net foreclosed assets income/expense, and acquisition, integration, and reorganization costs) divided 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) | Tax Equivalent Net Interest Income | Net interest income adjusted for tax-equivalent adjustments related to tax-exempt income on municipal securities |
| FASB                   | Financial Accounting Standards Board  | Tax Equivalent NIM                 | NIM adjusted for tax-equivalent adjustments related to tax-exempt income on municipal securities                 |
| FCAL                   | First California Financial Group, Inc. (a company acquired on May 31, 2013)   | TDR <sub>s</sub>                   | Troubled Debt Restructurings   |

Edgar Filing: PACWEST BANCORP - Form 10-Q

|      |   |           |   |
|------|---|-----------|---|
| FDIC | Federal Deposit Insurance Corporation   | TRSAs     | Time-Based Restricted Stock Awards            |
| FHLB | Federal Home Loan Bank of San Francisco | U.S. GAAP | U.S. Generally Accepted Accounting Principles |

3

---

## ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

PACWEST BANCORP AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

|   | June 30,<br>2017<br>(Unaudited)                     | December<br>31,<br>2016<br>(Unaudited) |
|---|---|--|
|   | (Dollars in thousands,<br>except par value amounts) |  |
| <b>ASSETS:</b>  |   |  |
| Cash and due from banks   | \$ 180,330  | \$ 337,965                             |
| Interest-earning deposits in financial institutions   | 107,150   | 81,705                                 |
| Total cash and cash equivalents   | 287,480   | 419,670                                |
| Securities available-for-sale, at fair value  | 3,474,560   | 3,223,830                              |
| Federal Home Loan Bank stock, at cost   | 22,059  | 21,870                                 |
| Total investment securities   | 3,496,619   | 3,245,700                              |
| Loans held for sale, at lower of cost or fair value   | 175,158   | —                                      |
| Gross loans and leases held for investment  | 15,609,180  | 15,520,537                             |
| Deferred fees, net  | (65,723)  | (64,583)                               |
| Allowance for loan and lease losses   | (145,958)   | (157,238)                              |
| Total loans and leases held for investment, net   | 15,397,499  | 15,298,716                             |
| Equipment leased to others under operating leases   | 203,212   | 229,905                                |
| Premises and equipment, net   | 29,108  | 38,594                                 |
| Foreclosed assets, net  | 13,278  | 12,976                                 |
| Deferred tax asset, net   | 70,354  | 94,112                                 |
| Goodwill  | 2,173,949   | 2,173,949                              |
| Core deposit and customer relationship intangibles, net   | 30,237  | 36,366                                 |
| Other assets  | 369,983   | 319,779                                |
| Total assets  | \$ 22,246,877                                       | \$ 21,869,767                          |
| <b>LIABILITIES:</b>   |   |  |
| Noninterest-bearing deposits  | \$ 6,701,039  | \$ 6,659,016                           |
| Interest-bearing deposits   | 10,173,938  | 9,211,595                              |
| Total deposits  | 16,874,977  | 15,870,611                             |
| Borrowings  | 217,454   | 905,812                                |
| Subordinated debentures   | 445,743   | 440,744                                |
| Accrued interest payable and other liabilities  | 148,798   | 173,545                                |
| Total liabilities   | 17,686,972  | 17,390,712                             |
| Commitments and contingencies (Note 7)  |   |  |
| <b>STOCKHOLDERS' EQUITY:</b>  |   |  |
| Preferred stock (\$0.01 par value; 5,000,000 shares authorized; none issued and outstanding)  | —   | —                                      |
| Common stock (\$0.01 par value, 200,000,000 shares authorized at June 30, 2017 and December 31, 2016, 123,116,527 and 122,803,029 shares issued, respectively, including 1,400,254 and 1,476,132 shares of unvested restricted stock, respectively) | 1,231   | 1,228                                  |
| Additional paid-in capital  | 4,054,895   | 4,162,132                              |

Edgar Filing: PACWEST BANCORP - Form 10-Q

|   |              |              |
|---|--------------|--------------|
| Retained earnings   | 537,968      | 366,073      |
| Treasury stock, at cost (1,668,206 and 1,519,360 shares at June 30, 2017 and December 31, 2016) | (63,918 )    | (56,360 )    |
| Accumulated other comprehensive income, net   | 29,729       | 5,982        |
| Total stockholders' equity  | 4,559,905    | 4,479,055    |
| Total liabilities and stockholders' equity  | \$22,246,877 | \$21,869,767 |

See Notes to Condensed Consolidated Financial Statements.

PACWEST BANCORP AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

|   | Three Months Ended                               |            |            | Six Months Ended |             |
|---|--|------------|------------|------------------|-------------|
|   | June 30,   | March 31,  | June 30,   | June 30,         |             |
|   | 2017   | 2017       | 2016       | 2017             | 2016        |
|   | (Unaudited)                                      |            |            |                  |             |
|   | (Dollars in thousands, except per share amounts) |            |            |                  |             |
| Interest income:                                      |  |            |            |                  |             |
| Loans and leases                                      | \$234,618  | \$224,178  | \$224,326  | \$458,796        | \$460,701   |
| Investment securities                                 | 24,689   | 23,039     | 22,420     | 47,728           | 44,967      |
| Deposits in financial institutions                    | 237  | 192        | 308        | 429              | 616         |
| Total interest income                                 | 259,544  | 247,409    | 247,054    | 506,953          | 506,284     |
| Interest expense:                                     |  |            |            |                  |             |
| Deposits  | 10,205   | 8,377      | 7,823      | 18,582           | 16,896      |
| Borrowings  | 1,066  | 1,018      | 352        | 2,084            | 933         |
| Subordinated debentures                               | 5,800  | 5,562      | 5,122      | 11,362           | 10,104      |
| Total interest expense                                | 17,071   | 14,957     | 13,297     | 32,028           | 27,933      |
| Net interest income                                   | 242,473  | 232,452    | 233,757    | 474,925          | 478,351     |
| Provision for credit losses                           | 11,499   | 24,728     | 13,903     | 36,227           | 34,043      |
| Net interest income after provision for credit losses | 230,974  | 207,724    | 219,854    | 438,698          | 444,308     |
| Noninterest income:                                   |  |            |            |                  |             |
| Service charges on deposit accounts                   | 3,510  | 3,758      | 3,633      | 7,268            | 7,489       |
| Other commissions and fees                            | 10,583   | 10,390     | 11,073     | 20,973           | 22,562      |
| Leased equipment income                               | 11,635   | 9,475      | 8,523      | 21,110           | 16,767      |
| Gain on sale of loans and leases                      | 649  | 712        | 388        | 1,361            | 633         |
| Gain (loss) on sale of securities                     | 1,651  | (99)       | ) 478      | 1,552            | 8,588       |
| FDIC loss sharing expense, net                        | —  | —          | (6,502)    | ) —              | (8,917)     |
| Other income  | 7,254  | 10,878     | 4,528      | 18,132           | 9,538       |
| Total noninterest income                              | 35,282   | 35,114     | 22,121     | 70,396           | 56,660      |
| Noninterest expense:                                  |  |            |            |                  |             |
| Compensation  | 65,288   | 64,880     | 62,174     | 130,168          | 123,239     |
| Occupancy   | 11,811   | 11,608     | 12,193     | 23,419           | 24,825      |
| Data processing                                       | 6,337  | 7,015      | 5,644      | 13,352           | 11,548      |
| Other professional services                           | 3,976  | 3,378      | 3,401      | 7,354            | 6,973       |
| Insurance and assessments                             | 4,856  | 4,791      | 4,951      | 9,647            | 9,916       |
| Intangible asset amortization                         | 3,065  | 3,064      | 4,371      | 6,129            | 9,117       |
| Leased equipment depreciation                         | 5,232  | 5,625      | 5,286      | 10,857           | 10,310      |
| Foreclosed assets (income) expense, net               | (157)  | ) 143      | (3)        | ) (14)           | ) (564)     |
| Acquisition, integration and reorganization costs     | 1,700  | 500        | —          | 2,200            | 200         |
| Loan expense  | 3,884  | 3,387      | 2,145      | 7,271            | 4,300       |
| Other expense   | 11,715   | 12,153     | 9,919      | 23,868           | 20,905      |
| Total noninterest expense                             | 117,707  | 116,544    | 110,081    | 234,251          | 220,769     |
| Earnings before income taxes                          | 148,549  | 126,294    | 131,894    | 274,843          | 280,199     |
| Income tax expense                                    | (54,902)   | ) (47,626) | ) (49,726) | ) (102,528)      | ) (107,575) |
| Net earnings  | \$93,647   | \$78,668   | \$82,168   | \$172,315        | \$172,624   |
| Earnings per share:                                   |  |            |            |                  |             |
| Basic   | \$0.77   | \$0.65     | \$0.68     | \$1.42           | \$1.42      |
| Diluted   | \$0.77   | \$0.65     | \$0.68     | \$1.42           | \$1.42      |



Edgar Filing: PACWEST BANCORP - Form 10-Q

|                              |        |        |        |        |        |
|------------------------------|--------|--------|--------|--------|--------|
| Dividends declared per share | \$0.50 | \$0.50 | \$0.50 | \$1.00 | \$1.00 |
|------------------------------|--------|--------|--------|--------|--------|

See Notes to Condensed Consolidated Financial Statements.

5

---

PACWEST BANCORP AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

|  | Three Months Ended              |  |                  | Six Months Ended |           |
|--|---------------------------------|--|------------------|------------------|-----------|
|  | June 30,<br>2017<br>(Unaudited) | March<br>31,<br>2017<br>(In thousands) | June 30,<br>2016 | June 30,<br>2017 | 2016      |
| Net earnings   | \$93,647                        | \$78,668                               | \$82,168         | \$172,315        | \$172,624 |
| Other comprehensive income (loss), net of tax:   |                                 |  |                  |                  |           |
| Unrealized net holding gains on securities available-for-sale arising during the period    | 30,340                          | 11,184                                 | 56,514           | 41,524           | 99,607    |
| Income tax expense related to net unrealized holding gains arising during the period       | (12,350 )                       | (4,507 )                               | (22,965 )        | (16,857 )        | (40,620 ) |
| Unrealized net holding gains on securities available-for-sale, net of tax                  | 17,990                          | 6,677                                  | 33,549           | 24,667           | 58,987    |
| Reclassification adjustment for net (gains) losses included in net earnings <sup>(1)</sup> | (1,651 )                        | 99                                     | (478 )           | (1,552 )         | (8,588 )  |
| Income tax expense (benefit) related to reclassification adjustment                        | 672                             | (40 )                                  | 194              | 632              | 3,517     |
| Reclassification adjustment for net (gains) losses included in net earnings, net of tax    | (979 )                          | 59                                     | (284 )           | (920 )           | (5,071 )  |
| Other comprehensive income, net of tax   | 17,011                          | 6,736                                  | 33,265           | 23,747           | 53,916    |
| Comprehensive income   | \$110,658                       | \$85,404                               | \$115,433        | \$196,062        | \$226,540 |

(1) Entire amounts are recognized in "Gain on sale of securities" on the Condensed Consolidated Statements of Earnings.

See Notes to Condensed Consolidated Financial Statements.

PACWEST BANCORP AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

|   | Six Months Ended June 30, 2017 |           |                 |           |            | Accumulated          |             |
|---|--------------------------------|-----------|-----------------|-----------|------------|----------------------|-------------|
|   | Common Stock                   |           | Additional      | Retained  | Treasury   | Other                |             |
|   | Shares                         | Par Value | Paid-in Capital | Earnings  | Stock      | Comprehensive Income | Total       |
|   | (Unaudited)                    |           |                 |           |            |                      |             |
|   | (Dollars in thousands)         |           |                 |           |            |                      |             |
| Balance, December 31, 2016  | 121,283,669                    | \$1,228   | \$4,162,132     | \$366,073 | \$(56,360) | \$ 5,982             | \$4,479,055 |
| Cumulative effect of change in accounting principle (1)                         | —                              | —         | 711             | (420 )    | —          | —                    | 291         |
| Net earnings  | —                              | —         | —               | 172,315   | —          | —                    | 172,315     |
| Other comprehensive income - net  |                                |           |                 |           |            |                      |             |
| unrealized gain on securities available-for-sale, net of tax                    | —                              | —         | —               | —         | —          | 23,747               | 23,747      |
| Restricted stock awarded and earned stock compensation, net of shares forfeited | 313,498                        | 3         | 13,716          | —         | —          | —                    | 13,719      |
| Restricted stock surrendered  | (148,846 )                     | —         | —               | —         | (7,558 )   | —                    | (7,558 )    |
| Cash dividends paid   | —                              | —         | (121,664 )      | —         | —          | —                    | (121,664 )  |
| Balance, June 30, 2017  | 121,448,321                    | \$1,231   | \$4,054,895     | \$537,968 | \$(63,918) | \$ 29,729            | \$4,559,905 |

(1) Impact due to adoption on January 1, 2017 of ASU 2016-09, "Improvements to Employee Share-Based Payment Accounting."

See Notes to Condensed Consolidated Financial Statements.

PACWEST BANCORP AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

|   | Six Months Ended<br>June 30, |            |
|---|------------------------------|------------|
|   | 2017                         | 2016       |
|   | (Unaudited)                  |            |
|   | (In thousands)               |            |
| Cash flows from operating activities:   |                              |            |
| Net earnings  | \$ 172,315                   | \$ 172,624 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: |                              |            |
| Depreciation and amortization   | 15,980                       | 16,522     |
| Amortization of net premiums on securities available-for-sale                       | 20,227                       | 18,174     |
| Amortization of intangible assets   | 6,129                        | 9,117      |
| Provision for credit losses   | 36,227                       | 34,043     |
| Gain on sale of foreclosed assets   | (282                         | ) (534     |
| Provision for losses on foreclosed assets   | 14                           | —          |
| Gain on sale of loans and leases  | (1,361                       | ) (633     |
| Gain on sale of premises and equipment  | (565                         | ) (23      |
| Gain on sale of securities  | (1,552                       | ) (8,588   |
| Gain on BOLI death benefit  | (1,050                       | ) (538     |
| Unrealized gain on derivatives and foreign currencies, net                          | (253                         | ) (569     |
| Earned stock compensation   | 13,719                       | 11,600     |
| Loss on sale of PWEF leasing unit   | —                            | 720        |
| Tax effect included in stockholders' equity of restricted stock vesting             | —                            | (3,683     |
| Decrease in accrued and deferred income taxes, net                                  | 7,823                        | 68,466     |
| Increase in other assets  | (50,973                      | ) (3,031   |
| Decrease in accrued interest payable and other liabilities                          | (31,195                      | ) (40,683  |
| Net cash provided by operating activities   | 185,203                      | 272,984    |
| Cash flows from investing activities:   |                              |            |
| Net increase in loans and leases  | (388,619                     | ) (380,289 |
| Proceeds from sales of loans and leases   | 83,798                       | 78,888     |
| Proceeds from maturities and paydowns of securities available-for-sale              | 217,399                      | 117,684    |
| Proceeds from sales of securities available-for-sale                                | 86,018                       | 353,374    |
| Purchases of securities available-for-sale  | (532,849                     | ) (177,644 |
| Net purchases of Federal Home Loan Bank stock                                       | (189                         | ) (4,504   |
| Proceeds from sales of foreclosed assets  | 1,281                        | 6,602      |
| Purchases of premises and equipment, net  | (4,037                       | ) (3,951   |
| Proceeds from sales of premises and equipment                                       | 10,306                       | 24         |
| Proceeds from sale of leasing unit  | —                            | 138,955    |
| Proceeds from BOLI death benefit  | 2,478                        | 3,034      |
| Net decrease (increase) of equipment leased to others under operating leases        | 17,262                       | (16,060    |
| Net cash (used in) provided by investing activities                                 | (507,152                     | ) 116,113  |
| Cash flows from financing activities:   |                              |            |
| Net increase in noninterest-bearing deposits  | 44,996                       | 53,387     |
| Net increase (decrease) in interest-bearing deposits                                | 962,343                      | (569,414   |
| Net (decrease) increase in borrowings   | (688,358                     | ) 298,324  |
| Restricted stock surrendered  | (7,558                       | ) (4,416   |

Edgar Filing: PACWEST BANCORP - Form 10-Q

|   |            |            |
|---|------------|------------|
| Tax effect included in stockholders' equity of restricted stock vesting | —          | 3,683      |
| Cash dividends paid   | (121,664 ) | (121,794 ) |
| Net cash provided by (used in) financing activities                     | 189,759    | (340,230 ) |
| Net (decrease) increase in cash and cash equivalents                    | (132,190 ) | 48,867     |
| Cash and cash equivalents, beginning of period                          | 419,670    | 396,486    |
| Cash and cash equivalents, end of period                                | \$287,480  | \$445,353  |

See Notes to Condensed Consolidated Financial Statements.

8

---

PACWEST BANCORP AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Six Months  
Ended  
June 30,  
2017 2016  
(Unaudited)  
(In thousands)

Supplemental disclosures of cash flow information:

|   |          |          |
|---|----------|----------|
| Cash paid for interest  | \$30,478 | \$28,558 |
| Cash paid for income taxes                                      | 118,878  | 44,908   |
| Loans transferred to foreclosed assets                          | 580      | 129      |
| Transfers from loans held for investment to loans held for sale | 175,158  | —        |

See Notes to Condensed Consolidated Financial Statements.

## PACWEST BANCORP AND SUBSIDIARIES

### Notes to Condensed Consolidated Financial Statements (Unaudited)

#### NOTE 1. ORGANIZATION

PacWest Bancorp, a Delaware corporation, is a bank holding company registered under the BHCA, with our corporate headquarters located in Beverly Hills, 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 lease and deposit products and services through 74 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 additional products and services through our CapitalSource and Square 1 Bank divisions. Our CapitalSource Division provides cash flow, asset-based, equipment, and real estate loans and treasury management services to established middle market businesses on a national basis. Our Square 1 Bank Division 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. In addition, we provide investment advisory and asset management services to select clients through Square 1 Asset Management, Inc., a wholly-owned subsidiary of the Bank and a SEC-registered investment adviser.

We generate our revenue primarily from interest received on loans and leases and, to a lesser extent, from interest received on investment securities, and fees received in connection with deposit services, extending credit and other services offered, including foreign exchange services. Our major operating expenses are compensation, occupancy, general operating expenses, and the interest paid by the Bank on deposits and borrowings.

We have completed 28 acquisitions from May 1, 2000 through June 30, 2017. Our acquisitions have been accounted for using the acquisition method of accounting and, accordingly, the operating results of the acquired entities have been included in the consolidated financial statements from their respective acquisition dates.

#### CU Bancorp Merger Announcement

On April 6, 2017, PacWest announced the signing of a definitive agreement and plan of merger (the "Agreement") whereby PacWest will acquire CUB in a transaction valued at approximately \$705 million as of the announcement date.

CUB, headquartered in Los Angeles, California, is the parent of CU Bank, a California state-chartered non-member bank, with approximately \$3.0 billion in assets and nine branches located in Los Angeles, Orange, Ventura, and San Bernardino counties at June 30, 2017. In connection with the acquisition, CU Bank will be merged into Pacific Western Bank, the principal operating subsidiary of PacWest.

The acquisition, which was approved by the PacWest and CUB boards of directors, is expected to close in the fourth quarter of 2017 and is subject to customary closing conditions, including obtaining approval by CUB's shareholders and bank regulatory authorities.

#### Significant Accounting Policies

Except as discussed below, our accounting policies are described in Note 1. Nature of Operations and Summary of Significant Accounting Policies, of our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2016 as filed with the Securities and Exchange Commission ("Form 10-K").

PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

Accounting Standard Adopted in 2017

Effective January 1, 2017, the Company adopted ASU 2016-09, "Improvements to Employee Share-Based Accounting." ASU 2016-09 changed aspects of the accounting for share-based payment award transactions, including: (1) accounting for income taxes; (2) classification of excess tax benefits on the statement of cash flows; (3) forfeitures; (4) minimum statutory tax withholding requirements; and (5) classification of employee taxes paid on the statement of cash flows when an employer withholds shares for tax-withholding purposes. The recognition of excess tax benefits and tax deficiencies in the income statement was adopted prospectively. Income tax benefits of \$1.0 million and \$2.1 million were recognized during the three and six months ended June 30, 2017 as a result of the adoption of ASU 2016-09. We expect the requirements of ASU 2016-09 to result in fluctuations in our effective tax rate from period to period based upon the timing of share-based award vestings.

In connection with the adoption of ASU 2016-09, we elected to recognize forfeitures on stock-based compensation awards when they occur, instead of estimating forfeitures at the grant date of the awards and throughout the vesting period. The modified retrospective application of this change in accounting principle resulted in a cumulative adjustment charge to retained earnings of \$420,000, net of income taxes. We elected to present the classification of excess tax benefits on the statement of cash flows using a prospective transition method and the prior period has not been adjusted.

Basis of Presentation

Our interim condensed consolidated financial statements are prepared in accordance with U.S. GAAP for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Article 10 of Regulation S-X of the Securities Exchange Act of 1934. Accordingly, certain disclosures accompanying annual consolidated financial statements are omitted. In the opinion of management, all significant intercompany accounts and transactions have been eliminated and adjustments, consisting solely of normal recurring accruals and considered necessary for the fair presentation of financial statements for the interim periods, have been included. The current period's results of operations are not necessarily indicative of the results that ultimately may be achieved for the year. The interim condensed consolidated financial statements and notes thereto should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Form 10-K.

Use of Estimates

We have made a number of estimates and assumptions related to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenue and expenses during the reporting period to prepare these condensed consolidated financial statements in conformity with U.S. GAAP. Actual results could differ from those estimates. Material estimates subject to change in the near term include, among other items, the allowance for credit losses, the carrying value of intangible assets, the realization of deferred tax assets, and the fair value estimates of assets acquired and liabilities assumed in acquisitions. These estimates may be adjusted as more current information becomes available, and any adjustment may be significant.

Reclassifications

Certain prior period amounts have been reclassified to conform to the current period's presentation format. On the condensed consolidated statements of earnings we are presenting a new line for "Loan expense", as that category has exceeded the disclosure materiality threshold, which previously had been included as part of "Other expense." Included in loan expense are costs related to servicing our loans including legal fees. Regarding time deposits disclosures, prior to 2017 we presented the categories as: (1) under \$100,000, and (2) \$100,000 or more, but now are using the current FDIC insurance limit of \$250,000 and presenting the categories as: (1) \$250,000 and under, and (2) over \$250,000.





## PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

## NOTE 2. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill and other 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 instead are tested for impairment at least annually. Goodwill represents the excess of the purchase price over the fair value of the net assets and other identifiable intangible assets acquired. Impairment exists when the carrying value of the goodwill exceeds its implied fair value. An impairment loss would be recognized in an amount equal to that excess as a charge to "Noninterest expense" in the condensed consolidated statements of earnings.

Our other intangible assets with definite lives include CDI and CRI. CDI and CRI are amortized over their respective estimated useful lives and reviewed for impairment at least quarterly. The amortization expense represents the estimated decline in the value of the underlying deposits or loan and lease customers acquired. The weighted average amortization period remaining for all of our CDI and CRI as of June 30, 2017 is 4.9 years. The aggregate CDI and CRI amortization expense is expected to be \$11.5 million for 2017. The estimated aggregate amortization expense related to these intangible assets for each of the next five years is \$8.8 million for 2018, \$6.7 million for 2019, \$4.7 million for 2020, \$3.0 million for 2021, and \$1.7 million for 2022.

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

|  | Three Months Ended |           | Six Months Ended |           |           |
|--|--------------------|-----------|------------------|-----------|-----------|
|  | June 30,           | March     | June 30,         | June 30,  |           |
|  | 2017               | 31,       | 2016             | 2017      | 2016      |
|  | (In thousands)     |           |                  |           |           |
| Gross Amount of CDI and CRI:               |                    |           |                  |           |           |
| Balance, beginning of period               | \$64,187           | \$64,187  | \$93,824         | \$64,187  | \$95,524  |
| Fully amortized portion                    | —                  | —         | (17,311 )        | —         | (17,311 ) |
| Reduction due to sale of PWEF leasing unit | —                  | —         | —                | —         | (1,700 )  |
| Balance, end of period                     | 64,187             | 64,187    | 76,513           | 64,187    | 76,513    |
| Accumulated Amortization:                  |                    |           |                  |           |           |
| Balance, beginning of period               | (30,885 )          | (27,821 ) | (45,687 )        | (27,821 ) | (42,304 ) |
| Amortization                               | (3,065 )           | (3,064 )  | (4,371 )         | (6,129 )  | (9,117 )  |
| Fully amortized portion                    | —                  | —         | 17,311           | —         | 17,311    |
| Reduction due to sale of PWEF leasing unit | —                  | —         | —                | —         | 1,363     |
| Balance, end of period                     | (33,950 )          | (30,885 ) | (32,747 )        | (33,950 ) | (32,747 ) |
| Net CDI and CRI, end of period             | \$30,237           | \$33,302  | \$43,766         | \$30,237  | \$43,766  |

## PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

## NOTE 3. INVESTMENT SECURITIES

## Securities Available-for-Sale

The following table presents amortized cost, gross unrealized gains and losses, and fair values of securities available-for-sale as of the dates indicated:

| Security Type                     | June 30, 2017  |                        |                         |             | December 31, 2016 |                        |                         |             |
|-----------------------------------|----------------|------------------------|-------------------------|-------------|-------------------|------------------------|-------------------------|-------------|
|                                   | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value  | Amortized Cost    | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value  |
| (In thousands)                    |                |                        |                         |             |                   |                        |                         |             |
| Residential MBS and CMOs:         |                |                        |                         |             |                   |                        |                         |             |
| Agency MBS                        | \$402,654      | \$ 4,318               | \$(2,652)               | \$404,320   | \$499,185         | \$ 6,222               | \$(2,964)               | \$502,443   |
| Agency CMOs                       | 132,494        | 1,698                  | (400)                   | 133,792     | 145,258           | 1,528                  | (497)                   | 146,289     |
| Private label CMOs                | 157,187        | 3,372                  | (858)                   | 159,701     | 122,707           | 4,199                  | (1,437)                 | 125,469     |
| Municipal securities              | 1,492,834      | 43,688                 | (1,968)                 | 1,534,554   | 1,447,064         | 15,406                 | (6,011)                 | 1,456,459   |
| Agency commercial MBS             | 919,696        | 5,656                  | (7,142)                 | 918,210     | 555,552           | 1,798                  | (9,658)                 | 547,692     |
| Corporate debt securities         | 17,000         | 2,185                  | —                       | 19,185      | 47,100            | 680                    | (271)                   | 47,509      |
| Collateralized loan obligations   | 65,521         | 820                    | (40)                    | 66,301      | 155,440           | 1,685                  | (238)                   | 156,887     |
| SBA securities                    | 177,171        | 1,112                  | (227)                   | 178,056     | 179,085           | 510                    | (750)                   | 178,845     |
| Asset-backed and other securities | 59,856         | 685                    | (100)                   | 60,441      | 62,264            | 358                    | (385)                   | 62,237      |
| Total                             | \$3,424,413    | \$ 63,534              | \$(13,387)              | \$3,474,560 | \$3,213,655       | \$ 32,386              | \$(22,211)              | \$3,223,830 |

As of June 30, 2017, securities available-for-sale with a fair value of \$430.2 million were pledged as collateral for borrowings, public deposits and other purposes as required by various statutes and agreements.

During the three months ended June 30, 2017, we sold \$41.4 million of securities available-for-sale for a gross realized gain of \$1.7 million and a gross realized loss of \$76,000. During the three months ended June 30, 2016, we sold \$9.9 million of securities available-for-sale for a gross realized gain of \$0.6 million and a gross realized loss of \$0.1 million.

During the six months ended June 30, 2017, we sold \$84.5 million of securities available-for-sale for a gross realized gain of \$1.9 million and a gross realized loss of \$379,000. During the six months ended June 30, 2016, we sold \$344.8 million of securities available-for-sale for a gross realized gain of \$9.5 million and a gross realized loss of \$0.9 million.

