

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
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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 _s	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 _s	Troubled Debt Restructurings

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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

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ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

PACWEST BANCORP AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2017 (Unaudited)	December 31, 2016 (Unaudited)
	(Dollars in thousands, except par value amounts)	
ASSETS:		
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
LIABILITIES:		
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)		
STOCKHOLDERS' EQUITY:		
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

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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

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Dividends declared per share	\$0.50	\$0.50	\$0.50	\$1.00	\$1.00
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See Notes to Condensed Consolidated Financial Statements.

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PACWEST BANCORP AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended		Six Months Ended		
	June 30, 2017 (Unaudited)	March 31, 2017 (In thousands)	June 30, 2016	June 30, 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 ⁽¹⁾	(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 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

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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.

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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	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross 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	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross 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.

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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 Loans and Leases	PCI Loans	Total	Non-PCI Loans and Leases	PCI 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

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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

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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 ⁽¹⁾	\$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

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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 ⁽¹⁾			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 ⁽¹⁾			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 ⁽¹⁾			December 31, 2016		
	Nonaccrual Loans and Leases	Performing Troubled Debt Restructured Loans	Total Impaired and	Nonaccrual Loans and Leases	Performing Troubled Debt Restructured Loans	Total Impaired 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

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Total	\$172,576	\$ 55,910	\$228,486	\$170,599	\$ 64,952	\$235,551
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(1) Excludes loans held for sale carried at lower of cost or fair value.

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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 ⁽¹⁾			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 ⁽²⁾		2016	
	Weighted