## PACWEST BANCORP AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements (Unaudited)

## Unrealized Losses on Securities Available-for-Sale

The following tables present the gross unrealized losses and fair values of securities available-for-sale that were in unrealized loss positions, for which other-than-temporary impairments have not been recognized in earnings, as of the dates indicated:

| Security Type                     | June 30, 2017       |                   |                   |                   |            |                   |
|-----------------------------------|---------------------|-------------------|-------------------|-------------------|------------|-------------------|
|                                   | Less Than 12 Months |                   | 12 Months or More |                   | Total      |                   |
|                                   | Gross               |                   | Gross             |                   | Gross      |                   |
|                                   | Fair Value          | Unrealized Losses | Fair Value        | Unrealized Losses | Fair Value | Unrealized Losses |
|                                   | (In thousands)      |                   |                   |                   |            |                   |
| Residential MBS and CMOs:         |                     |                   |                   |                   |            |                   |
| Agency MBS                        | \$87,541            | \$(802)           | \$118,268         | \$(1,850)         | \$205,809  | \$(2,652)         |
| Agency CMOs                       | 20,041              | (259)             | 11,446            | (141)             | 31,487     | (400)             |
| Private label CMOs                | 63,938              | (588)             | 21,851            | (270)             | 85,789     | (858)             |
| Municipal securities              | 97,296              | (1,968)           | —                 | —                 | 97,296     | (1,968)           |
| Agency commercial MBS             | 304,470             | (5,643)           | 48,714            | (1,499)           | 353,184    | (7,142)           |
| Collateralized loan obligations   | 9,662               | (13)              | 6,930             | (27)              | 16,592     | (40)              |
| SBA securities                    | 55,951              | (227)             | —                 | —                 | 55,951     | (227)             |
| Asset-backed and other securities | 7,208               | (73)              | 5,958             | (27)              | 13,166     | (100)             |
| Total                             | \$646,107           | \$(9,573)         | \$213,167         | \$(3,814)         | \$859,274  | \$(13,387)        |

| Security Type                     | December 31, 2016   |                   |                   |                   |             |                   |
|-----------------------------------|---------------------|-------------------|-------------------|-------------------|-------------|-------------------|
|                                   | Less Than 12 Months |                   | 12 Months or More |                   | Total       |                   |
|                                   | Gross               |                   | Gross             |                   | Gross       |                   |
|                                   | Fair Value          | Unrealized Losses | Fair Value        | Unrealized Losses | Fair Value  | Unrealized Losses |
|                                   | (In thousands)      |                   |                   |                   |             |                   |
| Residential MBS and CMOs:         |                     |                   |                   |                   |             |                   |
| Agency MBS                        | \$149,281           | \$(1,691)         | \$122,902         | \$(1,273)         | \$272,183   | \$(2,964)         |
| Agency CMOs                       | 44,111              | (416)             | 25,316            | (81)              | 69,427      | (497)             |
| Private label CMOs                | 49,067              | (906)             | 30,155            | (531)             | 79,222      | (1,437)           |
| Municipal securities              | 644,424             | (6,011)           | —                 | —                 | 644,424     | (6,011)           |
| Agency commercial MBS             | 349,550             | (9,658)           | —                 | —                 | 349,550     | (9,658)           |
| Corporate debt securities         | 29,829              | (271)             | —                 | —                 | 29,829      | (271)             |
| Collateralized loan obligations   | 12,450              | (37)              | 39,231            | (201)             | 51,681      | (238)             |
| SBA securities                    | 69,293              | (407)             | 39,024            | (343)             | 108,317     | (750)             |
| Asset-backed and other securities | 18,213              | (309)             | 7,851             | (76)              | 26,064      | (385)             |
| Total                             | \$1,366,218         | \$(19,706)        | \$264,479         | \$(2,505)         | \$1,630,697 | \$(22,211)        |

We reviewed the securities that were in a loss position at June 30, 2017, and concluded their losses were a result of the level of market interest rates relative to the types of securities and pricing changes caused by shifting supply and demand dynamics and not a result of downgraded credit ratings or other indicators of deterioration of the underlying issuers' ability to repay. Accordingly, we determined the securities were temporarily impaired and we did not recognize such impairment in the condensed consolidated statements of earnings. Although we periodically sell securities for portfolio management purposes, we do not foresee having to sell any temporarily impaired securities strictly for liquidity needs and believe that it is more likely than not we would not be required to sell any temporarily

impaired securities before recovery of their amortized cost.

14

---

## PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

## Contractual Maturities of Securities Available-for-Sale

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

| Maturity                               | June 30, 2017  |             |
|--|----------------|-------------|
|  | Amortized Cost | Fair Value  |
|  | (In thousands) |             |
| Due in one year or less                | \$12,649       | \$12,997    |
| Due after one year through five years  | 255,563        | 259,332     |
| Due after five years through ten years | 1,005,595      | 1,013,932   |
| Due after ten years                    | 2,150,606      | 2,188,299   |
| Total securities available-for-sale    | \$3,424,413    | \$3,474,560 |

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

## Interest Income on Investment Securities

The following table presents the composition of our interest income on investment securities for the periods indicated:

|  | Three Months Ended |                | Six Months Ended |               |
|--|--------------------|----------------|------------------|---------------|
|  | June 30, 2017      | March 31, 2017 | June 30, 2016    | June 30, 2016 |
|  | (In thousands)     |                |                  |               |
| Taxable interest                               | \$13,517           | \$12,166       | \$11,406         | \$25,683      |
| Non-taxable interest                           | 10,750             | 10,381         | 10,503           | 21,131        |
| Dividend income                                | 422                | 492            | 511              | 914           |
| Total interest income on investment securities | \$24,689           | \$23,039       | \$22,420         | \$47,728      |

## PACWEST BANCORP AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements (Unaudited)

## NOTE 4. LOANS AND LEASES

Our loan and lease portfolio includes originated and purchased loans and leases. Originated and purchased loans and leases for which there was no evidence of credit deterioration at their acquisition date and for which it was probable that we would be able to collect all contractually required payments, are referred to collectively as Non-PCI loans. Generally, PCI loans are purchased loans for which there was, at the acquisition date, evidence of credit deterioration since their origination and for which it was probable that collection of all contractually required payments was unlikely.

Non-PCI loans are carried at the principal amount outstanding, net of deferred fees and costs, and in the case of acquired loans, net of purchase discounts and premiums. Deferred fees and costs and purchase discounts and premiums on acquired non-impaired loans are recognized as an adjustment to interest income over the contractual life of the loans primarily using the effective interest method or taken into income when the related loans are paid off or included in the carrying amount of loans that are sold.

PCI loans are accounted for in accordance with ASC Subtopic 310 30, "Loans and Debt Securities Acquired with Deteriorated Credit Quality." For PCI loans, at the time of acquisition we (i) calculate the contractual amount and timing of undiscounted principal and interest payments (the "undiscounted contractual cash flows") and (ii) estimate the amount and timing of undiscounted expected principal and interest payments (the "undiscounted expected cash flows"). The difference between the undiscounted contractual cash flows and the undiscounted expected cash flows is the nonaccretable difference. The difference between the undiscounted cash flows expected to be collected and the estimated fair value of the acquired loans is the accretable yield. The nonaccretable difference represents an estimate of the loss exposure of principal and interest related to the PCI loan portfolio; such amount is subject to change over time based on the performance of such loans. The carrying value of PCI loans is reduced by payments received, both principal and interest, and increased by the portion of the accretable yield recognized as interest income.

## Loans Held for Sale

In the second quarter of 2017, we entered into two agreements to sell loans with balances totaling \$175.2 million and the associated unfunded commitments of \$19.3 million, primarily from our healthcare portfolios. The \$175.2 million of loans were reported as loans held for sale at June 30, 2017 and the sales were completed in July. In connection with the transfer of loans to held for sale, we recognized \$7.2 million in charge-offs related to our healthcare portfolio loans in order to record the loans at the lower of cost or fair value.

## Loans and Leases Held for Investment

The following table summarizes the composition of our loans and leases held for investment as of the dates indicated:

|  | June 30, 2017                  |              |             | December 31, 2016              |              |             |
|--|--------------------------------|--------------|-------------|--------------------------------|--------------|-------------|
|  | Non-PCI<br>Loans<br>and Leases | PCI<br>Loans | Total       | Non-PCI<br>Loans<br>and Leases | PCI<br>Loans | Total       |
|  | (In thousands)                 |              |             |                                |              |             |
| Real estate mortgage   | \$6,089,209                    | \$65,950     | \$6,155,159 | \$5,635,675                    | \$92,793     | \$5,728,468 |
| Real estate construction and land                                | 1,179,616                      | 1,774        | 1,181,390   | 975,032                        | 2,409        | 977,441     |
| Commercial   | 7,869,706                      | 4,479        | 7,874,185   | 8,426,236                      | 12,994       | 8,439,230   |
| Consumer   | 398,204                        | 242          | 398,446     | 375,149                        | 249          | 375,398     |
| Total gross loans and leases held for investment                 | 15,536,735                     | 72,445       | 15,609,180  | 15,412,092                     | 108,445      | 15,520,537  |
| Deferred fees, net   | (65,704)                       | (19)         | (65,723)    | (64,562)                       | (21)         | (64,583)    |
| Total loans and leases held for investment, net of deferred fees | 15,471,031                     | 72,426       | 15,543,457  | 15,347,530                     | 108,424      | 15,455,954  |

Edgar Filing: PACWEST BANCORP - Form 10-Q

|   |              |   |          |   |              |   |              |   |          |   |              |   |
|---|--------------|---|----------|---|--------------|---|--------------|---|----------|---|--------------|---|
| Allowance for loan and lease losses             | (138,879     | ) | (7,079   | ) | (145,958     | ) | (143,755     | ) | (13,483  | ) | (157,238     | ) |
| Total loans and leases held for investment, net | \$15,332,152 |   | \$65,347 |   | \$15,397,499 |   | \$15,203,775 |   | \$94,941 |   | \$15,298,716 |   |

16

---



## PACWEST BANCORP AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements (Unaudited)

## Non PCI Loans and Leases Held for Investment

The following tables present an aging analysis of our Non PCI loans and leases held for investment by portfolio segment and class as of the dates indicated:

|   | June 30, 2017  |          |          |              |              |
|---|----------------|----------|----------|--------------|--------------|
|   | 30 - 89        | 90 or    |          |              |              |
|   | Days           | Days     | Total    |              |              |
|   | Past           | Past     | Past     | Current      | Total        |
|   | Due            | Due      | Due      |              |              |
|   | (In thousands) |          |          |              |              |
| Real estate mortgage:                   |                |          |          |              |              |
| Commercial                              | \$4,421        | \$4,008  | \$8,429  | \$4,379,267  | \$4,387,696  |
| Residential                             | 444            | 1,898    | 2,342    | 1,681,760    | 1,684,102    |
| Total real estate mortgage              | 4,865          | 5,906    | 10,771   | 6,061,027    | 6,071,798    |
| Real estate construction and land:      |                |          |          |              |              |
| Commercial                              | —              | —        | —        | 690,058      | 690,058      |
| Residential                             | —              | —        | —        | 473,282      | 473,282      |
| Total real estate construction and land | —              | —        | —        | 1,163,340    | 1,163,340    |
| Commercial:                             |                |          |          |              |              |
| Cash flow                               | 1,360          | 10,040   | 11,400   | 2,819,212    | 2,830,612    |
| Asset-based                             | —              | 203      | 203      | 2,391,921    | 2,392,124    |
| Venture capital                         | 23,171         | 6,531    | 29,702   | 1,971,679    | 2,001,381    |
| Equipment finance                       | 690            | 169      | 859      | 612,691      | 613,550      |
| Total commercial                        | 25,221         | 16,943   | 42,164   | 7,795,503    | 7,837,667    |
| Consumer                                | 298            | 44       | 342      | 397,884      | 398,226      |
| Total <sup>(1)</sup>                    | \$30,384       | \$22,893 | \$53,277 | \$15,417,754 | \$15,471,031 |

(1) Excludes loans held for sale carried at lower of cost or fair value.

|   | December 31, 2016 |         |          |             |             |
|---|-------------------|---------|----------|-------------|-------------|
|   | 30 - 89           | 90 or   |          |             |             |
|   | Days              | Days    | Total    |             |             |
|   | Past              | Past    | Past     | Current     | Total       |
|   | Due               | Due     | Due      |             |             |
|   | (In thousands)    |         |          |             |             |
| Real estate mortgage:                   |                   |         |          |             |             |
| Commercial                              | \$8,590           | \$3,303 | \$11,893 | \$4,341,740 | \$4,353,633 |
| Residential                             | 5,694             | 1,999   | 7,693    | 1,256,630   | 1,264,323   |
| Total real estate mortgage              | 14,284            | 5,302   | 19,586   | 5,598,370   | 5,617,956   |
| Real estate construction and land:      |                   |         |          |             |             |
| Commercial                              | —                 | —       | —        | 578,838     | 578,838     |
| Residential                             | 364               | —       | 364      | 383,637     | 384,001     |
| Total real estate construction and land | 364               | —       | 364      | 962,475     | 962,839     |
| Commercial:                             |                   |         |          |             |             |
| Cash flow                               | 191               | 1,821   | 2,012    | 3,105,380   | 3,107,392   |

Edgar Filing: PACWEST BANCORP - Form 10-Q

|                   |          |          |          |              |              |
|-------------------|----------|----------|----------|--------------|--------------|
| Asset-based       | 1,500    | 2        | 1,502    | 2,607,543    | 2,609,045    |
| Venture capital   | 13,589   | 5,769    | 19,358   | 1,963,798    | 1,983,156    |
| Equipment finance | 1,417    | 3,051    | 4,468    | 687,499      | 691,967      |
| Total commercial  | 16,697   | 10,643   | 27,340   | 8,364,220    | 8,391,560    |
| Consumer          | 224      | —        | 224      | 374,951      | 375,175      |
| Total             | \$31,569 | \$15,945 | \$47,514 | \$15,300,016 | \$15,347,530 |

## PACWEST BANCORP AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements (Unaudited)

It is our policy to discontinue accruing interest when principal or interest payments are past due 90 days or more unless the loan is both well secured and in the process of collection or when, in the opinion of management, there is a reasonable doubt as to the collectability of a loan or lease in the normal course of business. Interest income on nonaccrual loans is recognized only to the extent cash is received and the principal balance of the loan is deemed collectable.

The following table presents our nonaccrual and performing Non-PCI loans and leases held for investment by portfolio segment and class as of the dates indicated:

|   | June 30, 2017 <sup>(1)</sup> |              |              | December 31, 2016 |              |              |
|---|------------------------------|--------------|--------------|-------------------|--------------|--------------|
|   | Nonaccrual                   | Performing   | Total        | Nonaccrual        | Performing   | Total        |
|   | (In thousands)               |              |              |                   |              |              |
| Real estate mortgage:                   |                              |              |              |                   |              |              |
| Commercial                              | \$65,599                     | \$4,322,097  | \$4,387,696  | \$62,454          | \$4,291,179  | \$4,353,633  |
| Residential                             | 5,229                        | 1,678,873    | 1,684,102    | 6,881             | 1,257,442    | 1,264,323    |
| Total real estate mortgage              | 70,828                       | 6,000,970    | 6,071,798    | 69,335            | 5,548,621    | 5,617,956    |
| Real estate construction and land:      |                              |              |              |                   |              |              |
| Commercial                              | —                            | 690,058      | 690,058      | —                 | 578,838      | 578,838      |
| Residential                             | —                            | 473,282      | 473,282      | 364               | 383,637      | 384,001      |
| Total real estate construction and land | —                            | 1,163,340    | 1,163,340    | 364               | 962,475      | 962,839      |
| Commercial:                             |                              |              |              |                   |              |              |
| Cash flow                               | 43,169                       | 2,787,443    | 2,830,612    | 53,908            | 3,053,484    | 3,107,392    |
| Asset-based                             | 1,718                        | 2,390,406    | 2,392,124    | 2,118             | 2,606,927    | 2,609,045    |
| Venture capital                         | 25,278                       | 1,976,103    | 2,001,381    | 11,687            | 1,971,469    | 1,983,156    |
| Equipment finance                       | 31,111                       | 582,439      | 613,550      | 32,848            | 659,119      | 691,967      |
| Total commercial                        | 101,276                      | 7,736,391    | 7,837,667    | 100,561           | 8,290,999    | 8,391,560    |
| Consumer                                | 472                          | 397,754      | 398,226      | 339               | 374,836      | 375,175      |
| Total                                   | \$172,576                    | \$15,298,455 | \$15,471,031 | \$170,599         | \$15,176,931 | \$15,347,530 |

(1) Excludes loans held for sale carried at lower of cost or fair value.

At June 30, 2017, nonaccrual loans and leases totaled \$172.6 million and included \$22.9 million of loans and leases 90 or more days past due, \$3.2 million of loans and leases 30 to 89 days past due, and \$146.5 million of loans and leases current with respect to contractual payments that were placed on nonaccrual status based on management's judgment regarding their collectability. Nonaccrual loans and leases totaled \$170.6 million at December 31, 2016, including \$15.9 million of the loans and leases 90 or more days past due, \$3.0 million of loans and leases 30 to 89 days past due, and \$151.7 million of current loans and leases that were placed on nonaccrual status based on management's judgment regarding their collectability.

As of June 30, 2017, our ten largest Non-PCI loan relationships on nonaccrual status had an aggregate carrying value of \$141.3 million and represented 81.9% of total Non-PCI nonaccrual loans and leases. The largest of these relationships had an aggregate carrying value of \$46.5 million and is a healthcare real estate loan secured by a continuing care retirement facility that migrated to nonaccrual status during the third quarter of 2016 due to weak operating performance and cash flow difficulties.

## PACWEST BANCORP AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements (Unaudited)

The following table presents the credit risk rating categories for Non-PCI loans and leases held for investment by portfolio segment and class as of the dates indicated. Nonclassified loans and leases are those with a credit risk rating of either pass or special mention, while classified loans and leases are those with a credit risk rating of either substandard or doubtful.

|   | June 30, 2017 <sup>(1)</sup> |               |              | December 31, 2016 |               |              |
|---|------------------------------|---------------|--------------|-------------------|---------------|--------------|
|   | Classified                   | Nonclassified | Total        | Classified        | Nonclassified | Total        |
|   | (In thousands)               |               |              |                   |               |              |
| Real estate mortgage:                   |                              |               |              |                   |               |              |
| Commercial                              | \$120,336                    | \$4,267,360   | \$4,387,696  | \$99,641          | \$4,253,992   | \$4,353,633  |
| Residential                             | 9,446                        | 1,674,656     | 1,684,102    | 17,540            | 1,246,783     | 1,264,323    |
| Total real estate mortgage              | 129,782                      | 5,942,016     | 6,071,798    | 117,181           | 5,500,775     | 5,617,956    |
| Real estate construction and land:      |                              |               |              |                   |               |              |
| Commercial                              | —                            | 690,058       | 690,058      | 409               | 578,429       | 578,838      |
| Residential                             | —                            | 473,282       | 473,282      | 364               | 383,637       | 384,001      |
| Total real estate construction and land | —                            | 1,163,340     | 1,163,340    | 773               | 962,066       | 962,839      |
| Commercial:                             |                              |               |              |                   |               |              |
| Cash flow                               | 100,652                      | 2,729,960     | 2,830,612    | 177,661           | 2,929,731     | 3,107,392    |
| Asset-based                             | 18,313                       | 2,373,811     | 2,392,124    | 28,112            | 2,580,933     | 2,609,045    |
| Venture capital                         | 59,479                       | 1,941,902     | 2,001,381    | 52,646            | 1,930,510     | 1,983,156    |
| Equipment finance                       | 31,111                       | 582,439       | 613,550      | 32,848            | 659,119       | 691,967      |
| Total commercial                        | 209,555                      | 7,628,112     | 7,837,667    | 291,267           | 8,100,293     | 8,391,560    |
| Consumer                                | 640                          | 397,586       | 398,226      | 424               | 374,751       | 375,175      |
| Total                                   | \$339,977                    | \$15,131,054  | \$15,471,031 | \$409,645         | \$14,937,885  | \$15,347,530 |

(1) Excludes loans held for sale carried at lower of cost or fair value.

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

Non-PCI nonaccrual loans and leases and performing troubled debt restructured loans are considered impaired for reporting purposes. Troubled debt restructurings are a result of rate reductions, term extensions, fee concessions, and debt forgiveness, or a combination thereof. The following table presents the composition of our impaired loans and leases held for investment as of the dates indicated:

|                                   | June 30, 2017 <sup>(1)</sup>         |   |                          | December 31, 2016                    |   |                          |
|-----------------------------------|--------------------------------------|---|--------------------------|--------------------------------------|---|--------------------------|
|                                   | Nonaccrual<br>Loans<br>and<br>Leases | Performing<br>Troubled<br>Debt<br>Restructured<br>Loans | Total<br>Impaired<br>and | Nonaccrual<br>Loans<br>and<br>Leases | Performing<br>Troubled<br>Debt<br>Restructured<br>Loans | Total<br>Impaired<br>and |
|                                   | (In thousands)                       |   |                          |                                      |   |                          |
| Real estate mortgage              | \$70,828                             | \$47,071  | \$117,899                | \$69,335                             | \$54,750  | \$124,085                |
| Real estate construction and land | —                                    | 5,840   | 5,840                    | 364                                  | 6,893   | 7,257                    |
| Commercial                        | 101,276                              | 2,867   | 104,143                  | 100,561                              | 3,157   | 103,718                  |
| Consumer                          | 472                                  | 132   | 604                      | 339                                  | 152   | 491                      |

Edgar Filing: PACWEST BANCORP - Form 10-Q

|       |           |           |           |           |           |           |
|-------|-----------|-----------|-----------|-----------|-----------|-----------|
| Total | \$172,576 | \$ 55,910 | \$228,486 | \$170,599 | \$ 64,952 | \$235,551 |
|-------|-----------|-----------|-----------|-----------|-----------|-----------|

---

(1) Excludes loans held for sale carried at lower of cost or fair value.

19

---

## PACWEST BANCORP AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements (Unaudited)

The following tables present information regarding our Non PCI impaired loans and leases held for investment by portfolio segment and class as of and for the dates indicated:

| Impaired Loans and Leases  | June 30, 2017 <sup>(1)</sup> |                          |                   | December 31, 2016   |                          |                   |
|--|------------------------------|--------------------------|-------------------|---------------------|--------------------------|-------------------|
|  | Recorded Investment          | Unpaid Principal Balance | Related Allowance | Recorded Investment | Unpaid Principal Balance | Related Allowance |
| (In thousands)   |                              |                          |                   |                     |                          |                   |
| With An Allowance Recorded:  |                              |                          |                   |                     |                          |                   |
| Real estate mortgage:  |                              |                          |                   |                     |                          |                   |
| Commercial   | \$ 17,591                    | \$ 19,399                | \$ 894            | \$ 63,325           | \$ 65,031                | \$ 6,266          |
| Residential  | 3,253                        | 3,406                    | 521               | 8,424               | 8,612                    | 585               |
| Real estate construction and land:                                     |                              |                          |                   |                     |                          |                   |
| Residential  | —                            | —                        | —                 | 213                 | 213                      | —                 |
| Commercial:  |                              |                          |                   |                     |                          |                   |
| Cash flow  | 31,497                       | 39,610                   | 7,018             | 51,272              | 52,910                   | 12,474            |
| Asset-based  | 3,181                        | 3,190                    | 304               | 4,395               | 4,861                    | 2,144             |
| Venture capital  | 17,135                       | 17,331                   | 4,242             | 5,821               | 5,880                    | 3,294             |
| Equipment finance  | —                            | —                        | —                 | 1,524               | 4,636                    | —                 |
| Consumer   | 485                          | 482                      | 333               | 270                 | 280                      | 170               |
| With No Related Allowance Recorded:                                    |                              |                          |                   |                     |                          |                   |
| Real estate mortgage:  |                              |                          |                   |                     |                          |                   |
| Commercial   | \$ 91,691                    | \$ 101,065               |                   | \$ 44,557           | \$ 51,402                |                   |
| Residential  | 5,364                        | 5,753                    |                   | 7,779               | 8,940                    |                   |
| Real estate construction and land:                                     |                              |                          |                   |                     |                          |                   |
| Commercial   | 5,840                        | 5,837                    |                   | 6,680               | 6,680                    |                   |
| Residential  | —                            | —                        |                   | 364                 | 366                      |                   |
| Commercial:  |                              |                          |                   |                     |                          |                   |
| Cash flow  | 11,837                       | 17,272                   |                   | 2,852               | 5,939                    |                   |
| Asset-based  | 1,239                        | 2,482                    |                   | 664                 | 1,652                    |                   |
| Venture capital  | 8,143                        | 20,940                   |                   | 5,866               | 8,939                    |                   |
| Equipment finance  | 31,111                       | 53,256                   |                   | 31,324              | 53,319                   |                   |
| Consumer   | 119                          | 192                      |                   | 221                 | 292                      |                   |
| Total Non-PCI Loans and Leases With and Without an Allowance Recorded: |                              |                          |                   |                     |                          |                   |
| Real estate mortgage   | \$ 117,899                   | \$ 129,623               | \$ 1,415          | \$ 124,085          | \$ 133,985               | \$ 6,851          |
| Real estate construction and land                                      | 5,840                        | 5,837                    | —                 | 7,257               | 7,259                    | —                 |
| Commercial   | 104,143                      | 154,081                  | 11,564            | 103,718             | 138,136                  | 17,912            |
| Consumer   | 604                          | 674                      | 333               | 491                 | 572                      | 170               |
| Total  | \$ 228,486                   | \$ 290,215               | \$ 13,312         | \$ 235,551          | \$ 279,952               | \$ 24,933         |

(1) Excludes loans held for sale carried at lower of cost or fair value.



## PACWEST BANCORP AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements (Unaudited)

|  | Three Months Ended June 30, |                   |                        |                   |
|--|-----------------------------|-------------------|------------------------|-------------------|
|  | 2017 <sup>(2)</sup>         |                   | 2016                   |                   |
|  | Weighted Interest           | Weighted Interest | Weighted Interest      | Weighted Interest |
|  | Average Income              | Average Income    | Average Income         | Average Income    |
| Impaired Loans and Leases  | Balance <sup>(1)</sup>      | Recognized        | Balance <sup>(1)</sup> | Recognized        |
|  | (In thousands)              |                   |                        |                   |
| With An Allowance Recorded:  |                             |                   |                        |                   |
| Real estate mortgage:  |                             |                   |                        |                   |
| Commercial   | \$17,591                    | \$ 214            | \$26,853               | \$ 258            |
| Residential  | 3,253                       | 14                | 2,160                  | 14                |
| Real estate construction and land:                                     |                             |                   |                        |                   |
| Residential  | —                           | —                 | 740                    | 4                 |
| Commercial:  |                             |                   |                        |                   |
| Cash flow  | 31,496                      | 2                 | 26,356                 | 9                 |
| Asset-based  | 2,771                       | 32                | 2,352                  | 10                |
| Venture capital  | 11,400                      | —                 | 693                    | —                 |
| Equipment finance  | —                           | —                 | 50,390                 | —                 |
| Consumer   | 239                         | 2                 | 359                    | 3                 |
| With No Related Allowance Recorded:                                    |                             |                   |                        |                   |
| Real estate mortgage:  |                             |                   |                        |                   |
| Commercial   | \$90,778                    | \$ 742            | \$51,378               | \$ 778            |
| Residential  | 5,365                       | 15                | 7,908                  | 46                |
| Real estate construction and land:                                     |                             |                   |                        |                   |
| Commercial   | 5,840                       | 70                | 6,758                  | 56                |
| Commercial:  |                             |                   |                        |                   |
| Cash flow  | 11,687                      | 15                | 12,512                 | 1                 |
| Asset-based  | 1,239                       | 12                | 3,178                  | 42                |
| Venture capital  | 6,045                       | —                 | —                      | —                 |
| Equipment finance  | 30,593                      | —                 | —                      | —                 |
| Consumer   | 120                         | —                 | 82                     | —                 |
| Total Non-PCI Loans and Leases With and Without an Allowance Recorded: |                             |                   |                        |                   |
| Real estate mortgage   | \$116,987                   | \$ 985            | \$88,299               | \$ 1,096          |
| Real estate construction and land                                      | 5,840                       | 70                | 7,498                  | 60                |
| Commercial   | 95,231                      | 61                | 95,481                 | 62                |
| Consumer   | 359                         | 2                 | 441                    | 3                 |
| Total  | \$218,417                   | \$ 1,118          | \$191,719              | \$ 1,221          |

(1) For Non-PCI loans and leases reported as impaired at June 30, 2017 and 2016, amounts were calculated based on the period of time such loans and leases were impaired during the reported period.

(2) Excludes loans held for sale carried at lower of cost or fair value.





## PACWEST BANCORP AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements (Unaudited)

| Impaired Loans and Leases  | Six Months Ended June 30, |                   |                        |                   |
|--|---------------------------|-------------------|------------------------|-------------------|
|  | 2017 <sup>(2)</sup>       |                   | 2016                   |                   |
|  | Weighted Interest         | Weighted Interest | Weighted Interest      | Weighted Interest |
|  | Average Income            | Average Income    | Average Income         | Average Income    |
|  | Balance <sup>(1)</sup>    | Recognized        | Balance <sup>(1)</sup> | Recognized        |
|  | (In thousands)            |                   |                        |                   |
| With An Allowance Recorded:  |                           |                   |                        |                   |
| Real estate mortgage:  |                           |                   |                        |                   |
| Commercial   | \$17,591                  | \$ 425            | \$23,959               | \$ 516            |
| Residential  | 3,252                     | 27                | 1,609                  | 22                |
| Real estate construction and land:                                     |                           |                   |                        |                   |
| Residential  | —                         | —                 | 740                    | 8                 |
| Commercial:  |                           |                   |                        |                   |
| Cash flow  | 31,496                    | 3                 | 17,914                 | 18                |
| Asset-based  | 2,376                     | 60                | 2,289                  | 18                |
| Venture capital  | 6,900                     | —                 | 347                    | —                 |
| Equipment finance  | —                         | —                 | 48,914                 | —                 |
| Consumer   | 213                       | 4                 | 336                    | 6                 |
| With No Related Allowance Recorded:                                    |                           |                   |                        |                   |
| Real estate mortgage:  |                           |                   |                        |                   |
| Commercial   | \$89,107                  | \$ 1,289          | \$52,810               | \$ 968            |
| Residential  | 5,334                     | 29                | 6,796                  | 60                |
| Real estate construction and land:                                     |                           |                   |                        |                   |
| Commercial   | 5,840                     | 140               | 6,758                  | 112               |
| Commercial:  |                           |                   |                        |                   |
| Cash flow  | 8,581                     | 20                | 12,432                 | 2                 |
| Asset-based  | 1,239                     | 24                | 2,710                  | 71                |
| Venture capital  | 4,276                     | —                 | —                      | —                 |
| Equipment finance  | 30,423                    | —                 | —                      | —                 |
| Consumer   | 120                       | —                 | 82                     | 1                 |
| Total Non-PCI Loans and Leases With and Without an Allowance Recorded: |                           |                   |                        |                   |
| Real estate mortgage   | \$115,284                 | \$ 1,770          | \$85,174               | \$ 1,566          |
| Real estate construction and land                                      | 5,840                     | 140               | 7,498                  | 120               |
| Commercial   | 85,291                    | 107               | 84,606                 | 109               |
| Consumer   | 333                       | 4                 | 418                    | 7                 |
| Total  | \$206,748                 | \$ 2,021          | \$177,696              | \$ 1,802          |

(1) For Non-PCI loans and leases reported as impaired at June 30, 2017 and 2016, amounts were calculated based on the period of time such loans and leases were impaired during the reported period.

(2) Excludes loans held for sale carried at lower of cost or fair value.



## PACWEST BANCORP AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements (Unaudited)

The following tables present additions to our troubled debt restructurings of Non-PCI loans held for investment for the periods indicated:

| Troubled Debt Restructurings       | Three Months Ended June 30,<br>2017 |                               | 2016                         |                               |
|------------------------------------|-------------------------------------|-------------------------------|------------------------------|-------------------------------|
|                                    | Pre-Modification Outstanding        | Post-Modification Outstanding | Pre-Modification Outstanding | Post-Modification Outstanding |
|                                    | Number of Loans                     | Recorded Investment           | Number of Loans              | Recorded Investment           |
|                                    | (Dollars in thousands)              |                               |                              |                               |
| Real estate mortgage:              |                                     |                               |                              |                               |
| Commercial                         | 3                                   | \$ 1,465                      | 1                            | \$ 1,000                      |
| Residential                        | 3                                   | 720                           | 5                            | 4,878                         |
| Real estate construction and land: |                                     |                               |                              |                               |
| Residential                        | 1                                   | 362                           | —                            | —                             |
| Commercial:                        |                                     |                               |                              |                               |
| Cash flow                          | 7                                   | 16,788                        | 6                            | 30,300                        |
| Asset-based                        | 3                                   | 1,165                         | 2                            | 1,504                         |
| Venture capital                    | 2                                   | 92                            | —                            | —                             |
| Equipment finance                  | —                                   | —                             | 4                            | 1,624                         |
| Consumer                           | —                                   | —                             | 2                            | 738                           |
| Total                              | 19                                  | \$ 20,592                     | 20                           | \$ 40,044                     |

| Troubled Debt Restructurings       | Six Months Ended June 30,<br>2017 |                               | 2016                         |                               |
|------------------------------------|-----------------------------------|-------------------------------|------------------------------|-------------------------------|
|                                    | Pre-Modification Outstanding      | Post-Modification Outstanding | Pre-Modification Outstanding | Post-Modification Outstanding |
|                                    | Number of Loans                   | Recorded Investment           | Number of Loans              | Recorded Investment           |
|                                    | (Dollars in thousands)            |                               |                              |                               |
| Real estate mortgage:              |                                   |                               |                              |                               |
| Commercial                         | 4                                 | \$ 1,529                      | 5                            | \$ 4,140                      |
| Residential                        | 5                                 | 762                           | 6                            | 5,043                         |
| Real estate construction and land: |                                   |                               |                              |                               |
| Residential                        | 1                                 | 362                           | —                            | —                             |
| Commercial:                        |                                   |                               |                              |                               |
| Cash flow                          | 9                                 | 16,894                        | 10                           | 30,557                        |
| Asset-based                        | 5                                 | 1,778                         | 4                            | 2,133                         |
| Venture capital                    | 5                                 | 13,157                        | —                            | —                             |
| Equipment finance                  | —                                 | —                             | 6                            | 4,284                         |
| Consumer                           | 1                                 | 97                            | 3                            | 798                           |
| Total                              | 30                                | \$ 34,579                     | 34                           | \$ 46,955                     |



## PACWEST BANCORP AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements (Unaudited)

The following tables present troubled debt restructurings of Non-PCI loans held for investment that subsequently defaulted for the periods indicated:

| Troubled Debt Restructurings<br>That Subsequently Defaulted | Three Months Ended June 30, |      | Number<br>of<br>Loans | Number<br>of<br>Loans | Recorded<br>Investment <sup>(1)</sup> | Recorded<br>Investment <sup>(1)</sup> |
|---|-----------------------------|------|-----------------------|-----------------------|---------------------------------------|---------------------------------------|
|   | 2017                        | 2016 |                       |                       |                                       |                                       |
|   | (Dollars in thousands)      |      |                       |                       |                                       |                                       |
| Real estate mortgage:                                       |                             |      |                       |                       |                                       |                                       |
| Commercial  | —                           | —    | 2                     | \$ 2,572              |                                       |                                       |
| Commercial:   |                             |      |                       |                       |                                       |                                       |
| Equipment finance   | —                           | 1    | 39,912                | (3)                   |                                       |                                       |
| Total   | —                           | —    | 3                     | \$ 42,484             | (2)                                   |                                       |

The population of defaulted restructured loans for the period indicated includes only those loans restructured during the preceding 12-month period. For example, for the 12-month period ended June 30, 2017, the population (1) of defaulted restructured loans includes only those loans restructured after June 30, 2016. The table excludes defaulted troubled restructurings in those classes for which the recorded investment was zero at the end of the period.

(2) Represents the balance at June 30, 2016, and there were no charge-offs.

The term of the modification for this loan expired in the second quarter of 2016 and was not renewed until the third (3) quarter of 2016. Thus, the loan was in payment default under the loan's original terms at June 30, 2016. The modified terms were extended an additional six months in April 2017.

| Troubled Debt Restructurings<br>That Subsequently Defaulted | Six Months Ended June 30, |      | Number<br>of<br>Loans | Number<br>of<br>Loans | Recorded<br>Investment <sup>(1)</sup> | Recorded<br>Investment <sup>(1)</sup> |
|---|---------------------------|------|-----------------------|-----------------------|---------------------------------------|---------------------------------------|
|   | 2017                      | 2016 |                       |                       |                                       |                                       |
|   | (Dollars in thousands)    |      |                       |                       |                                       |                                       |
| Real estate mortgage:                                       |                           |      |                       |                       |                                       |                                       |
| Commercial  | —                         | —    | 2                     | \$ 2,572              |                                       |                                       |
| Commercial:   |                           |      |                       |                       |                                       |                                       |
| Equipment finance   | —                         | 1    | 39,912                | (3)                   |                                       |                                       |
| Total   | —                         | —    | 3                     | \$ 42,484             | (2)                                   |                                       |

The population of defaulted restructured loans for the period indicated includes only those loans restructured during the preceding 12-month period. For example, for the 12-month period ended June 30, 2017, the population (1) of defaulted restructured loans includes only those loans restructured after June 30, 2016. The table excludes defaulted troubled restructurings in those classes for which the recorded investment was zero at the end of the period.

(2) Represents the balance at June 30, 2016, and there were no charge-offs.

The term of the modification for this loan expired in the second quarter of 2016 and was not renewed until the third (3) quarter of 2016. Thus, the loan was in payment default under the loan's original terms at June 30, 2016. The modified terms were extended an additional six months in April 2017.



## PACWEST BANCORP AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements (Unaudited)

## Allowance for Loan and Lease Losses

The following tables present a summary of the activity in the allowance for loan and lease losses on Non-PCI loans and leases held for investment and PCI loans held for investment for the periods indicated:

## Three Months Ended June 30, 2017

|                                | Real Estate                                  |                          |            |          | Total<br>Non-PCI | Total<br>PCI | Total      |
|--------------------------------|--|--------------------------|------------|----------|------------------|--------------|------------|
|                                | Real<br>Estate<br>Mortgage<br>(In thousands) | Construction<br>and Land | Commercial | Consumer |                  |              |            |
|                                | Allowance for Loan<br>and Lease Losses:      |                          |            |          |                  |              |            |
| Balance, beginning of period   | \$35,368                                     | \$ 10,476                | \$ 102,134 | \$ 1,848 | \$ 149,826       | \$ 11,481    | \$ 161,307 |
| Charge-offs                    | (142 )                                       | —                        | (22,696 )  | (113 )   | (22,951 )        | (3,459 )     | (26,410 )  |
| Recoveries                     | 20   | 9                        | 1,953      | 22       | 2,004            | 58           | 2,062      |
| Provision (negative provision) | 1,876  | 833                      | 6,973      | 318      | 10,000           | (1,001 )     | 8,999      |
| Balance, end of period         | \$37,122                                     | \$ 11,318                | \$ 88,364  | \$ 2,075 | \$ 138,879       | \$ 7,079     | \$ 145,958 |

## Six Months Ended June 30, 2017

|                                   | Real Estate                               |                          |            |          | Total<br>Non-PCI | Total<br>PCI | Total      |
|-----------------------------------|---|--------------------------|------------|----------|------------------|--------------|------------|
|                                   | Real Estate<br>Mortgage<br>(In thousands) | Construction<br>and Land | Commercial | Consumer |                  |              |            |
|                                   | Allowance for Loan<br>and Lease Losses:   |                          |            |          |                  |              |            |
| Balance, beginning of<br>period   | \$37,765                                  | \$ 10,045                | \$93,853   | \$2,092  | \$ 143,755       | \$ 13,483    | \$ 157,238 |
| Charge-offs                       | (1,686 )                                  | —                        | (41,981 )  | (212 )   | (43,879 )        | (5,689 )     | (49,568 )  |
| Recoveries                        | 250                                       | 17                       | 4,401      | 75       | 4,743            | 58           | 4,801      |
| Provision (negative<br>provision) | 793                                       | 1,256                    | 32,091     | 120      | 34,260           | (773 )       | 33,487     |
| Balance, end of period            | \$37,122                                  | \$ 11,318                | \$88,364   | \$2,075  | \$ 138,879       | \$ 7,079     | \$ 145,958 |

Ending Allowance by  
Impairment Methodology:  
Individually evaluated for  
impairment

Collectively evaluated for  
impairment

Acquired loans with  
deteriorated credit quality

|          |           |          |         |           |         |  |
|----------|-----------|----------|---------|-----------|---------|--|
| \$1,415  | \$—       | \$11,564 | \$333   | \$13,312  |         |  |
| \$35,707 | \$ 11,318 | \$76,800 | \$1,742 | \$125,567 |         |  |
|          |           |          |         |           | \$7,079 |  |

Ending Loans and Leases  
by  
Impairment Methodology:  
Individually evaluated for



Edgar Filing: PACWEST BANCORP - Form 10-Q

|  |             |             |             |           |              |          |              |
|--|-------------|-------------|-------------|-----------|--------------|----------|--------------|
| impairment   | \$117,441   | \$5,840     | \$104,008   | \$485     | \$227,774    |          |              |
| Collectively evaluated for<br>impairment           | 5,954,357   | 1,157,500   | 7,733,659   | 397,741   | 15,243,257   |          |              |
| Acquired loans with<br>deteriorated credit quality |             |             |             |           |              | \$72,426 |              |
| Ending balance                                     | \$6,071,798 | \$1,163,340 | \$7,837,667 | \$398,226 | \$15,471,031 | \$72,426 | \$15,543,457 |

25

---

PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

|  | Three Months Ended June 30, 2016 |              |            |          |            |           |            |
|--|----------------------------------|--------------|------------|----------|------------|-----------|------------|
|  | Real Estate                      |              |            |          | Total      | Total     |            |
|  | Real Estate                      | Construction | Commercial | Consumer | Non-PCI    | PCI       | Total      |
|  | Mortgage and Land                |              |            |          |            |           |            |
|  | (In thousands)                   |              |            |          |            |           |            |
| Allowance for Loan and Lease Losses:               |                                  |              |            |          |            |           |            |
| Balance, beginning of period                       | \$29,099                         | \$ 6,876     | \$ 83,957  | \$ 875   | \$ 120,807 | \$9,554   | \$ 130,361 |
| Charge-offs  | (866 )                           | —            | (655 )     | (191 )   | (1,712 )   | (168 )    | (1,880 )   |
| Recoveries   | 939                              | 6            | 312        | 23       | 1,280      | —         | 1,280      |
| Provision  | 159                              | 971          | 9,790      | 705      | 11,625     | 1,903     | 13,528     |
| Balance, end of period                             | \$29,331                         | \$ 7,853     | \$ 93,404  | \$ 1,412 | \$ 132,000 | \$ 11,289 | \$ 143,289 |
|  |                                  |              |            |          |            |           |            |
|  | Six Months Ended June 30, 2016   |              |            |          |            |           |            |
|  | Real Estate                      |              |            |          | Total      | Total     |            |
|  | Real Estate                      | Construction | Commercial | Consumer | Non-PCI    | PCI       | Total      |
|  | Mortgage                         | and Land     |            |          |            |           |            |
|  | (In thousands)                   |              |            |          |            |           |            |
| Allowance for Loan and Lease Losses:               |                                  |              |            |          |            |           |            |
| Balance, beginning of period                       | \$36,654                         | \$ 7,137     | \$61,082   | \$661    | \$ 105,534 | \$9,577   | \$ 115,111 |
| Charge-offs  | (1,603 )                         | —            | (4,700 )   | (782 )   | (7,085 )   | (331 )    | (7,416 )   |
| Recoveries   | 1,938                            | 158          | 626        | 39       | 2,761      | —         | 2,761      |
| Provision (negative provision)                     | (7,658 )                         | 558          | 36,396     | 1,494    | 30,790     | 2,043     | 32,833     |
| Balance, end of period                             | \$29,331                         | \$ 7,853     | \$93,404   | \$ 1,412 | \$ 132,000 | \$ 11,289 | \$ 143,289 |
|  |                                  |              |            |          |            |           |            |
| Ending Allowance by Impairment Methodology:        |                                  |              |            |          |            |           |            |
| Individually evaluated for impairment              | \$1,230                          | \$ 16        | \$27,624   | \$ 186   | \$29,056   |           |            |
| Collectively evaluated for impairment              | \$28,101                         | \$ 7,837     | \$65,780   | \$ 1,226 | \$ 102,944 |           |            |
| Acquired loans with deteriorated credit quality    |                                  |              |            |          |            | \$ 11,289 |            |
|  |                                  |              |            |          |            |           |            |
| Ending Loans and Leases by Impairment Methodology: |                                  |              |            |          |            |           |            |

Edgar Filing: PACWEST BANCORP - Form 10-Q

|  |             |            |             |           |              |           |              |
|--|-------------|------------|-------------|-----------|--------------|-----------|--------------|
| Individually evaluated<br>for<br>impairment        | \$92,284    | \$ 7,498   | \$98,247    | \$ 394    | \$198,423    |           |              |
| Collectively evaluated<br>for<br>impairment        | 5,471,096   | 688,735    | 7,934,086   | 212,240   | 14,306,157   |           |              |
| Acquired loans with<br>deteriorated credit quality |             |            |             |           |              | \$136,880 |              |
| Ending balance                                     | \$5,563,380 | \$ 696,233 | \$8,032,333 | \$212,634 | \$14,504,580 | \$136,880 | \$14,641,460 |

## PACWEST BANCORP AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements (Unaudited)

## Allowance for Credit Losses

The Non-PCI allowance for credit losses is the combination of the Non-PCI allowance for loan and lease losses and the Non-PCI reserve for unfunded loan commitments. The Non-PCI reserve for unfunded loan commitments is included within "Accrued interest payable and other liabilities" on the condensed consolidated balance sheets. The following tables present a summary of the activity in the Non-PCI allowance for loan and lease losses, Non-PCI reserve for unfunded loan commitments, and PCI allowance for loan losses for the periods indicated:

## Three Months Ended June 30, 2017

|                                | Non-PCI<br>Allowance<br>for Loan<br>and Lease<br>Losses | Non-PCI<br>Reserve for<br>Unfunded<br>Loan<br>Commitments | Non-PCI<br>Allowance<br>for Credit<br>Losses | PCI<br>Allowance<br>for Loan<br>Losses | Total<br>Allowance<br>for Credit<br>Losses |
|--------------------------------|---|---|--|--|--|
| (In thousands)                 |   |   |  |  |  |
| Balance, beginning of period   | \$ 149,826  | \$ 17,763   | \$ 167,589                                   | \$ 11,481                              | \$ 179,070                                 |
| Charge-offs                    | (22,951 )   | —   | (22,951 )                                    | (3,459 )                               | (26,410 )                                  |
| Recoveries                     | 2,004   | —   | 2,004  | 58                                     | 2,062                                      |
| Net charge-offs                | (20,947 )   | —   | (20,947 )                                    | (3,401 )                               | (24,348 )                                  |
| Provision (negative provision) | 10,000  | 2,500   | 12,500                                       | (1,001 )                               | 11,499                                     |
| Balance, end of period         | \$ 138,879  | \$ 20,263   | \$ 159,142                                   | \$ 7,079                               | \$ 166,221                                 |

## Six Months Ended June 30, 2017

|                                | Non-PCI<br>Allowance<br>for Loan<br>and Lease<br>Losses | Non-PCI<br>Reserve for<br>Unfunded<br>Loan<br>Commitments | Non-PCI<br>Allowance<br>for Credit<br>Losses | PCI<br>Allowance<br>for Loan<br>Losses | Total<br>Allowance<br>for Credit<br>Losses |
|--------------------------------|---|---|--|--|--|
| (In thousands)                 |   |   |  |  |  |
| Balance, beginning of period   | \$ 143,755  | \$ 17,523   | \$ 161,278                                   | \$ 13,483                              | \$ 174,761                                 |
| Charge-offs                    | (43,879 )   | —   | (43,879 )                                    | (5,689 )                               | (49,568 )                                  |
| Recoveries                     | 4,743   | —   | 4,743  | 58                                     | 4,801                                      |
| Net charge-offs                | (39,136 )   | —   | (39,136 )                                    | (5,631 )                               | (44,767 )                                  |
| Provision (negative provision) | 34,260  | 2,740   | 37,000                                       | (773 )                                 | 36,227                                     |
| Balance, end of period         | \$ 138,879  | \$ 20,263   | \$ 159,142                                   | \$ 7,079                               | \$ 166,221                                 |

## Three Months Ended June 30, 2016

|                              | Non-PCI<br>Allowance<br>for Loan<br>and Lease<br>Losses | Non-PCI<br>Reserve for<br>Unfunded<br>Loan<br>Commitments | Non-PCI<br>Allowance<br>for Credit<br>Losses | PCI<br>Allowance<br>for Loan<br>Losses | Total<br>Allowance<br>for Credit<br>Losses |
|------------------------------|---|---|--|--|--|
| (In thousands)               |   |   |  |  |  |
| Balance, beginning of period | \$ 120,807  | \$ 17,569   | \$ 138,376                                   | \$ 9,554                               | \$ 147,930                                 |
| Charge-offs                  | (1,712 )  | —   | (1,712 )                                     | (168 )                                 | (1,880 )                                   |
| Recoveries                   | 1,280   | —   | 1,280  | —                                      | 1,280                                      |
| Net charge-offs              | (432 )  | —   | (432 )                                       | (168 )                                 | (600 )                                     |
| Provision                    | 11,625  | 375   | 12,000                                       | 1,903                                  | 13,903                                     |
| Balance, end of period       | \$ 132,000  | \$ 17,944   | \$ 149,944                                   | \$ 11,289                              | \$ 161,233                                 |



## PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

|                              | Six Months Ended June 30, 2016  |   |  |  |  |
|------------------------------|---|---|--|--|--|
|                              | Non-PCI<br>Allowance<br>for Loan<br>and Lease<br>Losses<br>(In thousands) | Non-PCI<br>Reserve for<br>Unfunded<br>Loan<br>Commitments | Non-PCI<br>Allowance<br>for Credit<br>Losses | PCI<br>Allowance<br>for Loan<br>Losses | Total<br>Allowance<br>for Credit<br>Losses |
| Balance, beginning of period | \$ 105,534  | \$ 16,734   | \$ 122,268                                   | \$ 9,577                               | \$ 131,845                                 |
| Charge-offs                  | (7,085 )  | —   | (7,085 )                                     | (331 )                                 | (7,416 )                                   |
| Recoveries                   | 2,761   | —   | 2,761  | —                                      | 2,761                                      |
| Net charge-offs              | (4,324 )  | —   | (4,324 )                                     | (331 )                                 | (4,655 )                                   |
| Provision                    | 30,790  | 1,210   | 32,000                                       | 2,043                                  | 34,043                                     |
| Balance, end of period       | \$ 132,000  | \$ 17,944   | \$ 149,944                                   | \$ 11,289                              | \$ 161,233                                 |

## NOTE 5. FORECLOSED ASSETS

The following table summarizes foreclosed assets as of the dates indicated:

| Property Type                      | June 30,<br>2017 | December<br>31,<br>2016 |
|------------------------------------|------------------|-------------------------|
|                                    | (In thousands)   |                         |
| Construction and land development  | \$ 11,443        | \$ 11,224               |
| Multi family                       | —                | 652                     |
| Commercial real estate             | 65               | —                       |
| Single family residence            | 1,018            | —                       |
| Total other real estate owned, net | 12,526           | 11,876                  |
| Other foreclosed assets            | 752              | 1,100                   |
| Total foreclosed assets, net       | \$ 13,278        | \$ 12,976               |

The following table presents the changes in foreclosed assets, net of the valuation allowance, for the period indicated:

|   | Foreclosed<br>Assets<br>(In<br>thousands) |
|---|---|
| Balance, December 31, 2016                | \$ 12,976                                 |
| Transfers to foreclosed assets from loans | 580                                       |
| Other additions                           | 735                                       |
| Provision for losses                      | (14 )                                     |
| Reductions related to sales               | (999 )                                    |
| Balance, June 30, 2017                    | \$ 13,278                                 |

## PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

## NOTE 6. BORROWINGS AND SUBORDINATED DEBENTURES

## Borrowings

The following table summarizes our borrowings as of the dates indicated:

|  | June 30, 2017          |                       | December 31, 2016 |                       |
|--|------------------------|-----------------------|-------------------|-----------------------|
|  | Amount                 | Weighted Average Rate | Amount            | Weighted Average Rate |
|  | (Dollars in thousands) |                       |                   |                       |
| Non recourse debt                      | \$454                  | 6.78 %                | \$812             | 6.41 %                |
| FHLB secured advances                  | 85,000                 | 1.09 %                | 735,000           | 0.59 %                |
| FHLB unsecured overnight advance       | 132,000                | 1.09 %                | 130,000           | 0.55 %                |
| American Financial Exchange borrowings | —                      | — %                   | 40,000            | 0.81 %                |
| Total borrowings                       | \$217,454              |                       | \$905,812         |                       |

The non recourse debt represents the payment stream of certain equipment leases sold to third parties. The debt is secured by the leased equipment and all interest rates are fixed. As of June 30, 2017, this debt had a weighted average remaining maturity of 2.1 years.

The Bank has established secured and unsecured lines of credit under which it may borrow funds from time to time on a term or overnight basis from the FHLB, the FRBSF, and other financial institutions.

**FHLB Secured Line of Credit.** The Bank had secured financing capacity with the FHLB as of June 30, 2017 of \$2.9 billion, collateralized by a blanket lien on \$4.2 billion of certain qualifying loans not pledged to the FRBSF. As of June 30, 2017, the balance outstanding was an \$85.0 million overnight advance. As of December 31, 2016, the balance outstanding was \$735.0 million, which consisted of a \$435.0 million overnight advance and a \$300.0 million one-month advance with a January 23, 2017 maturity date.

**FRBSF Secured Line of Credit.** The Bank has a secured line of credit with the FRBSF. As of June 30, 2017, the Bank had secured borrowing capacity of \$2.2 billion collateralized by liens covering \$3.0 billion of certain qualifying loans. As of June 30, 2017 and December 31, 2016, there were no balances outstanding.

**FHLB Unsecured Line of Credit.** The Bank has a \$132.0 million unsecured line of credit with the FHLB for the purchase of overnight funds, of which \$132.0 million was outstanding at June 30, 2017. At December 31, 2016, the balance outstanding was \$130.0 million.

**Federal Funds Arrangements with Commercial Banks.** As of June 30, 2017, the Bank had unsecured lines of credit of \$80.0 million with correspondent banks for the purchase of overnight funds, subject to availability of funds. These lines are renewable annually and have no unused commitment fees. As of June 30, 2017 and December 31, 2016, there were no balances outstanding. The Bank is a member of the American Financial Exchange, through which it may either borrow or lend funds on an overnight or short-term basis with a group of pre-approved commercial banks. The availability of funds changes daily. As of June 30, 2017, there was no balance outstanding. At December 31, 2016, the balance outstanding was \$40.0 million, which consisted of a \$26.0 million overnight borrowing and a \$14.0 million one-month borrowing with a January 20, 2017 maturity date.

## PACWEST BANCORP AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements (Unaudited)

## Subordinated Debentures

The following table summarizes the terms of each issuance of subordinated debentures outstanding as of the dates indicated:

| Series                              | June 30, 2017          |       | December 31, 2016 |       | Date       | Maturity   | Rate Index             |
|-------------------------------------|------------------------|-------|-------------------|-------|------------|------------|------------------------|
|                                     | Amount                 | Rate  | Amount            | Rate  | Issued     | Date       | (Quarterly Reset)      |
|                                     | (Dollars in thousands) |       |                   |       |            |            |                        |
| Trust V                             | \$10,310               | 4.37% | \$10,310          | 4.09% | 8/15/2003  | 9/17/2033  | 3 month LIBOR + 3.10   |
| Trust VI                            | 10,310                 | 4.30% | 10,310            | 4.01% | 9/3/2003   | 9/15/2033  | 3 month LIBOR + 3.05   |
| Trust CII                           | 5,155                  | 4.22% | 5,155             | 3.95% | 9/17/2003  | 9/17/2033  | 3 month LIBOR + 2.95   |
| Trust VII                           | 61,856                 | 3.92% | 61,856            | 3.64% | 2/5/2004   | 4/23/2034  | 3 month LIBOR + 2.75   |
| Trust CIII                          | 20,619                 | 2.94% | 20,619            | 2.65% | 8/15/2005  | 9/15/2035  | 3 month LIBOR + 1.69   |
| Trust FCCI                          | 16,495                 | 2.85% | 16,495            | 2.56% | 1/25/2007  | 3/15/2037  | 3 month LIBOR + 1.60   |
| Trust FCBI                          | 10,310                 | 2.80% | 10,310            | 2.51% | 9/30/2005  | 12/15/2035 | 3 month LIBOR + 1.55   |
| Trust CS 2005-1                     | 82,475                 | 3.20% | 82,475            | 2.91% | 11/21/2005 | 12/15/2035 | 3 month LIBOR + 1.95   |
| Trust CS 2005-2                     | 128,866                | 3.12% | 128,866           | 2.84% | 12/14/2005 | 1/30/2036  | 3 month LIBOR + 1.95   |
| Trust CS 2006-1                     | 51,545                 | 3.12% | 51,545            | 2.84% | 2/22/2006  | 4/30/2036  | 3 month LIBOR + 1.95   |
| Trust CS 2006-2                     | 51,550                 | 3.12% | 51,550            | 2.84% | 9/27/2006  | 10/30/2036 | 3 month LIBOR + 1.95   |
| Trust CS 2006-3 <sup>(1)</sup>      | 29,417                 | 1.72% | 27,185            | 1.74% | 9/29/2006  | 10/30/2036 | 3 month EURIBOR + 2.05 |
| Trust CS 2006-4                     | 16,470                 | 3.12% | 16,470            | 2.84% | 12/5/2006  | 1/30/2037  | 3 month LIBOR + 1.95   |
| Trust CS 2006-5                     | 6,650                  | 3.12% | 6,650             | 2.84% | 12/19/2006 | 1/30/2037  | 3 month LIBOR + 1.95   |
| Trust CS 2007-2                     | 39,177                 | 3.12% | 39,177            | 2.84% | 6/13/2007  | 7/30/2037  | 3 month LIBOR + 1.95   |
| Gross subordinated debentures       | 541,205                |       | 538,973           |       |            |            |                        |
| Unamortized discount <sup>(2)</sup> | (95,462 )              |       | (98,229 )         |       |            |            |                        |
| Net subordinated debentures         | \$445,743              |       | \$440,744         |       |            |            |                        |

(1) Denomination is in Euros with a value of €25.8 million.

(2) Amount represents the fair value adjustment on subordinated debentures assumed in acquisitions.

Interest payments made by the Company on subordinated debentures are considered dividend payments under FRB regulations. Bank holding companies, such as PacWest, are required to notify the FRB prior to declaring and paying a dividend during any period in which quarterly and/or cumulative twelve month net earnings are insufficient to fund the dividend amount, among other requirements.



## PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

## NOTE 7. COMMITMENTS AND CONTINGENCIES

## Lending Commitments

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

The following table presents a summary of the financial instruments described above as of the dates indicated:

|                                   | June 30,<br>2017 | December<br>31,<br>2016 |
|-----------------------------------|------------------|-------------------------|
|                                   | (In thousands)   |                         |
| Loan commitments to extend credit | \$4,926,743      | \$4,166,703             |
| Standby letters of credit         | 234,927          | 211,398                 |
| Total                             | \$5,161,670      | \$4,378,101             |

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The increase in loan commitments to extend credit is primarily a result of the continued growth of our construction and venture capital portfolios in 2017. Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. We provide standby letters of credit in conjunction with several of our lending arrangements and property lease obligations. Most guarantees expire within one year from the date of issuance. If a borrower defaults on its commitments subject to any letter of credit issued under these arrangements, we would be required to meet the borrower's financial obligation but would seek repayment of that financial obligation from the borrower. In some cases, borrowers have pledged cash and investment securities as collateral with us under these arrangements. In addition, we invest in low income housing project partnerships, which provide income tax credits, and in small business investment companies that call for capital contributions up to an amount specified in the partnership agreements. As of June 30, 2017 and December 31, 2016, we had commitments to contribute capital to these entities totaling \$36.6 million and \$26.6 million. We also had commitments to contribute up to an additional \$2.6 million and \$2.8 million to private equity funds at June 30, 2017 and December 31, 2016.

## Legal Matters

In the ordinary course of our business, the Company is party to various legal actions, which we believe are incidental to the operation of our business. The outcome of such legal actions and the timing of ultimate resolution are inherently difficult to predict. In the opinion of management, based upon currently available information, any resulting liability, in addition to amounts already accrued, and taking into consideration insurance which may be applicable, would not have a material adverse effect on the Company's financial statements or operations.

## Kinde Durkee Investigation

The United States Attorney's Office for the Eastern District of California is conducting an investigation relating to the handling by First California Bank ("FCB") of its banking relationship with Kinde Durkee. Ms. Durkee, who had maintained certain of her accounts with FCB, was convicted in 2012 of embezzling funds from certain California politicians, among others. FCB, a wholly-owned subsidiary of FCAL, was acquired by PacWest Bancorp and merged into Pacific Western Bank in May 2013. We understand that the investigation is focused on whether any civil or criminal laws were violated by FCB or its employees. Pacific Western is cooperating with the investigation.



## PACWEST BANCORP AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements (Unaudited)

## NOTE 8. FAIR VALUE MEASUREMENTS

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

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

Level 2: Observable inputs other than Level 1, including quoted prices for similar assets and liabilities in active markets, quoted prices in less active markets, or other observable inputs that can be corroborated by observable market data, either directly or indirectly, for substantially the full term of the financial instrument. This category generally includes municipal securities, agency residential and commercial MBS, collateralized loan obligations, registered publicly rated private label CMOs and asset-backed securitizations.

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

We use fair value to measure certain assets and liabilities on a recurring basis, primarily securities available for sale and derivatives. For assets measured at the lower of cost or fair value, the fair value measurement criteria may or may not be met during a reporting period and such measurements are therefore considered "nonrecurring" for purposes of disclosing our fair value measurements. Fair value is used on a nonrecurring basis to adjust carrying values for impaired loans and other real estate owned and also to record impairment on certain assets, such as goodwill, CDI, and other long lived assets.

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

| Measured on a Recurring Basis       | Fair Value Measurements as of<br>June 30, 2017 |         |           |         |
|-------------------------------------|--|---------|-----------|---------|
|                                     | Total  | Level 1 | Level 2   | Level 3 |
|                                     | (In thousands)                                 |         |           |         |
| Securities available for sale:      |  |         |           |         |
| Residential MBS and CMOs:           |  |         |           |         |
| Agency MBS                          | \$404,320                                      | \$—     | \$404,320 | \$—     |
| Agency CMOs                         | 133,792  | —       | 133,792   | —       |
| Private label CMOs                  | 159,701  | —       | 100,162   | 59,539  |
| Municipal securities                | 1,534,554                                      | —       | 1,534,554 | —       |
| Agency commercial MBS               | 918,210  | —       | 918,210   | —       |
| Corporate debt securities           | 19,185   | —       | 19,185    | —       |
| Collateralized loan obligations     | 66,301   | —       | 66,301    | —       |
| SBA securities                      | 178,056  | —       | 178,056   | —       |
| Asset-backed and other securities   | 60,441   | 3,721   | 49,957    | 6,763   |
| Total securities available-for-sale | 3,474,560                                      | 3,721   | 3,404,537 | 66,302  |
| Equity warrants                     | 5,452  | —       | —         | 5,452   |
| Other derivative assets             | 235  | —       | 235       | —       |

Edgar Filing: PACWEST BANCORP - Form 10-Q

|                        |             |          |             |          |
|------------------------|-------------|----------|-------------|----------|
| Total recurring assets | \$3,480,247 | \$ 3,721 | \$3,404,772 | \$71,754 |
| Derivative liabilities | \$2,235     | \$—      | \$2,235     | \$—      |

32

---

## PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

| Measured on a Recurring Basis       | Fair Value Measurements as of<br>December 31, 2016 |         |             |          |
|-------------------------------------|--|---------|-------------|----------|
|                                     | Total  | Level 1 | Level 2     | Level 3  |
|                                     | (In thousands)                                     |         |             |          |
| Securities available for sale:      |  |         |             |          |
| Residential MBS and CMOs:           |  |         |             |          |
| Agency MBS                          | \$502,443  | \$—     | \$502,443   | \$—      |
| Agency CMOs                         | 146,289  | —       | 146,289     | —        |
| Private label CMOs                  | 125,469  | —       | 68,567      | 56,902   |
| Municipal securities                | 1,456,459  | —       | 1,456,459   | —        |
| Agency commercial MBS               | 547,692  | —       | 547,692     | —        |
| Corporate debt securities           | 47,509   | —       | 47,509      | —        |
| Collateralized loan obligations     | 156,887  | —       | 156,887     | —        |
| SBA securities                      | 178,845  | —       | 178,845     | —        |
| Asset-backed and other securities   | 62,237   | 2,080   | 51,784      | 8,373    |
| Total securities available-for-sale | 3,223,830  | 2,080   | 3,156,475   | 65,275   |
| Equity warrants                     | 5,497  | —       | —           | 5,497    |
| Other derivative assets             | 694  | —       | 694         | —        |
| Total recurring assets              | \$3,230,021  | \$2,080 | \$3,157,169 | \$70,772 |
| Derivative liabilities              | \$3,285  | \$—     | \$3,285     | \$—      |

During the six months ended June 30, 2017, there were no transfers of assets between Level 1 and Level 2, and there were no transfers of assets in or out of Level 3 of the fair value hierarchy for assets measured on a recurring basis.

The following table presents information about quantitative inputs and assumptions used to determine the fair values provided by our third party pricing service for our Level 3 private label CMOs and asset-backed securities available-for-sale measured at fair value on a recurring basis as of the date indicated:

| Unobservable Inputs                | June 30, 2017      |                              |       |
|------------------------------------|--------------------|------------------------------|-------|
|                                    | Private Label CMOs | Asset-Backed Securities (1)  |       |
|                                    | Range<br>of Inputs | Weighted<br>Average<br>Input | Input |
| Voluntary annual prepayment speeds | 2.7% - 23.9%       | 11.5%                        | 5.0%  |
| Annual default rates               | 0.1% - 14.1%       | 2.2%                         | 1.0%  |
| Loss severity rates                | 3.8% - 132.7%      | 50.4%                        | 10.0% |
| Discount rates                     | 1.4% - 9.8%        | 4.2%                         | 3.5%  |

(1) There was only one asset-backed security at June 30, 2017.

## PACWEST BANCORP AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements (Unaudited)

The following table presents information about quantitative inputs and assumptions used in the modified Black-Scholes option pricing model to determine the fair value for our Level 3 equity warrants measured at fair value on a recurring basis as of the date indicated:

|                                      |                 |
|--------------------------------------|-----------------|
|                                      | June 30, 2017   |
|                                      | Equity Warrants |
|                                      | Weighted        |
|                                      | Average         |
| Unobservable Inputs                  | Input           |
| Volatility                           | 17.3%           |
| Risk-free interest rate              | 1.7%            |
| Remaining life assumption (in years) | 3.7             |

The following table summarizes activity for our Level 3 private label CMOs available-for-sale, asset-backed securities available-for-sale, and equity warrants measured at fair value on a recurring basis for the period indicated:

|  | Private<br>Label<br>CMOs | Asset-Backed<br>Securities | Equity<br>Warrants |
|--|--------------------------|----------------------------|--------------------|
|  | (In thousands)           |                            |                    |
| Balance, December 31, 2016                   | \$56,902                 | \$ 8,373                   | \$ 5,497           |
| Total included in earnings                   | 2,230                    | 59                         | 969                |
| Total included in other comprehensive income | (887 )                   | (75 )                      | —                  |
| Purchases                                    | 18,643                   | —                          | —                  |
| Issuances                                    | —                        | —                          | 535                |
| Sales  | (4,732 )                 | —                          | (1,549 )           |
| Net settlements                              | (12,617 )                | (1,594 )                   | —                  |
| Balance, June 30, 2017                       | \$59,539                 | \$ 6,763                   | \$ 5,452           |

The following tables present assets measured at fair value on a non recurring basis as of the dates indicated:

|                                   | Fair Value Measurement as of<br>June 30, 2017 |         |            |          |
|-----------------------------------|---|---------|------------|----------|
| Measured on a Non Recurring Basis | Total   | Level 1 | Level 2    | Level 3  |
|                                   | (In thousands)                                |         |            |          |
| Impaired Non PCI loans            | \$80,495                                      | \$ —    | —\$6,575   | \$73,920 |
| Loans held for sale               | 175,880                                       | —       | 175,880    | —        |
| Total non-recurring               | \$256,375                                     | \$ —    | —\$182,455 | \$73,920 |

|                                   | Fair Value Measurement as of<br>December 31, 2016 |         |           |           |
|-----------------------------------|---|---------|-----------|-----------|
| Measured on a Non Recurring Basis | Total   | Level 1 | Level 2   | Level 3   |
|                                   | (In thousands)                                    |         |           |           |
| Impaired Non PCI loans            | \$149,749   | \$ —    | —\$1,661  | \$148,088 |
| OREO                              | 11,224  | —       | 11,224    | —         |
| Investments carried at cost       | 242   | —       | —         | 242       |
| Total non-recurring               | \$161,215   | \$ —    | —\$12,885 | \$148,330 |

PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

The following table presents losses recognized on assets measured on a nonrecurring basis for the periods indicated:

| Losses on Assets<br>Measured on a Non Recurring Basis | Three Months<br>Ended<br>June 30, |              | Six Months<br>Ended<br>June 30, |                 |
|---|-----------------------------------|--------------|---------------------------------|-----------------|
|   | 2017                              | 2016         | 2017                            | 2016            |
|   | (In thousands)                    |              |                                 |                 |
| Impaired Non PCI loans                                | \$9,435                           | \$603        | \$17,250                        | \$16,779        |
| Loans held for sale                                   | 7,198                             | —            | 7,198                           | —               |
| OREO  | 14                                | —            | 14                              | —               |
| <b>Total losses</b>                                   | <b>\$16,647</b>                   | <b>\$603</b> | <b>\$24,462</b>                 | <b>\$16,779</b> |

The following table presents the valuation methodology and unobservable inputs for Level 3 assets measured at fair value on a nonrecurring basis as of the date indicated:

| Asset                              | June 30, 2017                      |   | Unobservable<br>Inputs         | Weighted<br>Range | Weighted<br>Average |
|------------------------------------|------------------------------------|---|--------------------------------|-------------------|---------------------|
|                                    | Fair<br>Value<br>(In<br>thousands) | Valuation<br>Technique                          |                                |                   |                     |
| Impaired Non-PCI loans             | \$65,157<br>8,763                  | Discounted cash flows<br>Third party appraisals | Discount rates<br>No discounts | 0% - 8.50%        | 6.47%               |
| <b>Total non-recurring Level 3</b> | <b>\$73,920</b>                    |   |                                |                   |                     |

ASC Topic 825, "Financial Instruments," requires disclosure of the estimated fair value of certain financial instruments and the methods and significant assumptions used to estimate such fair values. Additionally, certain financial instruments and all nonfinancial instruments are excluded from the applicable disclosure requirements.

The following tables present carrying amounts and estimated fair values of certain financial instruments as of the dates indicated:

| Financial Assets:                                   | June 30, 2017      |            |           |           |            |
|---|--------------------|------------|-----------|-----------|------------|
|   | Carrying<br>Amount | Total      | Level 1   | Level 2   | Level 3    |
|   | (In thousands)     |            |           |           |            |
| Cash and due from banks                             | \$180,330          | \$180,330  | \$180,330 | \$        | —          |
| Interest earning deposits in financial institutions | 107,150            | 107,150    | 107,150   | —         | —          |
| Securities available for sale                       | 3,474,560          | 3,474,560  | 3,721     | 3,404,537 | 66,302     |
| Investment in FHLB stock                            | 22,059             | 22,059     | —         | 22,059    | —          |
| Investments carried at cost                         | 1,158              | 11,719     | —         | —         | 11,719     |
| Loans held for sale                                 | 175,158            | 175,880    | —         | 175,880   | —          |
| Loans and leases held for investment, net           | 15,397,499         | 15,611,222 | —         | 6,575     | 15,604,647 |
| Equity warrants                                     | 5,452              | 5,452      | —         | —         | 5,452      |
| Other derivative assets                             | 235                | 235        | —         | 235       | —          |

Financial Liabilities:

|  |            |            |   |            |   |
|--|------------|------------|---|------------|---|
| Demand, interest checking, money market,<br>and savings deposits | 14,546,898 | 14,546,898 | — | 14,546,898 | — |
|--|------------|------------|---|------------|---|

Edgar Filing: PACWEST BANCORP - Form 10-Q

|                         |           |           |         |           |   |
|-------------------------|-----------|-----------|---------|-----------|---|
| Time deposits           | 2,328,079 | 2,318,904 | —       | 2,318,904 | — |
| Borrowings              | 217,454   | 217,461   | 217,000 | 461       | — |
| Subordinated debentures | 445,743   | 429,366   | —       | 429,366   | — |
| Derivative liabilities  | 2,235     | 2,235     | —       | 2,235     | — |

35

---



## PACWEST BANCORP AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements (Unaudited)

|   | December 31, 2016 |                 |                              |            |            |
|---|-------------------|-----------------|------------------------------|------------|------------|
|   | Carrying Amount   | Estimated Total | Estimated Fair Value Level 1 | Level 2    | Level 3    |
| (In thousands)  |                   |                 |                              |            |            |
| <b>Financial Assets:</b>                                      |                   |                 |                              |            |            |
| Cash and due from banks                                       | \$337,965         | \$337,965       | \$337,965                    | \$         | —          |
| Interest earning deposits in financial institutions           | 81,705            | 81,705          | 81,705                       | —          | —          |
| Securities available for sale                                 | 3,223,830         | 3,223,830       | 2,080                        | 3,156,475  | 65,275     |
| Investment in FHLB stock                                      | 21,870            | 21,870          | —                            | 21,870     | —          |
| Investments carried at cost                                   | 1,416             | 3,843           | —                            | —          | 3,843      |
| Loans and leases held for investment, net                     | 15,298,716        | 15,494,808      | —                            | 1,661      | 15,493,147 |
| Equity warrants   | 5,497             | 5,497           | —                            | —          | 5,497      |
| Other derivative assets                                       | 694               | 694             | —                            | 694        | —          |
| <b>Financial Liabilities:</b>                                 |                   |                 |                              |            |            |
| Demand, interest checking, money market, and savings deposits | 13,698,321        | 13,698,321      | —                            | 13,698,321 | —          |
| Time deposits   | 2,172,290         | 2,166,187       | —                            | 2,166,187  | —          |
| Borrowings  | 905,812           | 905,838         | 591,000                      | 314,838    | —          |
| Subordinated debentures                                       | 440,744           | 424,507         | —                            | 424,507    | —          |
| Derivative liabilities  | 3,285             | 3,285           | —                            | 3,285      | —          |
| <b>Loans Held for Sale</b>                                    |                   |                 |                              |            |            |

Loans held for sale are carried at the lower of cost or fair value, with fair value adjustments recorded on a nonrecurring basis. The loans held for sale at June 30, 2017 consisted primarily of healthcare loans, and the fair value of these loans was based on sale agreements which we entered into during the second quarter of 2017. Loans held for sale which are under contract for sale are considered Level 2 in the fair value hierarchy.

For information regarding the valuation methodologies used to measure our assets recorded at fair value (under ASC Topic 820), and for estimating fair value for financial instruments not recorded at fair value (under ASC Topic 825), see Note 1. Nature of Operations and Summary of Significant Accounting Policies, and Note 13. Fair Value Measurements, to the Consolidated Financial Statements of the Company's 2016 Annual Report on Form 10-K.

**Limitations**

Fair value estimates are made at a specific point in time and are based on relevant market information and information about the financial instrument. These estimates do not reflect income taxes or any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. Because no market exists for a portion of the Company's financial instruments, fair value estimates are based on what management believes to be reasonable judgments regarding expected future cash flows, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimated fair values are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates. Since the fair values have been estimated as of June 30, 2017, the amounts that will actually be realized or paid at settlement or maturity of the instruments could be significantly different.

## PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

## NOTE 9. EARNINGS PER SHARE

The following table presents the computations of basic and diluted net earnings per share for the periods indicated:

|  | Three Months Ended                            |          | Six Months Ended |           |           |
|--|---|----------|------------------|-----------|-----------|
|  | June 30,                                      | March    | June 30,         | June 30,  |           |
|  | 2017  | 31,      | 2016             | 2017      | 2016      |
|  | (Dollars in thousands, except per share data) |          |                  |           |           |
| <b>Basic Earnings Per Share:</b>   |   |          |                  |           |           |
| Net earnings   | \$93,647                                      | \$78,668 | \$82,168         | \$172,315 | \$172,624 |
| Less: Earnings allocated to unvested restricted stock <sup>(1)</sup>           | (1,080 )                                      | (999 )   | (863 )           | (2,082 )  | (1,933 )  |
| Net earnings allocated to common shares  | \$92,567                                      | \$77,669 | \$81,305         | \$170,233 | \$170,691 |
| <b>Weighted-average basic shares and unvested restricted stock outstanding</b> |   |          |                  |           |           |
| Weighted-average basic shares and unvested restricted stock outstanding        | 121,422                                       | 121,346  | 121,799          | 121,384   | 121,698   |
| Less: Weighted-average unvested restricted stock outstanding                   | (1,455 )                                      | (1,503 ) | (1,481 )         | (1,479 )  | (1,436 )  |
| Weighted-average basic shares outstanding                                      | 119,967                                       | 119,843  | 120,318          | 119,905   | 120,262   |
| Basic earnings per share   | \$0.77  | \$0.65   | \$0.68           | \$1.42    | \$1.42    |
| <b>Diluted Earnings Per Share:</b>   |   |          |                  |           |           |
| Net earnings allocated to common shares  | \$92,567                                      | \$77,669 | \$81,305         | \$170,233 | \$170,691 |
| Weighted-average basic shares outstanding                                      | 119,967                                       | 119,843  | 120,318          | 119,905   | 120,262   |
| Diluted earnings per share   | \$0.77  | \$0.65   | \$0.68           | \$1.42    | \$1.42    |

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

## NOTE 10. STOCK-BASED COMPENSATION

The Company's 2017 Stock Incentive Plan, or the 2017 Plan, permits stock-based compensation awards to officers, directors, key employees and consultants. As of June 30, 2017, the 2017 Plan authorized grants of stock based compensation instruments to purchase or issue up to 4,000,000 shares of Company common stock. As of June 30, 2017, there were 3,852,150 shares available for grant under the 2017 Plan.

**Restricted Stock**

Restricted stock amortization totaled \$6.6 million, \$6.5 million, and \$6.0 million for the three months ended June 30, 2017, March 31, 2017 and June 30, 2016 and, \$13.1 million and \$11.0 million for the six months ended June 30, 2017 and 2016. Such amounts are included in "Compensation expense" on the condensed consolidated statements of earnings. The amount of unrecognized compensation expense related to unvested TRSAs and PRSUs as of June 30, 2017 totaled \$53.6 million.

**Time-Based Restricted Stock Awards**

At June 30, 2017, there were 1,400,254 shares of unvested TRSAs outstanding pursuant to the Company's 2003 and 2017 Stock Incentive Plans (the "Plans"). The TRSAs generally vest over a service period of three or four years from the date of the grant or immediately upon death of an employee. Compensation expense related to TRSAs is based on the fair value of the underlying stock on the award date and is recognized over the vesting period using the straight line

method.

37

---

## PACWEST BANCORP AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements (Unaudited)

## Performance-Based Restricted Stock Units

At June 30, 2017, there were 239,025 unvested PRSUs outstanding. The PRSUs will vest only if performance goals with respect to certain financial metrics are met over a three-year performance period. The PRSUs are not considered issued and outstanding under the Plans until they vest. PRSUs are granted and initially expensed based on a target number. The number of awards that will ultimately vest based on actual performance will range from zero to a maximum of either 150% or 200% of target. Compensation expense related to PRSUs is based on the fair value of the underlying stock on the award date and is amortized over the vesting period using the straight-line method unless it is determined that: (1) attainment of the financial metrics is less than probable, in which case a portion of the amortization is suspended, or (2) attainment of the financial metrics is improbable, in which case a portion of the previously recognized amortization is reversed and also suspended. If it is determined that attainment of a financial measure higher than target is probable, the amortization will increase to up to 150% or 200% of the target amortization amount. Annual PRSU expense may vary during the three-year performance period based upon changes in management's estimate of the number of shares that may ultimately vest. In the case where the performance target for the PRSU's is based on a market condition (such as total shareholder return), the amortization is neither reversed nor suspended if it is subsequently determined that the attainment of the performance target is less than probable or improbable.

## NOTE 11. RECENTLY ISSUED ACCOUNTING STANDARDS

In May 2014, the FASB issued ASU 2014-09, "Revenue Recognition (Topic 606): Revenue from Contracts with Customers." ASU 2014-09 requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU 2014-09 will replace most existing revenue recognition guidance in GAAP when it becomes effective. The standard permits the use of either the retrospective or cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14, "Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date," which deferred the effective date of ASU 2014-09 to annual and interim periods beginning after December 15, 2017, while earlier application is permitted only for annual and interim periods beginning after December 31, 2016. The Company has completed the assessment phase of implementing this new standard. In the assessment phase, the Company determined which revenue streams are within the scope and those that are excluded from the scope of the new standard. Substantially all of the Company's revenues are excluded from the scope of the new standard. For the revenue streams determined to be within the scope of the new standard, the Company examined a sample of customer contracts to determine the appropriate accounting for those contracts under the new standard. The Company has evaluated the need for any accounting or operational changes related to implementing the requirements of the new standard and has made some operational changes as needed. The Company will use the cumulative effect transition method and does not expect the provisions of ASU 2014-09 to have a material impact on our consolidated financial statements other than additional disclosure requirements. The Company will adopt this standard effective January 1, 2018.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities," which will significantly change the income statement impact of equity investments and the recognition of changes in fair value of financial liabilities when the fair value option is elected. For equity investments with readily determinable fair values, entities must measure these investments at fair value and recognize changes in fair value in net income. For equity investments without readily determinable fair values, entities have the option to either measure these investments at fair value or at cost, adjusted for changes in observable prices, minus impairment. Changes in measurement under either alternative must be recognized in net income. ASU 2016-01 will be effective for annual and interim periods beginning after December 15, 2017. Early adoption is permitted only for the provisions related to the recognition of changes in fair value of financial liabilities, which does not apply to the Company. The Company does not expect the provisions of ASU 2016-01 to have a material impact on its consolidated financial position or results of operations.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)," which, among other things, requires lessees to recognize most leases on-balance sheet, which will result in an increase in their reported assets and liabilities. Lessor accounting remains substantially similar to current U.S. GAAP. ASU 2016-02 supersedes Topic 840, Leases. ASU 2016-02 is effective for annual and interim periods in fiscal years beginning after December 15, 2018 and mandates a modified retrospective transition method for all entities. The Company has begun to assess the impact of the new standard on its financial statements and related disclosures and is currently evaluating the existing lease portfolio. The impact to the Company will be primarily related to leased office space.

## PACWEST BANCORP AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements (Unaudited)

In June 2016, the FASB issued ASU 2016-13, "Measurement of Credit Losses on Financial Instruments," which significantly changes the way entities recognize impairment of many financial assets. Currently, the impairment model is based on incurred losses, and investments are recognized as impaired when there is no longer an assumption that future cash flows will be collected in full under the originally contracted terms. Under the current expected credit loss ("CECL") model, the new standard requires immediate recognition of estimated credit losses expected to occur over the remaining life of the asset. The Company has selected a software solution to assist in meeting the requirements of ASU 2016-13. The Company has developed an implementation plan and has selected a third-party vendor to assist with the assessment and design phase of the project. ASU 2016-13 is effective for interim and annual periods in fiscal years beginning after December 15, 2019. The Company is evaluating the effect that ASU 2016-13 will have on its consolidated financial position or results of operations.

In August 2016, the FASB issued ASU 2016-15, "Classification of Certain Cash Receipts and Cash Payments," which addressed eight issues related to the statement of cash flows, including proceeds from the settlement of BOLI policies. ASU 2016-15 is effective for interim and annual periods in fiscal years beginning after December 15, 2017. Early adoption is permitted, including adoption in an interim period. If an entity early adopts ASU 2016-15 in an interim period, adjustments should be reflected as of the beginning of the fiscal year that includes the interim period. An entity that elects early adoption must adopt all of the amendment in the same period. Entities should apply ASU 2016-15 using a retrospective transition method to each period presented. If it is impracticable for an entity to apply ASU 2016-15 retrospectively for some of the issues, it may apply the amendments for those issues prospectively as of the earliest date practicable. ASU 2016-15 will result in some changes in classification in the consolidated statements of cash flows, which the Company does not expect will be significant, and will not have any impact on its consolidated financial position or results of operations.

In October 2016, the FASB issued ASU 2016-16, "Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory," which requires entities to recognize at the transaction date the income tax consequences of intercompany asset transfers other than inventory. ASU 2016-16 is effective for interim and annual periods in fiscal years beginning after December 15, 2017. Early adoption is permitted, but only at the beginning of an annual period for which no financial statements (interim or annual) have already been issued or made available for issuance. The Company is evaluating the effect that ASU 2016-16 will have on its financial statements and related disclosures.

In January 2017, the FASB issued ASU 2017-01, "Business Combinations (Topic 805): Clarifying the Definition of a Business," which provides a new framework for determining whether transactions should be accounted for as acquisitions of assets or businesses. ASU 2017-01 is effective for annual periods in fiscal years beginning after December 15, 2018 and interim periods in fiscal years beginning after December 15, 2019. The Company does not expect ASU 2017-01 to have a material impact on its financial condition or results of operations.

In January 2017, the FASB issued ASU 2017-04, "Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment," which intends to simplify goodwill impairment testing by eliminating the second step of the analysis under which the implied fair value of goodwill is determined as if the reporting unit were being acquired in a business combination. ASU 2017-04 instead requires entities to compare the fair value of a reporting unit with its carrying amount and recognize an impairment charge for any amount by which the carrying amount exceeds the reporting unit's fair value, to the extent that the loss recognized does not exceed the amount of goodwill allocated to that reporting unit. ASU 2017-04 must be applied prospectively and is effective for the Company on January 1, 2020. Early adoption is permitted. The Company does not expect ASU 2017-04 to have a material impact on its financial condition or results of operations.

In March 2017, the FASB issued ASU 2017-08, "Receivables - Nonrefundable Fees and Other Costs (Subtopic 210-20): Premium Amortization on Purchased Callable Debt Securities," which shortens the premium amortization period for purchased non-contingently callable debt securities. ASU 2017-08 is effective for interim and annual periods in fiscal years beginning after December 15, 2018. Early adoption is permitted for annual or interim periods. If

an entity early adopts in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes the interim period. The Company does not expect ASU 2017-08 to have a material impact on its financial condition or results of operations.

In May 2017, the FASB issued ASU 2017-09, "Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting," which clarifies what constitutes a modification of a share-based payment award. ASU 2017-09 is effective for interim and annual periods in fiscal years beginning after December 15, 2017. Early adoption is permitted as of the beginning of an annual period for which financial statements (interim or annual) have not been issued or made available for issuance. The Company is evaluating the effect that ASU 2017-09 will have on its financial statements and related disclosures.

PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

NOTE 12. SUBSEQUENT EVENTS

Common Stock Dividends

On August 1, 2017, the Company announced that the Board of Directors had declared a quarterly cash dividend of \$0.50 per common share. The cash dividend is payable on August 31, 2017 to stockholders of record at the close of business on August 21, 2017.

We have evaluated events that have occurred subsequent to June 30, 2017 and have concluded there are no other subsequent events that would require recognition in the accompanying consolidated financial statements.



ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Information

This Form 10-Q 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 pending acquisition of CUB, capital management, including reducing excess capital, intentions to expand the Bank’s lending business; net interest income, net interest margin, allowance for loan and lease losses, deposit growth, loan and lease portfolio growth and production, liquidity, profitability, goodwill and intangible assets, interest rate risk management, and effective tax rates. All statements contained in this Form 10-Q that are not clearly historical in nature are forward-looking, and the words “anticipate,” “assume,” “intend,” “believe,” “forecast,” “expect,” “estimate,” “plan,” “continue,” “will,” “should,” “look forward to,” and similar expressions are generally intended to identify forward-looking statements. All forward-looking statements (including statements regarding future financial and operating results and future transactions and their results) involve risks, uncertainties and contingencies, many of which are beyond our control, which may cause actual results, performance, or achievements to differ materially from anticipated results, performance or achievements. Actual results could differ materially from those contained or implied by such forward-looking statements for a variety of factors, including without limitation:

- our ability to complete future acquisitions, including the pending CUB acquisition, and to successfully integrate such acquired entities or achieve expected benefits, synergies and/or operating efficiencies within expected time frames or at all;
- our ability to obtain regulatory approvals and meet other closing conditions to the pending CUB acquisition on the expected terms and schedule;
- changes in our stock price before completion of the pending CUB acquisition, including as a result of the financial performance of the Company or CUB prior to closing;
- the reaction to the pending CUB acquisition of the companies' customers, employees and counterparties;
- our ability to compete effectively against other financial service providers in our markets;
- the effect of the current low interest rate environment or impact of changes in interest rates or levels of market activity, especially on the fair value of our loan and investment portfolios;
  - deterioration, weaker than expected improvement, a continued sluggish recovery, or other changes in the state of the economy or the markets in which we conduct business (including the levels of initial public offerings and mergers and acquisitions), which may affect the ability of borrowers to repay their loans and the value of real property or other property held as collateral for such loans;
  - changes in credit quality and the effect of credit quality on our provision for credit losses and allowance for loan and lease losses;
- our ability to attract deposits and other sources of funding or liquidity;
- the need to retain capital for strategic or regulatory reasons;
- the impact of the Dodd-Frank Act on our business, business strategies and cost of operations;
- compression of the net interest margin due to changes in the interest rate environment, forward yield curves, loan products offered, spreads on newly originated loans and leases and/or asset mix;
- reduced demand for our services due to strategic or regulatory reasons;
- our ability to successfully execute on initiatives relating to enhancements of our technology infrastructure, including client-facing systems and applications;
- legislative or regulatory requirements or changes, including an increase to capital requirements, and increased political and regulatory uncertainty;
- the impact on our reputation and business from our interactions with business partners, counterparties, service providers and other third parties;
- higher than anticipated increases in operating expenses;
- 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;

the effectiveness of our risk management framework and quantitative models;

the costs and effects of legal, compliance, and regulatory actions, changes and developments, including the impact of adverse judgments or settlements in litigation, the initiation and resolution of regulatory or other governmental inquiries or investigations, and/or the results of regulatory examinations or reviews; changes in tax laws or regulations affecting our business, including the disallowance of tax benefits by tax authorities and/or changes in tax filing jurisdictions or entity classifications; and our success at managing risks involved in the foregoing items and all other risk factors described in our audited consolidated financial statements, and other risk factors described in this Form 10-Q and other documents filed or furnished by PacWest with the SEC.

All forward-looking statements included in this Form 10-Q 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.

#### Overview

PacWest Bancorp is a bank holding company registered under the BHCA. Our principal business is to serve as the holding company for our Beverly Hills based wholly-owned banking 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 lease and deposit products and services through 74 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 additional products and services through our CapitalSource and Square 1 Bank divisions. Our CapitalSource Division provides cash flow, asset-based, equipment, and real estate loans and treasury management services to established middle market businesses on a national basis. Our Square 1 Bank Division 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. In addition, we provide investment advisory and asset management services to select clients through Square 1 Asset Management, Inc., a wholly-owned subsidiary of the Bank and a SEC-registered investment adviser.

In managing the top line of our business, we focus on loan growth, loan yield, deposit cost, and net interest margin. Net interest income, on a year-to-date basis in 2017, accounted for 87.1% of our net revenues (net interest income plus noninterest income).

At June 30, 2017, we had total assets of \$22.2 billion, including \$15.5 billion of loans and leases held for investment, net of deferred fees, \$175.2 million of loans held for sale, and \$3.5 billion of securities available-for-sale, compared to \$21.9 billion of total assets, including \$15.5 billion of loans and leases held for investment, net of deferred fees, and \$3.2 billion of securities available-for-sale at December 31, 2016. Total assets increased \$377.1 million during the six months ended June 30, 2017 due to increases in loans and leases and securities available-for-sale, offset partially by a decrease in cash and cash equivalents.

At June 30, 2017, we had total liabilities of \$17.7 billion, including total deposits of \$16.9 billion and borrowings of \$217.5 million, compared to \$17.4 billion of total liabilities, including \$15.9 billion of total deposits and \$905.8 million of borrowings at December 31, 2016. The \$296.3 million increase in total liabilities since year-end was due to a \$693.7 million increase in core deposits, a \$154.8 million increase in non-core non-maturity deposits, and a \$155.8 million increase in time deposits, offset partially by a \$688.4 million decrease in borrowings, primarily overnight FHLB advances. At June 30, 2017, core deposits totaled \$13.2 billion, or 78% of total deposits, and time deposits totaled \$2.3 billion, or 14% of total deposits.

## Recent Events

### Loan Sales and Loans Held for Sale

In the second quarter of 2017, we sold \$46.0 million of loans consisting primarily of loans from our healthcare portfolios. Additionally, we entered into two agreements to sell loans with balances totaling \$175.2 million and the associated unfunded commitments of \$19.3 million, primarily from our healthcare portfolios. The \$175.2 million of loans were reported as held for sale at June 30, 2017 and the sales were completed in July. As a result of the second quarter loan sales and transfers to loans held for sale, our healthcare cash flow portfolio held for investment decreased from \$740.6 million at March 31, 2017 to \$514.7 million at June 30, 2017, which included two non-pass rated credits of \$26.1 million.

In connection with the transfer of loans to held for sale, we recognized \$7.2 million in charge-offs in order to record the loans at the lower of cost or fair value. Additionally, our nonaccrual loans held for investment decreased by \$5.3 million and our classified loans held for investment decreased by \$44.8 million as a result of the loans transferred to held for sale.

### CU Bancorp Merger Announcement

On April 6, 2017, PacWest announced the signing of a definitive agreement and plan of merger (the "Agreement") whereby PacWest will acquire CUB in a transaction valued at approximately \$705 million as of the announcement date.

CUB, headquartered in Los Angeles, California, is the parent of CU Bank, a California state-chartered non-member bank, with approximately \$3.0 billion in assets and nine branches located in Los Angeles, Orange, Ventura, and San Bernardino counties at June 30, 2017. In connection with the acquisition, CU Bank will be merged into Pacific Western Bank, the principal operating subsidiary of PacWest.

The acquisition, which was approved by the PacWest and CUB boards of directors, is expected to close in the fourth quarter of 2017 and is subject to customary closing conditions, including obtaining approval by CUB's shareholders and bank regulatory authorities.

### Sale/Leaseback Transaction

In the first quarter of 2017, the Company sold four properties with an aggregate book value of \$9.7 million to a third party and simultaneously leased back the properties under one lease with an initial term of five years and three leases with initial terms of 10 years. The aggregate purchase price was \$12.1 million which resulted in a gain of \$0.6 million recognized in the first quarter and a deferred gain of \$1.8 million to be recognized over the respective terms of the new leases.

### Key Performance Indicators

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

#### The Level of 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 (annualized) expressed as a percentage of average interest earning assets. Tax equivalent net interest income is net interest income increased by an adjustment for tax-exempt income on certain municipal securities based on a 35% federal statutory tax rate. Tax equivalent net interest margin is calculated as tax equivalent net interest income divided by average interest-earning assets.

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 loans and leases 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.

#### Loan and Lease Growth

We actively seek new lending opportunities under an array of commercial real estate loans and C&I lending products. Our targeted collateral for our real estate loan offerings includes multifamily properties, healthcare properties, office properties, hospitality properties, industrial 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 the various stages of their operations. Our loan origination process emphasizes credit quality. We foster lending relationships with borrowers that have proven loan repayment performance. Our commitment sizes vary by loan product and can range up to \$100 million for certain asset-based lending arrangements and select 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 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 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 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 the calculation of our efficiency ratio for the periods indicated:

| Efficiency Ratio                                   | Three Months Ended     |                   |                  | Six Months Ended |            |
|--|------------------------|-------------------|------------------|------------------|------------|
|  | June 30,<br>2017       | March 31,<br>2017 | June 30,<br>2016 | June 30,<br>2017 | 2016       |
|  | (Dollars in thousands) |                   |                  |                  |            |
| Noninterest expense                                | \$ 117,707             | \$ 116,544        | \$ 110,081       | \$ 234,251       | \$ 220,769 |
| Less: Intangible asset amortization                | 3,065                  | 3,064             | 4,371            | 6,129            | 9,117      |
| Foreclosed assets (income) expense, net            | (157 )                 | 143               | (3 )             | (14 )            | (564 )     |
| Acquisition, integration, and reorganization costs | 1,700                  | 500               | —                | 2,200            | 200        |
| Noninterest expense used for efficiency ratio      | \$ 113,099             | \$ 112,837        | \$ 105,713       | \$ 225,936       | \$ 212,016 |
| Net interest income (tax equivalent)               | \$ 247,322             | \$ 237,235        | \$ 238,667       | \$ 484,557       | \$ 488,207 |
| Noninterest income                                 | 35,282                 | 35,114            | 22,121           | 70,396           | 56,660     |
| Net revenues                                       | 282,604                | 272,349           | 260,788          | 554,953          | 544,867    |
| Less: Gain (loss) on sale of securities            | 1,651                  | (99 )             | 478              | 1,552            | 8,588      |
| Net revenues used for efficiency ratio             | \$ 280,953             | \$ 272,448        | \$ 260,310       | \$ 553,401       | \$ 536,279 |
| Efficiency ratio                                   | 40.3                   | % 41.4            | % 40.6           | % 40.8           | % 39.5     |

#### Critical Accounting Policies

The Company's accounting policies are fundamental to understanding management's discussion and analysis of results of operations and financial condition. 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. For further information, refer to our Annual Report on Form 10 K for the year ended December 31, 2016.

#### 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 methodology for determining these non-GAAP measures may differ among companies. We used the following non-GAAP measures in this Form 10-Q:

Return on average tangible equity, tangible common equity ratio, 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 the related GAAP measures of return on average equity, equity to assets ratio, and book value per share, respectively. The reconciliation of these non-GAAP measurements to the GAAP measurements is presented in the following tables for and as of the periods presented.

Edgar Filing: PACWEST BANCORP - Form 10-Q

| Return on Average Tangible Equity                | Three Months Ended     |                |               | Six Months Ended |             |   |
|--|------------------------|----------------|---------------|------------------|-------------|---|
|  | June 30, 2017          | March 31, 2017 | June 30, 2016 | June 30, 2017    | 2016        |   |
|  | (Dollars in thousands) |                |               |                  |             |   |
| Net earnings                                     | \$93,647               | \$78,668       | \$82,168      | \$172,315        | \$172,624   |   |
| Average stockholders' equity                     | \$4,545,276            | \$4,503,675    | \$4,483,593   | \$4,524,591      | \$4,461,097 |   |
| Less: Average intangible assets                  | 2,205,814              | 2,209,112      | 2,222,007     | 2,207,454        | 2,224,764   |   |
| Average tangible common equity                   | \$2,339,462            | \$2,294,563    | \$2,261,586   | \$2,317,137      | \$2,236,333 |   |
| Return on average equity <sup>(1)</sup>          | 8.26                   | % 7.08         | % 7.37        | % 7.68           | % 7.78      | % |
| Return on average tangible equity <sup>(2)</sup> | 16.06                  | % 13.90        | % 14.61       | % 15.00          | % 15.52     | % |

(1) Annualized net earnings divided by average stockholders' equity.

(2) Annualized net earnings divided by average tangible common equity.

| Tangible Common Equity Ratio/<br>Tangible Book Value Per Share | June 30, 2017 | December 31, 2016 |
|--|---------------|-------------------|
|--|---------------|-------------------|

(Dollars in thousands, except per share data)

PacWest Bancorp Consolidated:

|   |              |              |   |
|---|--------------|--------------|---|
| Stockholders' equity                        | \$4,559,905  | \$4,479,055  |   |
| Less: Intangible assets                     | 2,204,186    | 2,210,315    |   |
| Tangible common equity                      | \$2,355,719  | \$2,268,740  |   |
| Total assets                                | \$22,246,877 | \$21,869,767 |   |
| Less: Intangible assets                     | 2,204,186    | 2,210,315    |   |
| Tangible assets                             | \$20,042,691 | \$19,659,452 |   |
| Equity to assets ratio                      | 20.50        | % 20.48      | % |
| Tangible common equity ratio <sup>(1)</sup> | 11.75        | % 11.54      | % |
| Book value per share                        | \$37.55      | \$36.93      |   |
| Tangible book value per share               | \$19.40      | \$18.71      |   |
| Shares outstanding                          | 121,448,321  | 121,283,669  |   |

Pacific Western Bank:

|   |              |              |   |
|---|--------------|--------------|---|
| Stockholder's equity                        | \$4,460,911  | \$4,374,478  |   |
| Less: Intangible assets                     | 2,204,186    | 2,210,315    |   |
| Tangible common equity                      | \$2,256,725  | \$2,164,163  |   |
| Total assets                                | \$22,223,320 | \$21,848,644 |   |
| Less: Intangible assets                     | 2,204,186    | 2,210,315    |   |
| Tangible assets                             | \$20,019,134 | \$19,638,329 |   |
| Equity to assets ratio                      | 20.07        | % 20.02      | % |
| Tangible common equity ratio <sup>(1)</sup> | 11.27        | % 11.02      | % |

---

(1) Tangible common equity divided by tangible assets.

46

---



## Results of Operations

## Earnings Performance

The following table presents performance metrics for the periods indicated:

| Performance Measures                      | Three Months Ended |                |               | Six Months Ended |               |
|---|--------------------|----------------|---------------|------------------|---------------|
|   | June 30, 2017      | March 31, 2017 | June 30, 2016 | June 30, 2017    | June 30, 2016 |
| Diluted earnings per share                | \$0.77             | \$0.65         | \$0.68        | \$1.42           | \$1.42        |
| Annualized return on:                     |                    |                |               |                  |               |
| Average assets                            | 1.71 %             | 1.47 %         | 1.57 %        | 1.59 %           | 1.65 %        |
| Average tangible equity <sup>(1)(2)</sup> | 16.06 %            | 13.90 %        | 14.61 %       | 15.00 %          | 15.52 %       |
| Net interest margin (tax equivalent)      | 5.21 %             | 5.16 %         | 5.33 %        | 5.19 %           | 5.43 %        |
| Efficiency ratio                          | 40.3 %             | 41.4 %         | 40.6 %        | 40.8 %           | 39.5 %        |

(1) Calculation reduces average stockholder's equity by average intangible assets.

(2) See "Non-GAAP Measurements."

## Second Quarter of 2017 Compared to First Quarter of 2017

Net earnings for the second quarter of 2017 were \$93.6 million, or \$0.77 per diluted share, compared to net earnings for the first quarter of 2017 of \$78.7 million, or \$0.65 per diluted share. The \$15.0 million increase in net earnings was due to higher net interest income of \$10.0 million, a lower provision for credit losses of \$13.2 million, and higher noninterest income of \$0.2 million, offset partially by higher noninterest expense of \$1.2 million. The increase in net interest income was due mainly to a higher yield and average balance of loans and leases. The lower provision for the second quarter of 2017 was mainly attributable to lower general reserves being required because of the decreased levels of classified loans and healthcare cash flow loans, both of which carry greater than average general reserve levels due to charge-off experience. In addition, the prior quarter provision was higher due to general provisions from increased general reserve loss factors which were influenced by net charge-off experience. The increase in noninterest expense was due mostly to higher acquisition, integration and reorganization costs.

## Second Quarter of 2017 Compared to Second Quarter of 2016

Net earnings for the second quarter of 2017 were \$93.6 million, or \$0.77 per diluted share, compared to net earnings for the second quarter of 2016 of \$82.2 million, or \$0.68 per diluted share. The \$11.5 million increase in net earnings was due to higher net interest income of \$8.7 million, a lower provision for credit losses of \$2.4 million, and higher noninterest income of \$13.2 million, offset partially by higher noninterest expense of \$7.6 million. The increase in net interest income was due mainly to a higher average loan and lease balance, offset by lower discount accretion on acquired loans. The increase in noninterest income was due mostly to lower FDIC loss sharing expense, higher leased equipment income, and higher other income. The decrease in FDIC loss sharing expense was due to the early termination of all FDIC loss sharing agreements in the second quarter of 2016. The increase in noninterest expense was due mostly to higher compensation expense, other expense, loan expense, and acquisition, integration and reorganization costs, offset by lower intangible asset amortization.

Six Months Ended June 30, 2017 Compared to Six Months Ended June 30, 2016

Net earnings for the six months ended June 30, 2017 were \$172.3 million, or \$1.42 per diluted share, compared to net earnings for the six months ended June 30, 2016 of \$172.6 million, or \$1.42 per diluted share. The \$0.3 million decrease in net earnings was due to lower net interest income of \$3.4 million, a higher provision for credit losses of \$2.2 million, and higher noninterest expense of \$13.5 million, offset partially by higher noninterest income of \$13.7 million and a lower effective tax rate as compared to the six months ended June 30, 2016. The decrease in net interest income was due to lower discount accretion on acquired loans, offset by a higher average loan and lease balance. The decrease in accretion was due primarily to lower accelerated accretion from payoffs of acquired loans, including \$12.1 million from the payoff of a nonaccrual PCI loan in the first quarter of 2016. The increase in noninterest expense was due mostly to higher compensation expense, loan expense, other expense, and acquisition, integration and reorganization costs, offset by lower intangible asset amortization. The increase in noninterest income was due mostly to lower FDIC loss sharing expense, higher other income, and higher leased equipment income, offset by a lower gain on sale of securities. The decrease in FDIC loss sharing expense was due to the early termination of all FDIC loss sharing agreements in the second quarter of 2016.

Edgar Filing: PACWEST BANCORP - Form 10-Q

Net Interest Income

Net interest income is affected by changes in both interest rates and the volume of average interest earning assets and interest bearing liabilities. The following table summarizes 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, for the periods indicated:

|  | Three Months Ended     |                         |                  |                 |                         |                  |                 |                         |                  |
|--|------------------------|-------------------------|------------------|-----------------|-------------------------|------------------|-----------------|-------------------------|------------------|
|  | June 30, 2017          |                         |                  | March 31, 2017  |                         |                  | June 30, 2016   |                         |                  |
|  | 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) |                         |                  |                 |                         |                  |                 |                         |                  |
| <b>ASSETS:</b>                               |                        |                         |                  |                 |                         |                  |                 |                         |                  |
| PCI loans                                    | \$68,759               | \$4,643                 | 27.08 %          | \$89,335        | \$4,250                 | 19.29 %          | \$147,270       | \$8,484                 | 23.17 %          |
| Non-PCI loans and leases                     | 15,429,162             | 229,975                 | 5.98 %           | 15,207,709      | 219,928                 | 5.86 %           | 14,321,320      | 215,842                 | 6.06 %           |
| Total loans and leases (1)                   | 15,497,921             | 234,618                 | 6.07 %           | 15,297,044      | 224,178                 | 5.94 %           | 14,468,590      | 224,326                 | 6.24 %           |
| Investment securities (2)                    | 3,436,785              | 29,538                  | 3.45 %           | 3,257,448       | 27,822                  | 3.46 %           | 3,288,819       | 27,330                  | 3.34 %           |
| Deposits in financial institutions           | 96,087                 | 237                     | 0.99 %           | 100,751         | 192                     | 0.77 %           | 245,666         | 308                     | 0.50 %           |
| Total interest earning assets (2)            | 19,030,793             | 264,393                 | 5.57 %           | 18,655,243      | 252,192                 | 5.48 %           | 18,003,075      | 251,964                 | 5.63 %           |
| Other assets                                 | 2,905,809              |                         |                  | 2,990,291       |                         |                  | 2,996,867       |                         |                  |
| Total assets                                 | \$21,936,602           |                         |                  | \$21,645,534    |                         |                  | \$20,999,942    |                         |                  |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY:</b> |                        |                         |                  |                 |                         |                  |                 |                         |                  |
| Interest checking deposits                   | \$1,709,699            | 1,697                   | 0.40 %           | \$1,505,439     | 1,167                   | 0.31 %           | \$1,024,763     | 501                     | 0.20 %           |
| Money market deposits                        | 4,907,865              | 4,993                   | 0.41 %           | 4,866,720       | 4,410                   | 0.37 %           | 4,321,533       | 2,886                   | 0.27 %           |
| Savings deposits                             | 708,389                | 296                     | 0.17 %           | 711,529         | 298                     | 0.17 %           | 766,309         | 412                     | 0.22 %           |
| Time deposits                                | 2,366,399              | 3,219                   | 0.55 %           | 2,246,547       | 2,502                   | 0.45 %           | 3,086,492       | 4,024                   | 0.52 %           |
| Total interest bearing deposits              | 9,692,352              | 10,205                  | 0.42 %           | 9,330,235       | 8,377                   | 0.36 %           | 9,199,097       | 7,823                   | 0.34 %           |
| Borrowings                                   | 457,774                | 1,066                   | 0.93 %           | 596,903         | 1,018                   | 0.69 %           | 300,428         | 352                     | 0.47 %           |
| Subordinated debentures                      | 443,756                | 5,800                   | 5.24 %           | 441,521         | 5,562                   | 5.11 %           | 439,081         | 5,122                   | 4.69 %           |
| Total interest bearing liabilities           | 10,593,882             | 17,071                  | 0.65 %           | 10,368,659      | 14,957                  | 0.59 %           | 9,938,606       | 13,297                  | 0.54 %           |
| Noninterest bearing demand deposits          | 6,646,349              |                         |                  | 6,595,346       |                         |                  | 6,437,720       |                         |                  |
| Other liabilities                            | 151,095                |                         |                  | 177,854         |                         |                  | 140,023         |                         |                  |
| Total liabilities                            | 17,391,326             |                         |                  | 17,141,859      |                         |                  | 16,516,349      |                         |                  |
| Stockholders' equity                         | 4,545,276              |                         |                  | 4,503,675       |                         |                  | 4,483,593       |                         |                  |
| Total liabilities and stockholders' equity   | \$21,936,602           |                         |                  | \$21,645,534    |                         |                  | \$20,999,942    |                         |                  |
| Net interest income (tax equivalent) (2)     |                        | \$247,322               |                  |                 | \$237,235               |                  |                 | \$238,667               |                  |

Edgar Filing: PACWEST BANCORP - Form 10-Q

|                                |               |               |        |               |               |        |               |               |        |
|--------------------------------|---------------|---------------|--------|---------------|---------------|--------|---------------|---------------|--------|
| Net interest rate spread       | 4.92 %        | 4.89 %        | 5.09 % |               |               |        |               |               |        |
| Net interest margin            | 5.21 %        | 5.16 %        | 5.33 % |               |               |        |               |               |        |
| Total deposits <sup>(3)</sup>  | \$ 16,338,701 | \$ 10,205,025 | 0.25 % | \$ 15,925,581 | \$ 8,377,021  | 0.21 % | \$ 15,636,817 | \$ 7,823,020  | 0.20 % |
| Funding sources <sup>(4)</sup> | \$ 17,240,231 | \$ 17,071,040 | 0.40 % | \$ 16,964,005 | \$ 14,957,036 | 0.36 % | \$ 16,376,326 | \$ 13,297,033 | 0.33 % |

(1) Includes nonaccrual loans and leases and loan fees.

Includes tax-equivalent adjustments of \$4.8 million, \$4.8 million, and \$4.9 million for the three months ended June (2)30, 2017, March 31, 2017, and June 30, 2016, respectively, related to tax-exempt income on municipal securities.

The federal statutory tax rate utilized was 35% for the periods.

(3) Total deposits is the sum of total interest-bearing deposits and noninterest-bearing demand deposits. The cost of total deposits is calculated as annualized interest expense on deposits divided by average total deposits.

(4) Funding sources is the sum of total interest-bearing liabilities and noninterest-bearing demand deposits. The cost of funding sources is calculated as annualized total interest expense divided by average funding sources.

Edgar Filing: PACWEST BANCORP - Form 10-Q

|   | Six Months Ended |                    |              | June 30, 2016 |                    |              |
|---|------------------|--------------------|--------------|---------------|--------------------|--------------|
|   | June 30, 2017    |                    |              | June 30, 2016 |                    |              |
|   | Average          | Interest           | Yields       | Average       | Interest           | Yields       |
|   | Balance          | Income/<br>Expense | and<br>Rates | Balance       | Income/<br>Expense | and<br>Rates |
| (Dollars in thousands)                              |                  |                    |              |               |                    |              |
| <b>ASSETS:</b>                                      |                  |                    |              |               |                    |              |
| PCI loans   | \$78,990         | \$8,892            | 22.70%       | \$157,448     | \$28,556           | 36.47%       |
| Non-PCI loans and leases                            | 15,319,047       | 449,904            | 5.92 %       | 14,312,429    | 432,145            | 6.07 %       |
| Total loans and leases <sup>(1)</sup>               | 15,398,037       | 458,796            | 6.01 %       | 14,469,877    | 460,701            | 6.40 %       |
| Investment securities <sup>(2)</sup>                | 3,347,612        | 57,360             | 3.46 %       | 3,374,556     | 54,823             | 3.27 %       |
| Deposits in financial institutions                  | 98,406           | 429                | 0.88 %       | 237,980       | 616                | 0.52 %       |
| Total interest earning assets <sup>(2)</sup>        | 18,844,055       | 516,585            | 5.53 %       | 18,082,413    | 516,140            | 5.74 %       |
| Other assets  | 2,947,817        |                    |              | 3,016,855     |                    |              |
| Total assets  | \$21,791,872     |                    |              | \$21,099,268  |                    |              |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY:</b>        |                  |                    |              |               |                    |              |
| Interest checking deposits                          | \$1,608,133      | 2,864              | 0.36 %       | \$975,509     | 885                | 0.18 %       |
| Money market deposits                               | 4,887,406        | 9,403              | 0.39 %       | 4,085,143     | 5,301              | 0.26 %       |
| Savings deposits                                    | 709,951          | 594                | 0.17 %       | 759,840       | 857                | 0.23 %       |
| Time deposits                                       | 2,306,804        | 5,721              | 0.50 %       | 3,473,382     | 9,853              | 0.57 %       |
| Total interest bearing deposits                     | 9,512,294        | 18,582             | 0.39 %       | 9,293,874     | 16,896             | 0.37 %       |
| Borrowings  | 526,954          | 2,084              | 0.80 %       | 397,576       | 933                | 0.47 %       |
| Subordinated debentures                             | 442,645          | 11,362             | 5.18 %       | 437,808       | 10,104             | 4.64 %       |
| Total interest bearing liabilities                  | 10,481,893       | 32,028             | 0.62 %       | 10,129,258    | 27,933             | 0.55 %       |
| Noninterest bearing demand deposits                 | 6,620,988        |                    |              | 6,355,484     |                    |              |
| Other liabilities                                   | 164,400          |                    |              | 153,429       |                    |              |
| Total liabilities                                   | 17,267,281       |                    |              | 16,638,171    |                    |              |
| Stockholders' equity                                | 4,524,591        |                    |              | 4,461,097     |                    |              |
| Total liabilities and stockholders' equity          | \$21,791,872     |                    |              | \$21,099,268  |                    |              |
| Net interest income (tax equivalent) <sup>(2)</sup> |                  | \$484,557          |              |               | \$488,207          |              |
| Net interest rate spread                            |                  |                    | 4.91 %       |               |                    | 5.19 %       |
| Net interest margin                                 |                  |                    | 5.19 %       |               |                    | 5.43 %       |
| Total deposits <sup>(3)</sup>                       | \$16,133,282     | \$18,582           | 0.23 %       | \$15,649,358  | \$16,896           | 0.22 %       |
| Funding sources <sup>(4)</sup>                      | \$17,102,881     | \$32,028           | 0.38 %       | \$16,484,742  | \$27,933           | 0.34 %       |

(1) Includes nonaccrual loans and leases and loan fees.

Includes tax-equivalent adjustments of \$9.6 million and \$9.9 million for the six months ended June 30, 2017 and (2) 2016, respectively, related to tax-exempt income on municipal securities. The federal statutory tax rate utilized was 35% for the periods.

(3) Total deposits is the sum of total interest-bearing deposits and noninterest-bearing demand deposits. The cost of total deposits is calculated as annualized interest expense on deposits divided by average total deposits.

(4) Funding sources is the sum of total interest-bearing liabilities and noninterest-bearing demand deposits. The cost of funding sources is calculated as annualized total interest expense divided by average funding sources.



#### Second Quarter of 2017 Compared to First Quarter of 2017

Net interest income increased by \$10.0 million to \$242.5 million for the second quarter of 2017 compared to \$232.5 million for the first quarter of 2017 due to a higher yield on average loans and leases, higher average balances of loans and leases and investment securities, and one more day in the current quarter compared to the prior quarter, offset partially by higher interest expense. The loan and lease yield for the second quarter of 2017 was 6.07% compared to 5.94% for the first quarter of 2017. The increase in the loan and lease yield was due principally to the repricing of variable-rate loans attributable to the increase in the market interest rates during the first half of 2017, and to a lesser extent, an increase in discount accretion on acquired loans. Total discount accretion on acquired loans was \$7.5 million in the second quarter of 2017 compared to \$6.4 million in the first quarter of 2017.

The tax equivalent NIM for the second quarter of 2017 was 5.21% compared to 5.16% for the first quarter of 2017. The increase in the tax equivalent NIM was due mostly to the higher yield on average loans and leases due to the upward repricing of variable-rate loans, and to a lesser extent, the increase in discount accretion on acquired loans, offset partially by a higher cost of average interest-bearing liabilities. Total discount accretion on acquired loans contributed 16 basis points to the NIM for the second quarter of 2017 and 14 basis points for the first quarter of 2017. The taxable equivalent adjustment for tax-exempt interest income contributed 10 points to the tax equivalent NIM for the second quarter of 2017 and first quarter of 2017.

The cost of average total deposits increased to 0.25% in the second quarter of 2017 from 0.21% in the first quarter of 2017 due mainly to a higher cost and average balance of non-core deposits.

#### Second Quarter of 2017 Compared to Second Quarter of 2016

Net interest income increased by \$8.7 million to \$242.5 million for the second quarter of 2017 compared to \$233.8 million for the second quarter of 2016 due to a higher average balance of loans and leases and a higher yield and average balance of investment securities, offset partially by a lower yield on average loans and leases and higher interest expense. The loan and lease yield for the second quarter of 2017 was 6.07% compared to 6.24% for the same quarter of 2016. The decrease in the loan and lease yield was due mainly to lower discount accretion on acquired loans, offset partially by repricing of variable-rate loans attributable to the increase in market interest rates during the first half of 2017. Total discount accretion on acquired loans was \$7.5 million in the second quarter of 2017 compared to \$16.2 million in the second quarter of 2016.

The tax equivalent NIM for the second quarter of 2017 was 5.21% compared to 5.33% for the same quarter last year. The decrease in the tax equivalent NIM was due mostly to the decrease in the yield on loans and leases as described above, and a higher cost of average interest-bearing liabilities, offset partially by the higher yield on average investment securities. Total discount accretion on acquired loans contributed 16 basis points to the NIM for the second quarter of 2017 and 36 basis points for the second quarter of 2016. Tax-exempt interest income contributed 10 basis points to the tax equivalent NIM for the second quarter of 2017 and 11 basis points for the second quarter of 2016. The cost of average total deposits increased to 0.25% for the second quarter of 2017 from 0.20% for the second quarter of 2016 due mainly to higher costs and average balances of non-core non-maturity deposits and brokered time deposits.

#### Six Months Ended June 30, 2017 Compared to Six Months Ended June 30, 2016

Net interest income decreased by \$3.4 million to \$474.9 million for the six months ended June 30, 2017 compared to \$478.4 million for the six months ended June 30, 2016 due to a lower yield on average loans and leases and higher interest expense, offset partially by a higher average balance of loans and leases and a higher yield on average investment securities. The loan and lease yield for the six months ended June 30, 2017 was 6.01% compared to 6.40% for the same period in 2016. The decrease in the loan and lease yield was due mainly to lower discount accretion on acquired loans, offset partially by repricing of variable-rate loans attributable to the increase in market interest rates during the first half of 2017. Total discount accretion on acquired loans was \$13.9 million for the six months ended June 30, 2017 compared to \$44.1 million for the same period in 2016. The decrease in accretion was primarily due to lower accelerated accretion from payoffs of acquired loans, including \$12.1 million from the payoff of a nonaccrual PCI loan in the first quarter of 2016.

The tax equivalent NIM for the six months ended June 30, 2017 was 5.19% compared to 5.43% for the same period last year. The decrease in the tax equivalent NIM was due mostly to the decrease in the yield on average loans and leases as described above, and a higher cost of average interest-bearing liabilities, offset partially by the higher yield on average investment securities. Total discount accretion on acquired loans contributed 15 basis points to the NIM for the six months ended June 30, 2017 and 49 basis points for the same period last year. Tax-exempt interest income contributed 10 basis points to the tax equivalent NIM for the six months ended June 30, 2017 and 11 basis points for the for the six months ended June 30, 2016.

The cost of average total deposits increased to 0.23% for the six months ended June 30, 2017 from 0.22% for the six months ended June 30, 2016 due mainly to higher costs and average balances of non-core non-maturity deposits and brokered time deposits.

#### Provision for Credit Losses

The following table sets forth the details of the provision for credit losses and allowance for credit losses data for the periods indicated:

|  | Three Months Ended     |                   |                  | Six Months Ended |                  |
|--|------------------------|-------------------|------------------|------------------|------------------|
|  | June 30,<br>2017       | March 31,<br>2017 | June 30,<br>2016 | June 30,<br>2017 | June 30,<br>2016 |
|  | (Dollars in thousands) |                   |                  |                  |                  |
| Provision For Credit Losses:   |                        |                   |                  |                  |                  |
| Addition to allowance for Non PCI loan and lease losses                                | \$10,000               | \$24,260          | \$11,625         | \$34,260         | \$30,790         |
| Addition to reserve for unfunded loan commitments                                      | 2,500                  | 240               | 375              | 2,740            | 1,210            |
| Total provision for Non PCI loan and lease credit losses                               | 12,500                 | 24,500            | 12,000           | 37,000           | 32,000           |
| Provision for PCI loan losses  | (1,001 )               | 228               | 1,903            | (773 )           | 2,043            |
| Total provision for credit losses  | \$11,499               | \$24,728          | \$13,903         | \$36,227         | \$34,043         |
| Non PCI Credit Quality Metrics:  |                        |                   |                  |                  |                  |
| Net charge offs on Non-PCI loans and leases held for investment                        | \$20,947               | \$18,189          | \$432            | \$39,136         | \$4,324          |
| Annualized net charge offs to average Non-PCI loans and leases                         | 0.54 %                 | 0.49 %            | 0.01 %           | 0.52 %           | 0.06 %           |
| At period end:   |                        |                   |                  |                  |                  |
| Allowance for credit losses  | 159,142                | 167,589           | 149,944          |                  |                  |
| Non PCI nonaccrual loans and leases <sup>(1)</sup>                                     | 172,576                | 173,030           | 127,655          |                  |                  |
| Non PCI classified loans and leases <sup>(1)</sup>                                     | 339,977                | 424,399           | 441,035          |                  |                  |
| Allowance for credit losses to Non PCI loans and leases held for investment            | 1.02 %                 | 1.08 %            | 1.03 %           |                  |                  |
| Allowance for credit losses to Non PCI nonaccrual loans and leases held for investment | 92.2 %                 | 96.9 %            | 117.5 %          |                  |                  |

(1)Excludes loans held for sale carried at lower of cost or fair value at June 30, 2017.



Provisions for credit losses are charged to earnings for both on and off balance sheet credit exposures. We have a provision for credit losses on our Non-PCI loans and leases and a provision for credit losses on our PCI loans. The provision for credit losses on our Non-PCI loans and leases is based on our allowance methodology and is an expense that, in our judgment, is required to maintain an adequate allowance for credit losses. The allowance for loan and lease losses is comprised of a general reserve component for unimpaired loans and leases and a specific reserve component for impaired loans and leases, the latter being the aggregation of individual loan impairment analyses. Our allowance methodology for the general reserve component includes both quantitative and qualitative loss factors that are applied against the population of unimpaired loans and leases. The quantitative loss factors are the average charge-offs experienced over a prescribed historical look-back period pooled both by loan or lease type and credit risk rating; loans with more adverse credit risk ratings have higher quantitative loss factors. The qualitative loss factors consider, among other things, current economic trends and forecasts, current commercial real estate values and performance trends, and the loan portfolio's current composition and credit performance trends. The provision for credit losses on our PCI loans results from changes in expected cash flows on such loans compared to those previously estimated. We recorded a total provision for credit losses of \$11.5 million in the second quarter of 2017, \$24.7 million in the first quarter of 2017, and \$13.9 million in the second quarter of 2016. The provision for credit losses for the six months ended June 30, 2017 was \$36.2 million compared to \$34.0 million for the same period last year. The decrease in the provision for credit losses for the second quarter of 2017 compared to the first quarter of 2017 was mainly attributable to lower general reserves being required because of the decreased levels of classified loans held for investment and healthcare cash flow loans held for investment resulting from second quarter of 2017 loan sales and transfers of loans to held for sale. Both classified loans and healthcare cash flow loans carry greater than average general reserve levels due to charge-off experience. In addition, the first quarter of 2017 provision was higher due to general provisions from increased general reserve loss factors which were influenced by net charge-off experience.

Net charge-offs for the second quarter of 2017 included gross charge-offs of approximately \$10.9 million for venture capital loans and \$7.2 million related to the recording of the healthcare portfolio loans at the lower of cost or fair value at the time of transfer to loans held for sale. Net charge-offs for the first quarter of 2017 included gross charge-offs of approximately \$12.5 million related to two healthcare cash flow loans for which \$7.5 million of specific reserves were recorded as of December 31, 2016, and \$5.5 million related to four venture capital loans for which \$3.2 million of specific reserves were recorded as of December 31, 2016.

Certain circumstances may lead to increased provisions for credit losses in the future. Examples of such circumstances are an increased amount of classified and/or impaired loans and leases, net loan and lease and unfunded commitment growth, and changes in economic conditions. Changes in economic conditions include 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, and adverse conditions in borrowers' businesses. See further discussion in "- Balance Sheet Analysis - Allowance for Credit Losses on Non-PCI Loans and Leases Held for Investment" and "- Balance Sheet Analysis - Allowance for Loan Losses on PCI Loans Held for Investment" contained herein.

## Noninterest Income

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

|  | Three Months Ended |                      | Six Months Ended |                  |                  |
|--|--------------------|----------------------|------------------|------------------|------------------|
|  | June 30,<br>2017   | March<br>31,<br>2017 | June 30,<br>2016 | June 30,<br>2017 | June 30,<br>2016 |
| Noninterest Income                                 | (In thousands)     |                      |                  |                  |                  |
| Service charges on deposit accounts                | \$3,510            | \$3,758              | \$3,633          | \$7,268          | \$7,489          |
| Other commissions and fees                         | 10,583             | 10,390               | 11,073           | 20,973           | 22,562           |
| Leased equipment income                            | 11,635             | 9,475                | 8,523            | 21,110           | 16,767           |
| Gain on sale of loans and leases                   | 649                | 712                  | 388              | 1,361            | 633              |
| Gain (loss) on sale of securities                  | 1,651              | (99)                 | 478              | 1,552            | 8,588            |
| FDIC loss sharing expense, net                     | —                  | —                    | (6,502)          | —                | (8,917)          |
| Other income:                                      |                    |                      |                  |                  |                  |
| Dividends and realized gains on equity investments | 1,587              | 1,345                | 2,185            | 2,932            | 2,431            |
| Warrant income                                     | 815                | 155                  | (186)            | 970              | 88               |
| Other  | 4,852              | 9,378                | 2,529            | 14,230           | 7,019            |
| Total noninterest income                           | \$35,282           | \$35,114             | \$22,121         | \$70,396         | \$56,660         |

## Second Quarter of 2017 Compared to First Quarter of 2017

Noninterest income increased by \$0.2 million to \$35.3 million for the second quarter of 2017 compared to \$35.1 million for the first quarter of 2017 due mainly to a \$2.2 million increase in leased equipment income due to higher gains on early lease terminations, a \$1.8 million increase in gain on sale of securities, and a \$0.7 million increase in warrant income, offset by a \$4.5 million decrease in other income attributable mainly to a \$5.0 million legal settlement with a former borrower recorded in the first quarter of 2017.

## Second Quarter of 2017 Compared to Second Quarter of 2016

Noninterest income increased by \$13.2 million to \$35.3 million for the second quarter of 2017 compared to \$22.1 million for the second quarter of 2016 due mostly to lower FDIC loss sharing expense of \$6.5 million, higher leased equipment income of \$3.1 million, higher other income of \$2.3 million, higher gain on sale of securities of \$1.2 million, and higher warrant income of \$1.0 million, offset by lower dividends and realized gains on equity investments of \$0.6 million. The decrease in FDIC loss sharing expense was due to the termination of all FDIC loss sharing agreements in the second quarter of 2016. The increase in leased equipment income was due primarily to higher gains on early lease terminations. The increase in other income was due to higher BOLI income and higher miscellaneous income. Warrant income increased primarily from higher gains on exits. Dividends and realized gains on equity investments decreased because the second quarter of 2017 included dividends received of \$1.6 million and no gains on the sale of equity investments, while the second quarter of 2016 included dividends received of \$0.7 million and net gains of \$1.5 million on the sale of equity investments.

## Six Months Ended June 30, 2017 Compared to Six Months Ended June 30, 2016

Noninterest income increased by \$13.7 million to \$70.4 million for the six months ended June 30, 2017 compared to \$56.7 million for the six months ended June 30, 2016 due mostly to lower FDIC loss sharing expense of \$8.9 million, higher other income of \$7.2 million, and higher leased equipment income of \$4.3 million, offset by lower gain on sale of securities of \$7.0 million. The decrease in FDIC loss sharing expense was due to the termination of all FDIC loss sharing agreements in the second quarter of 2016. The increase in other income was due mainly to a \$5.0 million legal settlement with a former borrower recorded in the first quarter of 2017. Leased equipment income increased due to a higher average balance of leased equipment in 2017 and higher gains from early lease terminations. The decrease in gain on sale of securities was attributable to a net gain of \$1.6 million on sales of \$84.5 million of securities during the six months ended June 30, 2017 compared to a net gain of \$8.6 million on sales of \$344.8 million of securities during the 2016 period.

## Noninterest Expense

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

|   | Three Months Ended |                      | Six Months Ended |                  |           |
|---|--------------------|----------------------|------------------|------------------|-----------|
|   | June 30,<br>2017   | March<br>31,<br>2017 | June 30,<br>2016 | June 30,<br>2017 | 2016      |
| Noninterest Expense                               | (In thousands)     |                      |                  |                  |           |
| Compensation                                      | \$65,288           | \$64,880             | \$62,174         | \$130,168        | \$123,239 |
| Occupancy   | 11,811             | 11,608               | 12,193           | 23,419           | 24,825    |
| Data processing                                   | 6,337              | 7,015                | 5,644            | 13,352           | 11,548    |
| Other professional services                       | 3,976              | 3,378                | 3,401            | 7,354            | 6,973     |
| Insurance and assessments                         | 4,856              | 4,791                | 4,951            | 9,647            | 9,916     |
| Intangible asset amortization                     | 3,065              | 3,064                | 4,371            | 6,129            | 9,117     |
| Leased equipment depreciation                     | 5,232              | 5,625                | 5,286            | 10,857           | 10,310    |
| Foreclosed assets (income) expense, net           | (157 )             | 143                  | (3 )             | (14 )            | (564 )    |
| Acquisition, integration and reorganization costs | 1,700              | 500                  | —                | 2,200            | 200       |
| Loan expense                                      | 3,884              | 3,387                | 2,145            | 7,271            | 4,300     |
| Other   | 11,715             | 12,153               | 9,919            | 23,868           | 20,905    |
| Total noninterest expense                         | \$117,707          | \$116,544            | \$110,081        | \$234,251        | \$220,769 |

## Second Quarter of 2017 Compared to First Quarter of 2017

Noninterest expense increased by \$1.2 million to \$117.7 million for the second quarter of 2017 compared to \$116.5 million for the first quarter of 2017. The increase was due to a \$1.2 million increase in acquisition, integration, and reorganization costs and a \$1.1 million charge in other expense related to the sale of the unfunded commitments portion of the healthcare loan sale. Other expense in the first quarter of 2017 included a \$1.5 million accrual to increase our reserve for probable loss contingencies.

## Second Quarter of 2017 Compared to Second Quarter of 2016

Noninterest expense increased by \$7.6 million to \$117.7 million for the second quarter of 2017 compared to \$110.1 million for the second quarter of 2016. The increase was due mostly to higher compensation expense of \$3.1 million, higher other expense of \$1.8 million, higher loan expense of \$1.7 million, and higher acquisition, integration and reorganization costs of \$1.7 million, offset by lower intangible asset amortization of \$1.3 million. Compensation expensed increased due to higher salary expense of \$1.8 million, higher stock-based compensation expense of \$0.7 million, and higher bonus expense of \$0.6 million. Other expense increased due primarily to a \$1.1 million charge in the second quarter of 2017 related to the sale of the unfunded commitments portion of the healthcare loan sale and to higher business development expenses. Loan expense increased due to lower fee income from servicing and higher legal-related and other loan expenses. Acquisition, integration and reorganization costs increased due to costs associated with our pending acquisition of CUB. Intangible asset amortization decreased due mainly to the accelerated amortization recorded in the prior year on our intangible assets, in particular the Square 1 CDI and CRI, in addition to the CDI related to a previous acquisition that was fully amortized in the second quarter of 2016.

Six Months Ended June 30, 2017 Compared to Six Months Ended June 30, 2016

Noninterest expense increased by \$13.5 million to \$234.3 million for the six months ended June 30, 2017 compared to \$220.8 million for the six months ended of 2016. The increase was due mostly to higher compensation expense of \$6.9 million, higher loan expense of \$3.0 million, higher other expense of \$3.0 million and higher acquisition, integration and reorganization costs of \$2.0 million, offset by lower intangible asset amortization of \$3.0 million. Compensation expense increased due to higher salary expense of \$3.1 million, higher stock-based compensation expense of \$2.1 million, and higher bonus expense of \$1.7 million. Loan expense increased due primarily to higher legal-related and other loan expenses, lower fee income from servicing, and lower recoveries of legal costs. Other expense increased due primarily to a \$1.5 million accrual in the first quarter of 2017 to increase our reserve for probable loss contingencies, a \$1.1 million charge in the second quarter of 2017 related to the sale of the unfunded commitments portion of the healthcare loan sale, and higher business development expenses. Acquisition, integration and reorganization costs increased due to costs associated with our pending acquisition of CUB. Intangible asset amortization decreased due mainly to the accelerated amortization recorded in the prior year on our intangible assets, in particular the Square 1 CDI and CRI, in addition to the CDI related to a previous acquisition that was fully amortized in the second quarter of 2016.

Income Taxes

The effective tax rate for the second quarter of 2017 was 37.0% compared to 37.7% for the first quarter of 2017 and 37.7% for the second quarter of 2016. The effective tax rate was 37.3% and 38.4% for the six months ended June 30, 2017 and 2016. The decrease in the effective tax rate was primarily attributable to tax benefits recorded in 2017 due to the adoption of ASU 2016-09 on January 1, 2017. The estimated effective tax rate for the full year 2017 is approximately 38%. The Company's blended statutory tax rate for federal and state is 41%.

Balance Sheet Analysis

Securities Available-for-Sale

The following table presents the composition and durations of our securities available-for-sale as of the dates indicated:

| Security Type                       | June 30, 2017 |            |                     | March 31, 2017 |            |                     | December 31, 2016 |            |                     |
|-------------------------------------|---------------|------------|---------------------|----------------|------------|---------------------|-------------------|------------|---------------------|
|                                     | Fair Value    | % of Total | Duration (in years) | Fair Value     | % of Total | Duration (in years) | Fair Value        | % of Total | Duration (in years) |
| (Dollars in thousands)              |               |            |                     |                |            |                     |                   |            |                     |
| Residential MBS and CMOs:           |               |            |                     |                |            |                     |                   |            |                     |
| Agency MBS                          | \$404,320     | 12 %       | 2.9                 | \$474,556      | 14 %       | 3.0                 | \$502,443         | 16 %       | 3.4                 |
| Agency CMOs                         | 133,792       | 4 %        | 2.4                 | 138,932        | 4 %        | 2.6                 | 146,289           | 4 %        | 3.0                 |
| Private label CMOs                  | 159,701       | 5 %        | 4.9                 | 149,400        | 5 %        | 5.2                 | 125,469           | 4 %        | 3.5                 |
| Municipal securities                | 1,534,554     | 44 %       | 7.6                 | 1,483,281      | 44 %       | 7.3                 | 1,456,459         | 45 %       | 6.3                 |
| Agency commercial MBS               | 918,210       | 26 %       | 5.5                 | 712,071        | 21 %       | 5.5                 | 547,692           | 17 %       | 4.9                 |
| Corporate debt securities           | 19,185        | — %        | 12.0                | 18,211         | 1 %        | 11.7                | 47,509            | 1 %        | 4.9                 |
| Collateralized loan obligations     | 66,301        | 2 %        | 0.2                 | 127,973        | 4 %        | 0.1                 | 156,887           | 5 %        | 0.1                 |
| SBA securities                      | 178,056       | 5 %        | 2.0                 | 168,334        | 5 %        | 1.9                 | 178,845           | 6 %        | 3.8                 |
| Asset-backed and other securities   | 60,441        | 2 %        | 3.6                 | 64,234         | 2 %        | 3.7                 | 62,237            | 2 %        | 3.5                 |
| Total securities available-for-sale | \$3,474,560   | 100 %      | 5.7                 | \$3,336,992    | 100 %      | 5.4                 | \$3,223,830       | 100 %      | 4.8                 |

The following table shows the geographic composition of the majority of our municipal securities portfolio as of the date indicated:

| Municipal Securities by State | June 30, 2017 |            |
|-------------------------------|---------------|------------|
|                               | Fair Value    | % of Total |
| (Dollars in thousands)        |               |            |
| California                    | \$224,256     | 15 %       |
| New York                      | 179,543       | 12 %       |
| Washington                    | 172,992       | 11 %       |
| Texas                         | 109,244       | 7 %        |
| Ohio                          | 94,664        | 6 %        |
| District of Columbia          | 65,248        | 4 %        |
| Massachusetts                 | 64,817        | 4 %        |
| Oregon                        | 50,442        | 4 %        |
| Florida                       | 50,314        | 3 %        |
| Utah                          | 44,646        | 3 %        |
| Total of 10 largest states    | 1,056,166     | 69 %       |
| All other states              | 478,388       | 31 %       |
| Total municipal securities    | \$1,534,554   | 100 %      |

## Loans and Leases Held for Investment

The following table presents the composition of our total loans and leases held for investment as of the dates indicated:

|   | June 30, 2017 |            | March 31, 2017 |            | December 31, 2016 |            |
|---|---------------|------------|----------------|------------|-------------------|------------|
|   | Amount        | % of Total | Amount         | % of Total | Amount            | % of Total |
| (Dollars in thousands)  |               |            |                |            |                   |            |
| Real estate mortgage:   |               |            |                |            |                   |            |
| Healthcare real estate  | \$901,688     | 6 %        | \$953,740      | 6 %        | \$955,477         | 6 %        |
| Hospitality   | 712,365       | 5 %        | 688,908        | 5 %        | 689,158           | 4 %        |
| SBA program   | 483,484       | 3 %        | 470,088        | 3 %        | 454,196           | 3 %        |
| Other commercial real estate  | 2,320,926     | 14 %       | 2,308,187      | 15 %       | 2,297,865         | 15 %       |
| Total commercial real estate  | 4,418,463     | 28 %       | 4,420,923      | 29 %       | 4,396,696         | 28 %       |
| Income producing residential  | 1,596,398     | 10 %       | 1,427,409      | 9 %        | 1,169,267         | 8 %        |
| Owner-occupied residential  | 122,871       | 1 %        | 127,537        | 1 %        | 144,769           | 1 %        |
| Total residential real estate                                       | 1,719,269     | 11 %       | 1,554,946      | 10 %       | 1,314,036         | 9 %        |
| Total real estate mortgage  | 6,137,732     | 39 %       | 5,975,869      | 39 %       | 5,710,732         | 37 %       |
| Real estate construction and land:                                  |               |            |                |            |                   |            |
| Commercial  | 691,828       | 5 %        | 668,510        | 4 %        | 581,246           | 4 %        |
| Residential   | 473,282       | 3 %        | 442,051        | 3 %        | 384,001           | 2 %        |
| Total real estate construction and land                             | 1,165,110     | 8 %        | 1,110,561      | 7 %        | 965,247           | 6 %        |
| Total real estate   | 7,302,842     | 47 %       | 7,086,430      | 46 %       | 6,675,979         | 43 %       |
| Commercial:   |               |            |                |            |                   |            |
| Technology cash flow  | 995,235       | 6 %        | 1,069,838      | 7 %        | 1,047,683         | 7 %        |
| Security cash flow  | 545,904       | 4 %        | 516,149        | 3 %        | 440,340           | 3 %        |
| Healthcare cash flow  | 514,681       | 3 %        | 740,638        | 5 %        | 799,030           | 5 %        |
| Other cash flow   | 779,146       | 5 %        | 811,571        | 6 %        | 825,837           | 5 %        |
| Total cash flow   | 2,834,966     | 18 %       | 3,138,196      | 21 %       | 3,112,890         | 20 %       |
| Lender finance & timeshare  | 1,435,301     | 9 %        | 1,476,896      | 9 %        | 1,666,855         | 11 %       |
| Healthcare asset-based  | 155,847       | 1 %        | 171,684        | 1 %        | 180,580           | 1 %        |
| Other asset-based   | 801,055       | 5 %        | 742,581        | 5 %        | 764,361           | 5 %        |
| Total asset-based   | 2,392,203     | 15 %       | 2,391,161      | 15 %       | 2,611,796         | 17 %       |
| Equity funds group  | 309,820       | 2 %        | 261,695        | 2 %        | 325,047           | 2 %        |
| Early stage   | 450,282       | 3 %        | 445,520        | 3 %        | 448,458           | 3 %        |
| Expansion stage   | 951,502       | 6 %        | 940,877        | 6 %        | 920,006           | 6 %        |
| Later stage   | 289,823       | 2 %        | 286,857        | 1 %        | 294,389           | 2 %        |
| Total venture capital   | 2,001,427     | 13 %       | 1,934,949      | 12 %       | 1,987,900         | 13 %       |
| Equipment finance   | 613,550       | 4 %        | 623,237        | 4 %        | 691,967           | 4 %        |
| Total commercial  | 7,842,146     | 50 %       | 8,087,543      | 52 %       | 8,404,553         | 54 %       |
| Consumer  | 398,469       | 3 %        | 382,716        | 2 %        | 375,422           | 3 %        |
| Total loans and leases held for investment,<br>net of deferred fees | \$15,543,457  | 100 %      | \$15,556,689   | 100 %      | \$15,455,954      | 100 %      |

Our real estate portfolio exposes us to risk elements associated with mortgage loans on commercial property. For commercial real estate loans, the respective primary and secondary sources of loan repayments are the net operating incomes of the properties and the proceeds from the sales or refinancings of the properties. As such, our commercial real estate borrowers generally are required to refinance the loans with us or another lender or sell the properties to repay our loans.



The following table presents the geographic composition of our real estate loans held for investment by the top 10 states and all other states combined (in the order presented for the current quarter-end) as of the dates indicated:

| Real Estate Loans by State                  | June 30, 2017 |            | December 31, 2016 |            |
|---|---------------|------------|-------------------|------------|
|   | Amount        | % of Total | Amount            | % of Total |
| (Dollars in thousands)                      |               |            |                   |            |
| California                                  | \$3,474,448   | 48 %       | \$3,248,735       | 49 %       |
| New York                                    | 654,787       | 9 %        | 524,833           | 8 %        |
| Florida                                     | 500,533       | 7 %        | 478,984           | 7 %        |
| Texas                                       | 343,062       | 5 %        | 364,689           | 5 %        |
| Virginia                                    | 237,216       | 3 %        | 231,162           | 3 %        |
| Arizona                                     | 205,892       | 3 %        | 166,499           | 3 %        |
| Illinois                                    | 181,519       | 2 %        | 178,726           | 3 %        |
| Pennsylvania                                | 176,482       | 2 %        | 160,303           | 2 %        |
| Washington                                  | 164,524       | 2 %        | 49,301            | 1 %        |
| New Jersey                                  | 138,116       | 2 %        | 95,265            | 1 %        |
| Total of 10 largest states                  | 6,076,579     | 83 %       | 5,498,497         | 82 %       |
| All other states                            | 1,226,263     | 17 %       | 1,177,482         | 18 %       |
| Total real estate loans held for investment | \$7,302,842   | 100 %      | \$6,675,979       | 100 %      |

The following table presents a roll forward of the loan and lease portfolio held for investment for the periods indicated:

| Loans and Leases Held for Investment Roll Forward <sup>(1)</sup> | Three Months Ended | Six Months Ended |
|--|--------------------|------------------|
|  | June 30, 2017      | June 30, 2017    |
| (Dollars in thousands)   |                    |                  |
| Balance, beginning of period                                     | \$ 15,556,689      | \$ 15,455,954    |
| New production   | 1,077,929          | 2,126,770        |
| Existing loans and leases:                                       |                    |                  |
| Principal repayments, net <sup>(2)</sup>                         | (843,115 )         | (1,731,524 )     |
| Sales  | (45,976 )          | (82,437 )        |
| Transfers to foreclosed assets                                   | (502 )             | (580 )           |
| Charge-offs  | (26,410 )          | (49,568 )        |
| Transfers to loans held for sale                                 | (175,158 )         | (175,158 )       |
| Balance, end of period   | \$ 15,543,457      | \$ 15,543,457    |
| Weighted average rate on new production                          | 4.93               | % 4.92 %         |

(1) Includes direct financing leases but excludes equipment leased to others under operating leases.

(2) Includes principal disbursements/repayments on existing loans, changes in revolving lines of credit (repayments and draws), loan participation sales, and other changes within the loan portfolio.



#### Allowance for Credit Losses on Non-PCI Loans and Leases Held for Investment

The allowance for credit losses on Non-PCI loans and leases held for investment 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 condensed consolidated balance sheets. The following discussion is for Non-PCI loans and leases and the related allowance for credit losses. Refer to "- Balance Sheet Analysis - Allowance for Loan Losses on PCI Loans Held for Investment" 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 credit 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 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 make payments to us in accordance with contractual terms. 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 has 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 ongoing 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 or lease based upon the fair value of the underlying collateral if the loan or lease is collateral-dependent or the present value of cash flows, discounted at the effective interest rate, if the loan or lease is not collateral-dependent. To the extent a loan or lease balance exceeds the estimated collectable value, a specific reserve or charge-off is recorded depending upon either the certainty of the estimate of loss or the fair value of the loan's collateral if the loan is collateral-dependent. Smaller balance loans (under \$250,000), with a few exceptions for certain loan types, are generally not individually assessed for impairment but are evaluated collectively.

Our allowance methodology for the general reserve component includes both quantitative and qualitative loss factors which are applied to our population of unimpaired loans and leases to estimate our general reserves. The quantitative loss factors are the average charge-offs experienced over a prescribed historical look-back period on loans and leases pooled both by loan or lease type and credit risk rating; loans with more adverse credit risk ratings have higher quantitative loss factors. The qualitative loss factors consider, among other things, current economic trends and forecasts, current commercial real estate values and performance trends, and the loan portfolio's current composition and credit performance trends.

The qualitative 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 and leases;
- loan and lease portfolio composition and any loan concentrations;
- current lending policies and the effects of any new policies or policy amendments;
- loan and lease production volume and mix;
- loan and lease portfolio credit performance trends;
- results of our independent credit review; and
- changes in management related to credit administration functions.



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.

The allowance for credit losses is directly correlated to the credit risk ratings of our loans. To ensure the accuracy of our credit risk ratings, an independent credit review function assesses the appropriateness of the credit risk ratings assigned to loans on a regular basis. The credit risk ratings assigned to every loan and lease are 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 are 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 assigned credit risk ratings of "substandard" and "doubtful" together as "classified" loans and leases. For further information on classified loans and leases, see Note 4. Loans and Leases, of the Notes to Condensed Consolidated Financial Statements (Unaudited) contained in "Item 1. Condensed Consolidated Financial Statements (Unaudited)."

Management believes the allowance for credit losses is appropriate for the known and inherent risks in our Non-PCI loan and lease portfolio and 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 borrower loan defaults, borrowers' noncompliance with our loan agreements, 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 future losses.

The following table presents information regarding the allowance for credit losses on Non-PCI loans and leases held for investment as of the dates indicated:

|  | June 30,<br>2017       | March 31,<br>2017 | December<br>31,<br>2016 | June 30,<br>2016 |   |
|--|------------------------|-------------------|-------------------------|------------------|---|
| Non-PCI Allowance for Credit Losses Data                   |                        |                   |                         |                  |   |
|  | (Dollars in thousands) |                   |                         |                  |   |
| Allowance for loan and lease losses                        | \$ 138,879             | \$ 149,826        | \$ 143,755              | \$ 132,000       |   |
| Reserve for unfunded loan commitments                      | 20,263                 | 17,763            | 17,523                  | 17,944           |   |
| Total allowance for credit losses                          | \$ 159,142             | \$ 167,589        | \$ 161,278              | \$ 149,944       |   |
| Allowance for credit losses to loans and leases            | 1.02                   | % 1.08            | % 1.05                  | % 1.03           | % |
| Allowance for credit losses to nonaccrual loans and leases | 92.2                   | % 96.9            | % 94.5                  | % 117.5          | % |

The following table presents the changes in our allowance for credit losses on Non-PCI loans and leases held for investment for the periods indicated:

| Non-PCI Allowance for Credit Losses               | Three Months Ended     |                   |                  | Six Months Ended |            |
|---|------------------------|-------------------|------------------|------------------|------------|
|   | June 30,<br>2017       | March 31,<br>2017 | June 30,<br>2016 | June 30,<br>2017 | 2016       |
|   | (Dollars in thousands) |                   |                  |                  |            |
| Balance, beginning of period                      | \$ 167,589             | \$ 161,278        | \$ 138,376       | \$ 161,278       | \$ 122,268 |
| Provision for credit losses:                      |                        |                   |                  |                  |            |
| Addition to allowance for loan and lease losses   | 10,000                 | 24,260            | 11,625           | 34,260           | 30,790     |
| Addition to reserve for unfunded loan commitments | 2,500                  | 240               | 375              | 2,740            | 1,210      |
| Provision for credit losses                       | 12,500                 | 24,500            | 12,000           | 37,000           | 32,000     |
| Loans and leases charged off:                     |                        |                   |                  |                  |            |
| Real estate mortgage                              | (142 )                 | (1,544 )          | (866 )           | (1,686 )         | (1,603 )   |
| Commercial  | (22,696 )              | (19,285 )         | (655 )           | (41,981 )        | (4,700 )   |
| Consumer  | (113 )                 | (99 )             | (191 )           | (212 )           | (782 )     |
| Total loans and leases charged off                | (22,951 )              | (20,928 )         | (1,712 )         | (43,879 )        | (7,085 )   |
| Recoveries on loans charged off:                  |                        |                   |                  |                  |            |
| Real estate mortgage                              | 20                     | 230               | 939              | 250              | 1,938      |
| Real estate construction and land                 | 9                      | 8                 | 6                | 17               | 158        |
| Commercial  | 1,953                  | 2,448             | 312              | 4,401            | 626        |
| Consumer  | 22                     | 53                | 23               | 75               | 39         |
| Total recoveries on loans charged off             | 2,004                  | 2,739             | 1,280            | 4,743            | 2,761      |
| Net charge-offs                                   | (20,947 )              | (18,189 )         | (432 )           | (39,136 )        | (4,324 )   |
| Balance, end of period                            | \$ 159,142             | \$ 167,589        | \$ 149,944       | \$ 159,142       | \$ 149,944 |

|  |      |        |        |        |        |   |
|--|------|--------|--------|--------|--------|---|
| Annualized net charge-offs to average loans and leases | 0.54 | % 0.49 | % 0.01 | % 0.52 | % 0.06 | % |
|--|------|--------|--------|--------|--------|---|

#### Allowance for Loan Losses on PCI Loans Held for Investment

We measure the allowance for loan losses for PCI loans held for investment at the end of each financial reporting period based on expected cash flows of our PCI loans. 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 negative provision, respectively, for loan losses on such loans. For example, generally a decrease in the expected cash flows of PCI loans would result in an additional reserve requirement and a provision for PCI loan losses would be recorded.

The following table presents the changes in our allowance for loan losses on PCI loans held for investment for the periods indicated:

| PCI Allowance for Loan Losses                  | Three Months Ended |                   |                  | Six Months Ended |           |
|--|--------------------|-------------------|------------------|------------------|-----------|
|  | June 30,<br>2017   | March 31,<br>2017 | June 30,<br>2016 | June 30,<br>2017 | 2016      |
|  | (In thousands)     |                   |                  |                  |           |
| Balance, beginning of period                   | \$ 11,481          | \$ 13,483         | \$ 9,554         | \$ 13,483        | \$ 9,577  |
| (Negative provision) provision for loan losses | (1,001 )           | 228               | 1,903            | (773 )           | 2,043     |
| Net charge-offs                                | (3,401 )           | (2,230 )          | (168 )           | (5,631 )         | (331 )    |
| Balance, end of period                         | \$ 7,079           | \$ 11,481         | \$ 11,289        | \$ 7,079         | \$ 11,289 |

## Nonperforming Assets, Performing Troubled Debt Restructured Loans, and Classified Loans and Leases

The following table presents nonperforming assets, performing troubled debt restructured loans, and classified loans and leases information as of the dates indicated:

|   | June 30,<br>2017 | March 31,<br>2017 | December<br>31,<br>2016 | June 30,<br>2016 |   |
|---|------------------|-------------------|-------------------------|------------------|---|
| (Dollars in thousands)  |                  |                   |                         |                  |   |
| Nonaccrual Non-PCI loans and leases <sup>(1)</sup>  | \$ 172,576       | \$ 173,030        | \$ 170,599              | \$ 127,655       |   |
| Nonaccrual PCI loans  | 1,980            | 2,404             | 2,928                   | 2,025            |   |
| Total nonaccrual loans and leases held for investment   | 174,556          | 175,434           | 173,527                 | 129,680          |   |
| Foreclosed assets, net  | 13,278           | 12,842            | 12,976                  | 16,181           |   |
| Total nonperforming assets  | \$ 187,834       | \$ 188,276        | \$ 186,503              | \$ 145,861       |   |
| Performing troubled debt restructured loans <sup>(2)</sup>  | \$ 55,910        | \$ 56,501         | \$ 64,952               | \$ 71,709        |   |
| Classified Non-PCI loans and leases <sup>(1)</sup>  | \$ 339,977       | \$ 424,399        | \$ 409,645              | \$ 441,035       |   |
| Nonaccrual loans and leases held for investment to loans and leases held for investment                 | 1.12             | % 1.12            | % 1.12                  | % 0.88           | % |
| Nonperforming assets to loans and leases held for investment and foreclosed assets, net                 | 1.20             | % 1.20            | % 1.20                  | % 0.99           | % |
| Classified Non-PCI loans and leases held for investment to Non-PCI loans and leases held for investment | 2.19             | % 2.73            | % 2.66                  | % 3.03           | % |

(1) Excludes loans held for sale carried at lower of cost or fair value at June 30, 2017.

(2) Excludes PCI loans.

Nonperforming assets include Non-PCI and PCI nonaccrual loans and leases held for investment and foreclosed assets and totaled \$187.8 million at June 30, 2017 compared to \$188.3 million at March 31, 2017. The ratio of nonperforming assets to loans and leases held for investment and foreclosed assets was 1.20% at June 30, 2017, unchanged from 1.20% at March 31, 2017. During the second quarter of 2017, Non-PCI classified loans and leases held for investment decreased by \$84.4 million to \$340.0 million due to the aggregate amount of loans transferred to held for sale, paid off, and upgraded outpacing new downgrades.

## Nonaccrual Loans and Leases Held for Investment

During the second quarter of 2017, nonaccrual loan and leases held for investment decreased by \$0.9 million to \$174.6 million at June 30, 2017 due mainly to \$12.7 million in net charge-offs, \$5.3 million in transfers to loans held for sale, and \$6.4 million in principal payments and other reductions, offset by nonaccrual additions of \$23.5 million. As of June 30, 2017, the Company's ten largest Non-PCI loan relationships on nonaccrual status had an aggregate carrying value of \$141.3 million and represented 81.9% of total Non-PCI nonaccrual loans and leases. The largest of these relationships had an aggregate carrying value of \$46.5 million and is a healthcare real estate loan secured by a continuing care retirement facility that migrated to nonaccrual status during the third quarter of 2016 due to weak operating performance and cash flow difficulties.

The following table presents our Non-PCI nonaccrual loans and leases and accruing loans and leases past due between 30 and 89 days by portfolio segment and class as of the dates indicated:

|                                    | Non-PCI Nonaccrual Loans and Leases |                          |  |                |                          |  | Non-PCI<br>Accruing and<br>30 - 89 Days Past<br>Due |                |
|------------------------------------|-------------------------------------|--------------------------|--|----------------|--------------------------|--|---|----------------|
|                                    | June 30, 2017                       |                          |  | March 31, 2017 |                          |  | June 30,  | March 31,      |
|                                    | Amount                              | % of<br>Loan<br>Category |  | Amount         | % of<br>Loan<br>Category |  | 2017<br>Amount                                      | 2017<br>Amount |
| (Dollars in thousands)             |                                     |                          |  |                |                          |  |   |                |
| Real estate mortgage:              |                                     |                          |  |                |                          |  |   |                |
| Commercial                         | \$65,599                            | 1.5 %                    |  | \$66,216       | 1.5 %                    |  | \$3,734   | \$7,383        |
| Residential                        | 5,229                               | 0.3 %                    |  | 5,826          | 0.4 %                    |  | 46  | 640            |
| Total real estate mortgage         | 70,828                              | 1.2 %                    |  | 72,042         | 1.2 %                    |  | 3,780   | 8,023          |
| Real estate construction and land: |                                     |                          |  |                |                          |  |   |                |
| Residential                        | —                                   | — %                      |  | 362            | 0.1 %                    |  | —   | —              |
| Commercial:                        |                                     |                          |  |                |                          |  |   |                |
| Cash flow                          | 43,169                              | 1.5 %                    |  | 53,611         | 1.7 %                    |  | 201   | 394            |
| Asset-based                        | 1,718                               | 0.1 %                    |  | 1,165          | — %                      |  | —   | —              |
| Venture capital                    | 25,278                              | 1.3 %                    |  | 15,289         | 0.8 %                    |  | 23,171  | 13,265         |
| Equipment finance                  | 31,111                              | 5.1 %                    |  | 30,388         | 4.9 %                    |  | —   | 115            |
| Total commercial                   | 101,276                             | 1.3 %                    |  | 100,453        | 1.2 %                    |  | 23,372  | 13,774         |
| Consumer                           | 472                                 | 0.1 %                    |  | 173            | — %                      |  | —   | 49             |
| Total <sup>(1)</sup>               | \$172,576                           | 1.1 %                    |  | \$173,030      | 1.1 %                    |  | \$27,152  | \$21,846       |

(1) Excludes loans held for sale carried at lower of cost or fair value at June 30, 2017.

#### Foreclosed Assets

The following table presents foreclosed assets (primarily OREO) by property type as of the dates indicated:

| Property Type                     | June 30,<br>2017 | March<br>31,<br>2017 | December<br>31,<br>2016 | June 30,<br>2016 |
|-----------------------------------|------------------|----------------------|-------------------------|------------------|
| (In thousands)                    |                  |                      |                         |                  |
| Construction and land development | \$11,443         | \$11,224             | \$11,224                | \$13,800         |
| Multi-family                      | —                | 601                  | 652                     | —                |
| Commercial real estate            | 65               | 78                   | —                       | —                |
| Single family residence           | 1,018            | —                    | —                       | 852              |
| Total OREO, net                   | 12,526           | 11,903               | 11,876                  | 14,652           |
| Other foreclosed assets           | 752              | 939                  | 1,100                   | 1,529            |
| Total foreclosed assets           | \$13,278         | \$12,842             | \$12,976                | \$16,181         |

During the second quarter of 2017, foreclosed assets increased by \$0.4 million to \$13.3 million at June 30, 2017 due to additions of \$1.2 million, offset partially by reductions related to sales of \$0.8 million.

### Performing Troubled Debt Restructured Loans Held for Investment

During the second quarter of 2017, Non-PCI performing troubled debt restructured loans held for investment decreased by \$0.6 million to \$55.9 million due to \$1.4 million in payoffs and other reductions and, offset by \$0.8 million in transfers from nonaccrual status to accrual status. At June 30, 2017, we had \$47.1 million in real estate mortgage loans, \$5.8 million in real estate construction and land loans, \$2.9 million in commercial loans, and \$0.1 million in consumer loans that were accruing interest under the terms of troubled debt restructurings.

The majority of the number of performing troubled debt restructured loans were on accrual status prior to the restructurings and have remained on accrual status after the restructurings due to the borrowers making payments before and after the restructurings.

### Deposits

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

| Deposit Category                    | June 30, 2017          |            | March 31, 2017 |            | December 31, 2016 |            |
|-------------------------------------|------------------------|------------|----------------|------------|-------------------|------------|
|                                     | Amount                 | % of Total | Amount         | % of Total | Amount            | % of Total |
|                                     | (Dollars in thousands) |            |                |            |                   |            |
| Noninterest-bearing demand deposits | \$6,701,039            | 40 %       | \$6,789,808    | 42 %       | \$6,659,016       | 42 %       |
| Interest checking deposits          | 1,762,016              | 10 %       | 1,509,902      | 9 %        | 1,448,394         | 9 %        |
| Money market deposits               | 4,033,471              | 24 %       | 3,758,962      | 23 %       | 3,705,385         | 23 %       |
| Savings deposits                    | 721,048                | 4 %        | 710,401        | 4 %        | 711,039           | 5 %        |
| Total core deposits                 | 13,217,574             | 78 %       | 12,769,073     | 78 %       | 12,523,834        | 79 %       |
| Non-core non-maturity deposits      | 1,329,324              | 8 %        | 1,154,070      | 7 %        | 1,174,487         | 7 %        |
| Total non-maturity deposits         | 14,546,898             | 86 %       | 13,923,143     | 85 %       | 13,698,321        | 86 %       |
| Time deposits \$250,000 and under   | 1,940,872              | 12 %       | 1,998,597      | 12 %       | 1,758,434         | 11 %       |
| Time deposits over \$250,000        | 387,207                | 2 %        | 409,268        | 3 %        | 413,856           | 3 %        |
| Total time deposits                 | 2,328,079              | 14 %       | 2,407,865      | 15 %       | 2,172,290         | 14 %       |
| Total deposits                      | \$16,874,977           | 100 %      | \$16,331,008   | 100 %      | \$15,870,611      | 100 %      |

Total deposits increased by \$544.0 million during the second quarter to \$16.9 billion, due mainly to an increase in core deposits of \$448.5 million and an increase in non-core non-maturity deposits of \$175.3 million, offset by a decrease in time deposits of \$79.8 million. At June 30, 2017, core deposits totaled \$13.2 billion, or 78% of total deposits, including \$6.7 billion of noninterest-bearing demand deposits, or 40% of total deposits.

The following table summarizes the maturities of time deposits, together with their weighted average contractual rate, as of the dates indicated:

| Maturity                                     | Time                   | Time      | Total       | Contractual |
|--|------------------------|-----------|-------------|-------------|
|  | Deposits               | Deposits  |             |             |
|  | \$250,000              | Over      | Time        | Rate        |
|  | and Under              | \$250,000 | Deposits    |             |
|  | (Dollars in thousands) |           |             |             |
| Due in three months or less                  | \$574,707              | \$195,601 | \$770,308   | 0.43%       |
| Due in over three months through six months  | 542,186                | 103,320   | 645,506     | 0.60%       |
| Due in over six months through twelve months | 681,032                | 67,862    | 748,894     | 0.65%       |
| Due in over 12 months through 24 months      | 97,913                 | 12,237    | 110,150     | 0.66%       |
| Due in over 24 months                        | 45,034                 | 8,187     | 53,221      | 0.61%       |
| Total at June 30, 2017                       | \$1,940,872            | \$387,207 | \$2,328,079 | 0.56%       |
| Total at March 31, 2017                      | \$1,998,597            | \$409,268 | \$2,407,865 | 0.51%       |

Total at March 31, 2017

\$1,998,597 \$409,268 \$2,407,865 0.51%

Client Investment Funds

In addition to deposit products, we also offer select clients non-depository cash investment options through S1AM, our registered investment adviser subsidiary, and third-party money market sweep products. S1AM provides customized investment advisory and asset management solutions. At June 30, 2017, total off-balance sheet client investment funds were \$1.8 billion, of which \$1.6 billion was managed by S1AM.

Regulatory Matters

Capital

Bank regulatory agencies measure capital adequacy through standardized risk-based capital guidelines that compare different levels of capital (as defined by such guidelines) to risk-weighted assets and off-balance sheet obligations. At June 30, 2017, banks considered to be “well capitalized” must maintain a minimum Tier 1 leverage ratio of 5.00%, a minimum common equity Tier 1 risk-based capital ratio of 6.50%, a minimum Tier 1 risk-based capital ratio of 8.00%, and a minimum total risk-based capital ratio of 10.00%. Regulatory capital requirements limit the amount of deferred tax assets that may be included when determining the amount of regulatory capital. Deferred tax asset amounts in excess of the calculated limit are disallowed from regulatory capital. At June 30, 2017, such disallowed amounts were \$1.3 million for the Company and \$16.4 million for the Bank. No assurance can be given that the regulatory capital deferred tax asset limitation will not increase in the future or that the Company or Bank will not have increased deferred tax assets that are disallowed.

Basel III, the comprehensive regulatory capital rules for U.S. banking organizations, became effective for the Company and the Bank on January 1, 2015, subject to phase-in periods for certain components and other provisions. The most significant provisions of Basel III which applied to the Company and the Bank were as follows: the phase-out of trust preferred securities from Tier 1 capital, the higher risk-weighting of high volatility and past due real estate loans, and the capital treatment of deferred tax assets and liabilities above certain thresholds.



The following table presents a comparison of our actual capital ratios to the minimum required ratios and well capitalized ratios as of the dates indicated:

|  | Actual | Minimum Required For Capital Adequacy Purposes | Minimum Required Plus Capital Conservation Buffer Phase-In (1) | Minimum Required For Well Capitalized Requirement | Minimum Required Plus Capital Conservation Buffer Fully Phased-In |
|--|--------|--|--|---|---|
| June 30, 2017                            |        |  |  |   |   |
| PacWest Bancorp Consolidated             |        |  |  |   |   |
| Tier 1 capital (to average assets)       | 11.90% | 4.00%  | 4.00%  | N/A   | 4.00%   |
| CET1 capital (to risk weighted assets)   | 12.28% | 4.50%  | 5.75%  | N/A   | 7.00%   |
| Tier 1 capital (to risk weighted assets) | 12.28% | 6.00%  | 7.25%  | N/A   | 8.50%   |
| Total capital (to risk weighted assets)  | 15.42% | 8.00%  | 9.25%  | N/A   | 10.50%  |
| Pacific Western Bank                     |        |  |  |   |   |
| Tier 1 capital (to average assets)       | 11.41% | 4.00%  | 4.00%  | 5.00%   | 4.00%   |
| CET1 capital (to risk weighted assets)   | 11.79% | 4.50%  | 5.75%  | 6.50%   | 7.00%   |
| Tier 1 capital (to risk weighted assets) | 11.79% | 6.00%  | 7.25%  | 8.00%   | 8.50%   |
| Total capital (to risk weighted assets)  | 12.66% | 8.00%  | 9.25%  | 10.00%  | 10.50%  |
| December 31, 2016                        |        |  |  |   |   |
| PacWest Bancorp Consolidated             |        |  |  |   |   |
| Tier 1 capital (to average assets)       | 11.91% | 4.00%  | 4.00%  | N/A   | 4.00%   |
| CET1 capital (to risk weighted assets)   | 12.31% | 4.50%  | 5.125%   | N/A   | 7.00%   |
| Tier 1 capital (to risk weighted assets) | 12.31% | 6.00%  | 6.625%   | N/A   | 8.50%   |
| Total capital (to risk weighted assets)  | 15.56% | 8.00%  | 8.625%   | N/A   | 10.50%  |
| Pacific Western Bank                     |        |  |  |   |   |
| Tier 1 capital (to average assets)       | 11.40% | 4.00%  | 4.00%  | 5.00%   | 4.00%   |
| CET1 capital (to risk weighted assets)   | 11.78% | 4.50%  | 5.125%   | 6.50%   | 7.00%   |
| Tier 1 capital (to risk weighted assets) | 11.78% | 6.00%  | 6.625%   | 8.00%   | 8.50%   |
| Total capital (to risk weighted assets)  | 12.72% | 8.00%  | 8.625%   | 10.00%  | 10.50%  |

Ratios for June 30, 2017 reflect the minimum required plus capital conservation buffer phase-in for 2017; ratios for (1) December 31, 2016 reflect the minimum required plus capital conservation buffer phase-in for 2016.

Beginning January 1, 2016, Basel III implemented a requirement for all banking organizations to maintain a capital conservation buffer above the minimum risk-based capital requirements in order to avoid certain limitations on capital distributions, stock repurchases and discretionary bonus payments to executive officers. The capital conservation buffer is exclusively comprised of common equity tier 1 capital, and it applies to each of the three risk-based capital ratios but not to the leverage ratio. At June 30, 2017, the Company and Bank were in compliance with the capital conservation buffer requirement. The capital conservation buffer will increase by 0.625% each year through 2019, at which point, the common equity tier 1, tier 1 and total capital ratio minimums inclusive of the capital conservation buffer will be 7.0%, 8.5% and 10.5%, respectively.

### Subordinated Debentures

We issued or assumed through mergers subordinated debentures to trusts that were established by us or entities we previously acquired, which, in turn, issued trust preferred securities. The carrying value of subordinated debentures totaled \$445.7 million at June 30, 2017. At June 30, 2017, none of the trust preferred securities were included in the Company's Tier I capital under the phase-out limitations of Basel III, and \$432.8 million were included in Tier II capital.

### Dividends on Common Stock and Interest on Subordinated Debentures

As a bank holding company, PacWest is required to notify the FRB prior to declaring and paying a dividend to stockholders during any period in which quarterly and/or cumulative twelve-month net earnings are insufficient to fund the dividend amount, among other requirements. Interest payments made by us on subordinated debentures are considered dividend payments under FRB regulations.

### Liquidity

#### Liquidity Management

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

We manage our liquidity by maintaining pools of liquid assets on-balance sheet, consisting of cash and due from banks, interest-earning deposits in other financial institutions, and unpledged investment securities available-for-sale, which we refer to as our primary liquidity. In addition, we also maintain available borrowing capacity under secured borrowing lines with the FHLB and the FRBSF, which we refer to as our secondary liquidity. In addition to its secured lines of credit, the Bank also maintains unsecured lines of credit, subject to availability, of \$132.0 million with the FHLB and \$80.0 million with correspondent banks, both for the purchase of overnight funds. As of June 30, 2017, there was a \$132.0 million balance outstanding related to the FHLB unsecured line of credit. The Bank is a member of the American Financial Exchange, through which it may either borrow or lend funds on an overnight or short-term basis with a group of pre-approved commercial banks. The availability of funds changes daily. As of June 30, 2017, the Bank had no borrowings outstanding under this facility, but had \$30.0 million outstanding of funds sold to member banks with a weighted average interest rate of 1.23% and due in July 2017. Such funds are included in "Interest-earning deposits in financial institutions" on the condensed consolidated balance sheets.

The following tables provide a summary of the Bank's primary and secondary liquidity levels at the dates indicated:

|   | June 30,               | March 31,   | December    |
|---|------------------------|-------------|-------------|
|   | 2017                   | 2017        | 31,         |
|   |                        |             | 2016        |
| Primary Liquidity - On-Balance Sheet                |                        |             |             |
|   | (Dollars in thousands) |             |             |
| Cash and due from banks                             | \$ 180,330             | \$ 184,608  | \$ 337,965  |
| Interest-earning deposits in financial institutions | 107,150                | 111,892     | 81,705      |
| Securities available-for-sale                       | 3,474,560              | 3,336,992   | 3,223,830   |
| Less: pledged securities                            | (430,182 )             | (424,692 )  | (425,511 )  |
| Total primary liquidity                             | \$3,331,858            | \$3,208,800 | \$3,217,989 |
| Ratio of primary liquidity to total deposits        | 19.7                   | % 19.6      | % 20.3      |
|   |                        |             | %           |

| Secondary Liquidity - Off-Balance Sheet      | June 30,       | March 31,   | December 31, |
|--|----------------|-------------|--------------|
| Available Secured Borrowing Capacity         | 2017           | 2017        | 2016         |
|  | (In thousands) |             |              |
| Secured borrowing capacity with the FHLB     | \$2,916,358    | \$2,728,762 | \$2,010,739  |
| Less: secured advances outstanding           | (85,000 )      | (290,000 )  | (735,000 )   |
| Net secured borrowing capacity with the FHLB | 2,831,358      | 2,438,762   | 1,275,739    |
| Secured borrowing capacity with the FRBSF    | 2,201,579      | 2,193,347   | 2,210,692    |
| Total secondary liquidity                    | \$5,032,937    | \$4,632,109 | \$3,486,431  |

During the three months ended June 30, 2017, the Company's primary liquidity increased by \$123.1 million due to a \$137.6 million increase in securities available-for-sale, offset partially by a \$5.5 million increase in pledged securities, a \$4.7 million decrease in interest-earning deposits in financial institutions, and a \$4.3 million decrease in cash due from banks. The Company's secondary liquidity increased by \$400.8 million during the second quarter due to a \$205.0 million decrease in the amount borrowed from the secured borrowing line with the FHLB, a \$187.6 million increase in the borrowing capacity on the secured borrowing line with the FHLB, and an \$8.2 million increase in the borrowing capacity on the secured credit line with the FRBSF.

As a member of the FHLB, the Bank had secured borrowing capacity with the FHLB as of June 30, 2017 of \$2.9 billion, collateralized by a blanket lien on \$4.2 billion of certain qualifying loans not pledged to the FRBSF. The Bank also had secured borrowing capacity with the FRBSF of \$2.2 billion as of June 30, 2017 collateralized by liens on \$3.0 billion of qualifying loans.

In addition to our primary liquidity, we generate liquidity from cash flows from our loan and securities portfolios and from our large base of core customer deposits, defined as noninterest-bearing demand, interest checking, savings, and non-brokered money market accounts. At June 30, 2017, core deposits totaled \$13.2 billion and represented 78% of the Company's total deposits. These core deposits are normally less volatile, often with customer relationships tied to other products offered by the Bank promoting long-standing relationships and stable funding sources. See "- Balance Sheet Analysis - Deposits" for additional information and detail of our core deposits.

Our deposit balances may decrease if interest rates increase significantly or if corporate customers withdraw funds from the Bank. In order to address the Bank's liquidity risk as deposit balances may fluctuate, the Bank maintains adequate levels of available off-balance sheet liquidity.

Our liquidity policy includes guidelines for On-Balance Sheet Liquidity (a measurement of primary liquidity to total deposits plus borrowings), Coverage and Crisis Coverage Ratios (measurements of liquid assets to expected short-term liquidity required for the loan and deposit portfolios under normal and stressed conditions), Loan to Funding Ratio (measurement of gross loans net of fees divided by deposits plus borrowings), Wholesale Funding Ratio (measurement of wholesale funding divided by interest-earning assets), and other guidelines developed for measuring and maintaining liquidity. As of June 30, 2017, we were in compliance with all of our established liquidity guidelines.

We use brokered deposits, the availability of which is uncertain and subject to competitive market forces and regulation, for liquidity management purposes. At June 30, 2017, brokered deposits totaled \$2.0 billion, consisting of \$813.5 million of brokered time deposits, \$1.1 billion of non-maturity brokered sweep accounts, and \$9.5 million of other brokered deposits. At December 31, 2016, brokered deposits totaled \$1.6 billion, consisting of \$405.5 million of brokered time deposits, \$1.2 billion of non-maturity brokered sweep accounts, and \$12.2 million of other brokered deposits. We have increased the amount of our brokered deposits in recent quarters because of the large amount of deposits that can be obtained in a short period of time to manage liquidity and funding needs.

### Holding Company Liquidity

PacWest acts a source of financial strength for the Bank which can also include being a source of liquidity. The primary sources of liquidity for the holding company include dividends from the Bank, intercompany tax payments from the Bank, and PacWest's ability to raise capital, issue subordinated debt, and secure outside borrowings. Our ability to obtain funds for the payment of dividends to our stockholders, the repurchase of shares of common stock, and other cash requirements is largely dependent upon the Bank's earnings. The Bank is subject to restrictions under certain federal and state laws and regulations that limit its ability to transfer funds to the holding company through intercompany loans, advances, or cash dividends.

Dividends paid by California state-chartered banks are regulated by the FDIC and the DBO under their general supervisory authority as it relates to a bank's capital requirements. A state bank may declare a dividend without the approval of the DBO and the FDIC as long as the total dividends declared in a calendar year do not exceed either the retained earnings or the total of net profits for three previous fiscal years less any dividends paid during such period. During the three and six months ended June 30, 2017, PacWest received \$65.0 million and \$130.0 million in dividends from the Bank. Since the Bank had an accumulated deficit of \$470.5 million at June 30, 2017, for the foreseeable future, any dividends from the Bank to the holding company will continue to require DBO and FDIC approval.

At June 30, 2017, PacWest had \$481.6 million in cash and due from banks, of which substantially all is on deposit at the Bank. We believe this amount of cash, along with anticipated dividends from the Bank, will be sufficient to fund the holding company's cash flow needs over the next 12 months, including any stock repurchases pursuant to the Company's Stock Repurchase Program and cash consideration required in connection with the CUB acquisition.

### Contractual Obligations

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

|   | June 30, 2017             |                                    |                                     |                               |             |
|---|---------------------------|------------------------------------|-------------------------------------|-------------------------------|-------------|
|   | Due<br>Within<br>One Year | Due in<br>One to<br>Three<br>Years | Due in<br>Three to<br>Five<br>Years | Due<br>After<br>Five<br>Years | Total       |
|   | (In thousands)            |                                    |                                     |                               |             |
| Time deposits <sup>(1)</sup>              | 2,164,512                 | 139,886                            | 23,485                              | —                             | 2,327,883   |
| Short-term borrowings                     | 217,000                   | —                                  | —                                   | —                             | 217,000     |
| Long-term debt obligations <sup>(1)</sup> | 228                       | 226                                | —                                   | 541,205                       | 541,659     |
| Contractual interest <sup>(2)</sup>       | 5,463                     | 1,345                              | 708                                 | —                             | 7,516       |
| Operating lease obligations               | 30,230                    | 53,172                             | 38,761                              | 34,259                        | 156,422     |
| Other contractual obligations             | 24,892                    | 24,690                             | 9,667                               | 16,880                        | 76,129      |
| Total                                     | \$2,442,325               | \$219,319                          | \$72,621                            | \$592,344                     | \$3,326,609 |

(1) Excludes purchase accounting fair value adjustments.

(2) Excludes interest on subordinated debentures as these instruments are variable rate.

Long-term debt obligations include subordinated debentures. Debt obligations are also discussed in Note 6.

Borrowings and Subordinated Debentures, in the Notes to Condensed Consolidated Financial Statements (Unaudited) contained in "Item 1. Condensed Consolidated Financial Statements (Unaudited)." Operating lease obligations are discussed in the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2016. The other contractual obligations relate to our minimum liability associated with our data and item processing contract with a third-party provider, commitments to contribute capital to investments in low income housing project partnerships and private equity funds, commitments to purchase loans, and commitments under deferred compensation arrangements.

We believe that we will be able to meet our contractual obligations as they come due through the maintenance of adequate liquidity levels. We expect to maintain adequate liquidity levels through profitability, loan and lease payoffs, securities repayments and maturities, and continued deposit gathering activities. We also have in place various

borrowing mechanisms for both short-term and long-term liquidity needs.

70

---

#### Off-Balance Sheet Arrangements

Our obligations also include off-balance sheet arrangements consisting of loan commitments, of which only a portion is expected to be funded. At June 30, 2017, our loan commitments, including standby letters of credit, totaled \$5.2 billion. The commitments, a portion of which result in funded loans, increase our profitability through net interest income when drawn. We manage our overall liquidity taking into consideration funded and unfunded commitments as a percentage of our liquidity sources. Our liquidity sources, as described in "- Liquidity - Liquidity Management," have been and are expected to be sufficient to meet the cash requirements of our lending activities. For further information on loan commitments, see Note 7. Commitments and Contingencies, of the Notes to Condensed Consolidated Financial Statements (Unaudited) contained in "Item 1. Condensed Consolidated Financial Statements (Unaudited)."

#### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

This analysis should be read in conjunction with text under the caption "Quantitative and Qualitative Disclosures About Market Risk" in our Annual Report on Form 10-K for the year ended December 31, 2016, which text is incorporated herein by reference. Our analysis of market risk and market-sensitive financial information contains forward-looking statements and is subject to the disclosure at the beginning of Item 2 regarding such forward-looking information.

##### Market Risk - Foreign Currency Exchange

We enter into foreign exchange contracts with our clients and counterparty banks primarily for the purpose of offsetting or hedging clients' foreign currency exposures arising out of commercial transactions, and we enter into cross currency swaps to hedge exposures to loans and debt instruments denominated in foreign currencies. We have experienced and will continue to experience fluctuations in our net earnings as a result of transaction gains or losses related to revaluing certain asset and liability balances that are denominated in currencies other than the U.S. Dollar, and the cross currency swaps that hedge those exposures. As of June 30, 2017, the U.S. Dollar notional amounts of loans receivable and subordinated debentures payable denominated in foreign currencies were \$52.4 million and \$29.4 million, and the U.S. Dollar notional amounts of cross currency swaps outstanding to hedge these foreign currency exposures were \$44.8 million and \$29.2 million. We recognized foreign currency translation net gains of \$0.3 million and \$0.9 million for the six months ended June 30, 2017 and 2016.

##### Asset/Liability Management and Interest Rate Sensitivity

###### Interest Rate Risk

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

We evaluated the results of our NII simulation model and MVE model prepared as of June 30, 2017, the results of which are presented below. Our NII simulation indicates that our balance sheet is asset-sensitive, while our MVE model indicates that our balance sheet had a slightly liability-sensitive profile. An asset-sensitive profile would suggest that a sudden sustained increase in rates would result in an increase in our estimated net interest income and market value of equity, while a liability-sensitive profile would suggest that these amounts would decrease.

###### Net Interest Income Simulation

We used a NII simulation model to measure the estimated changes in net interest income that would result over the next 12 months from immediate and sustained changes in interest rates as of June 30, 2017. This model is an interest rate risk management tool and the results are not necessarily an indication of our future net interest income. This model has inherent limitations and these results are based on a given set of rate changes and assumptions at one point in time. We have assumed no growth in either our total interest sensitive assets or liabilities over the next 12 months, therefore the results reflect an interest rate shock to a static balance sheet.

This analysis calculates the difference between net interest income forecasted using both increasing and decreasing interest rate scenarios using the forward yield curve at June 30, 2017. In order to arrive at the base case, we extend our balance sheet at June 30, 2017 one year and reprice any assets and liabilities that would contractually reprice or mature during that period using the products' pricing as of June 30, 2017. Based on such repricing, we calculate an estimated NII and NIM for each rate scenario.

The NII simulation model is dependent upon numerous assumptions. For example, the substantial majority of our loans are variable rate, which are assumed to reprice in accordance with their contractual terms. Some loans and investment securities include the opportunity of prepayment (embedded options) and the simulation model uses prepayment assumptions to estimate these prepayments and reinvest these proceeds at current simulated yields. Our deposit products reprice at our discretion and are assumed to reprice more slowly in a rising or declining interest rate environment and usually reprice at a rate less than the change in market rates. The effects of certain balance sheet attributes, such as fixed rate loans, variable rate loans that have reached their floors, and the volume of noninterest bearing deposits as a percentage of earning assets, impact our assumptions and consequently the results of our NII simulation model. Changes that could vary significantly from our assumptions include loan and deposit growth or contraction, changes in the mix of our earning assets or funding sources, and future asset/liability management decisions, all of which may have significant effects on our net interest income.

The following table presents forecasted net interest income and net interest margin for the next 12 months using the forward yield curve as the base scenario and shocking the base scenario given immediate and sustained parallel upward and downward movements in interest rates of 100, 200 and 300 basis points as of the date indicated:

| June 30, 2017<br>Interest Rate Scenario | Forecasted<br>Net Interest<br>Income<br>(Tax<br>Equivalent)<br>(Dollars in<br>millions) | Forecasted<br>Percentage<br>Change<br>From Base | Forecasted<br>Net Interest<br>Margin<br>(Tax Equivalent) | Forecasted<br>Net Interest<br>Margin Change<br>From Base |
|---|---|---|--|--|
| Up 300 basis points                     | \$ 1,163.6  | 16.6%   | 5.95%  | 0.85%  |
| Up 200 basis points                     | \$ 1,110.3  | 11.2%   | 5.68%  | 0.58%  |
| Up 100 basis points                     | \$ 1,056.0  | 5.8%  | 5.40%  | 0.30%  |
| BASE CASE                               | \$ 998.2  | —   | 5.10%  | —  |
| Down 100 basis points                   | \$ 941.1  | (5.7)%  | 4.81%  | (0.29)%  |
| Down 200 basis points                   | \$ 917.3  | (8.1)%  | 4.69%  | (0.41)%  |
| Down 300 basis points                   | \$ 907.7  | (9.1)%  | 4.64%  | (0.46)%  |

Total base case year 1 tax equivalent NII was \$998.2 million at June 30, 2017 compared to \$983.8 million at March 31, 2017. The \$14.4 million increase in year 1 NII was attributable to balance growth in the loan and securities portfolios and a decrease in the balance of borrowings compared to the previous projection. In the rates down scenarios, the magnitude of the decrease in NII compared to the base case has increased over the last several quarters due to the decrease in the volume of loans with in-the-money interest rate floors.

In addition to parallel interest rate shock scenarios, we also model various alternative rate vectors that are viewed as more likely to occur in a typical monetary policy tightening cycle. The most favorable alternate rate vector that we model is the "Bear Flattener" scenario, when short term rates increase faster than long term rates, and the least favorable alternate rate vector that we model is the "Bull Steepener," when short term rates fall faster than long term rates. In the "Bear Flattener" scenario that we model, Year 1 NII increases by 2.5%, and in the "Bull Steepener" scenario that we model, Year 1 NII decreases by 2.6%.

Of the \$15.7 billion of total loans in the portfolio, \$11.0 billion have variable interest rate terms (excluding hybrid loans discussed below). At June 30, 2017, \$10.5 billion of these variable-rate loans have a loan rate higher than their floor rate, which allows them to reprice at their next reprice date upon a change in their index. Approximately 67% of the total variable-rate loans have a LIBOR index rate.





The following table presents variable-rate loans at their floors and the amounts for which the fully-indexed rates would rise off of the floors and reprice as a result of the rate increases shown:

June 30, 2017

Cumulative  
Amount  
of  
Variable-Rate  
Loans Reprice  
(Dollars  
in  
millions)

\$362.3 0 - 100 bps

\$510.4 101 - 200 bps

\$537.2 201 - 300 bps

Additionally, certain variable-rate hybrid loans do not immediately reprice because the loans contain an initial fixed-rate period before they become variable. The cumulative amounts of hybrid loans that would switch from being fixed-rate to variable-rate because the initial fixed-rate term would expire were approximately \$238 million, \$392 million, and \$709 million in the next one, two, and three years.

#### Market Value of Equity

We measure the impact of market interest rate changes on the net present value of estimated cash flows from our assets, liabilities and off balance sheet items, defined as the market value of equity, using our MVE model. This simulation model assesses the changes in the market value of our interest sensitive financial instruments that would occur in response to an instantaneous and sustained increase or decrease in market interest rates of 100, 200, and 300 basis points. This analysis assigns significant value to our noninterest-bearing deposit balances. The projections include various assumptions regarding cash flows and interest rates and are by their nature forward looking and inherently uncertain.

The MVE model is an interest rate risk management tool and the results are not necessarily an indication of our actual future results. Actual results may vary significantly from the results suggested by the market value of equity table. Loan prepayments and deposit attrition, changes in the mix of our earning assets or funding sources, and future asset/liability management decisions, among others, may vary significantly from our assumptions. The base case is determined by applying various current market discount rates to the estimated cash flows from the different types of assets, liabilities and off balance sheet items existing at June 30, 2017.

The following table shows the projected change in the market value of equity for the set of rate scenarios presented as of the date indicated:

| June 30, 2017          | Projected Dollar<br>Market<br>Value<br>of<br>Equity<br>(Dollars in<br>millions) | Change<br>From<br>Base | Percentage<br>Change<br>From Base | Percentage<br>of Total<br>Assets | Ratio of<br>Projected<br>Market<br>Value<br>to Book<br>Value |
|------------------------|---|------------------------|-----------------------------------|----------------------------------|--|
| Interest Rate Scenario |   |                        |                                   |                                  |  |
| Up 300 basis points    | \$5,710.9   | \$(79.0 )              | (1.4 )%                           | 25.7 %                           | 125.2 %  |
| Up 200 basis points    | \$5,741.7   | \$(48.0 )              | (0.8 )%                           | 25.8 %                           | 125.9 %  |
| Up 100 basis points    | \$5,770.9   | \$(19.0 )              | (0.3 )%                           | 25.9 %                           | 126.6 %  |
| BASE CASE              | \$5,789.8   | \$—                    | — %                               | 26.0 %                           | 127.0 %  |
| Down 100 basis points  | \$5,793.6   | \$4.0                  | 0.1 %                             | 26.0 %                           | 127.1 %  |
| Down 200 basis points  | \$5,799.0   | \$9.0                  | 0.2 %                             | 26.1 %                           | 127.2 %  |
| Down 300 basis points  | \$5,648.7   | \$(141.0)              | (2.4 )%                           | 25.4 %                           | 123.9 %  |



Total base case projected market value of equity was \$5.8 billion at June 30, 2017 compared to \$5.6 billion at March 31, 2017. The projected market value of equity increased by \$178 million while our overall MVE sensitivity profile has shifted to be slightly liability-sensitive. The increase in base case market value of equity was due primarily to a \$166 million increase in the mark-to-market adjustment for loans and leases due to an increase in the discount rate used to determine loan values and a \$52 million increase in the book value of stockholders' equity, offset partially by a \$40 million increase in the mark-to-market adjustment for total deposits. The results of the rate shock analysis of MVE shifted to slightly liability sensitive at June 30, 2017, compared to slightly asset sensitive at March 31, 2017 due to a change in the modeling of certain municipal bonds, which resulted in a longer duration estimate in the up rate shock scenarios reflected in the table above.

#### ITEM 4. CONTROLS AND PROCEDURES

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

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

## PART II. OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

The information set forth in Note 7. Commitments and Contingencies in the Notes to Condensed Consolidated Financial Statements (Unaudited) is incorporated herein by reference.

In addition, in the ordinary course of our business, we are party to various legal actions, which we believe are incidental to the operation of our business. The outcome of such legal actions and the timing of ultimate resolution are inherently difficult to predict. In the opinion of management, based upon information currently available to us, any resulting liability, in addition to amounts already accrued, and taking into consideration insurance which may be applicable, would not have a material adverse effect on the Company's financial statements or operations.

## ITEM 1A. RISK FACTORS

For information regarding factors that could affect the Company's results of operations, financial condition and liquidity, see the risk factors disclosed in the "Risk Factors" section of our Annual Report on Form 10-K for the year ended December 31, 2016. See also "Forward-Looking Information" disclosed in Part I, Item 2 of this quarterly report on Form 10-Q.

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table presents stock purchases made during the second quarter of 2017:

| Purchase Dates                 | Total<br>Number of<br>Shares<br>Purchased<br>(1) | Price<br>Paid<br>Per<br>Share | Average<br>Publicly<br>Announced<br>Program<br>(2) | Total  | Maximum   |
|--------------------------------|--|-------------------------------|--|--|---|
|                                |  |                               |  | Number of<br>Shares<br>Purchased<br>as Part of | Dollar<br>Value of<br>Shares<br>That May<br>Yet<br>Be<br>Purchased<br>Under the<br>Program<br>(2) |
| April 1, 2017 - April 30, 2017 | —  | \$ —                          | —  | —  | \$ 372,069  |
| May 1, 2017 - May 31, 2017     | 107,662  | 49.01                         | —  | —  | \$ 372,069  |
| June 1, 2017 - June 30, 2017   | —  | —                             | —  | —  | \$ 372,069  |
| Total                          | 107,662  | \$ 49.01                      | —  | —  |   |

Includes shares repurchased pursuant to net settlement by employees in satisfaction of income tax withholding (1) obligations incurred through the vesting of Company stock awards, and shares repurchased pursuant to the Company's publicly announced Stock Repurchase Program.

On October 17, 2016, PacWest's Board of Directors authorized a Stock Repurchase Program, pursuant to which the (2) Company may, from time to time until December 31, 2017, purchase shares of its common stock for an aggregate purchase price not to exceed \$400 million. All shares repurchased under the Stock Repurchase Program were retired upon settlement.

## ITEM 6. INDEX TO EXHIBITS

| Exhibit<br>Number | Description   |
|-------------------|---|
| 2.3               | Agreement and Plan of Merger dated March 1, 2015 between PacWest Bancorp and Square 1 Financial, Inc. (Exhibit 2.1 to Form 8-K filed on March 5, 2015 and incorporated herein by this reference).   |
| 2.4               | Agreement and Plan of Merger dated April 5, 2017 between PacWest Bancorp and CU Bancorp (Exhibit 2.1 to Form 8-K filed on April 6, 2017 and incorporated herein by reference).  |
| 3.1               | Certificate of Incorporation, as amended, of PacWest Bancorp, a Delaware corporation, dated April 22, 2008 (Exhibit 3.1 to Form 8-K filed on May 14, 2008 and incorporated herein by this reference).   |
| 3.2               | Certificate of Amendment of Certificate of Incorporation of PacWest Bancorp, a Delaware Corporation, dated May 14, 2010 (Exhibit 3.1 to Form 8-K filed on May 14, 2010 and incorporated herein by this reference).  |
| 3.5               | Amended and Restated Bylaws of PacWest Bancorp, a Delaware corporation, dated November 5, 2014 (Exhibit 3.5 to Form 10-Q filed on November 7, 2014 and incorporated herein by this reference).  |
| 10.1              | PacWest Bancorp 2003 Stock Incentive Plan, as amended and restated, dated May 16, 2016 (Exhibit 10.1 to Form 8-K filed on May 18, 2016 and incorporated herein by this reference).  |
| 10.2              | Form of Stock Award Agreement pursuant to the Company's 2003 Stock Incentive Plan, as amended and restated (Exhibit 10.2 to Form 10-Q filed on November 7, 2016 and incorporated herein by this reference).   |
| 10.3              | Form of Stock Unit Award Agreement pursuant to the Company's 2003 Stock Incentive Plan, as amended and restated (Exhibit 10.2 to Form 10-Q filed on November 7, 2016 and incorporated herein by this reference).  |
| 10.4              | PacWest Bancorp 2017 Stock Incentive Plan, as amended, dated May 15, 2017 (Exhibit 10.1 to Form 8-K filed on May 18, 2017 and incorporated herein by this reference).   |
| 10.5              | Form of Stock Unit Award Agreement and Grant Notice pursuant to the Company's 2017 Stock Incentive Plan, as amended (Exhibit 10.2 to Form 8-K filed on May 18, 2017 and incorporated herein by reference).  |
| 10.6              | Form of Stock Award Agreement and Grant Notice pursuant to the Company's 2017 Stock Incentive Plan, as amended (Exhibit 10.3 to Form 8-K filed on May 18, 2017 and incorporated herein by reference).   |
| 10.7              | Form of Voting Agreement dated April 5, 2017, between PacWest Bancorp and certain shareholders of CU Bancorp (Exhibit 99.1 to Form 8-K filed on April 6, 2017 and incorporated herein by reference).  |
| 31.1              | <u>Section 302 Certification of Chief Executive Officer.</u> *  |
| 31.2              | <u>Section 302 Certification of Chief Financial Officer.</u> *  |
| 32.1              | <u>Section 906 Certification of Chief Executive Officer.</u> *  |
| 32.2              | <u>Section 906 Certification of Chief Financial Officer.</u> *  |
| 101               | Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Condensed Consolidated Balance Sheets as of June 30, 2017 and December 31, 2016, (ii) the Condensed Consolidated Statements of Earnings for the three months ended June 30, 2017, March 31, 2017, and June 30, 2016 and six months ended June 30, 2017 and 2016, (iii) the Condensed Consolidated Statements of Comprehensive Income for the three months ended June 30, 2017, March 31, 2017, and June 30, 2016 and six months ended June 30, 2017 and 2016, (iv) the Condensed Consolidated Statement of Changes in Stockholders' Equity for the six months ended June 30, 2017, (v) the Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2017 and 2016, and (vi) the Notes to Condensed Consolidated Financial Statements. * |

---

\* Filed herewith.

Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PACWEST BANCORP

Date: August 8, 2017 /s/ Bart R. Olson

Bart R. Olson

Executive Vice President and Chief Accounting Officer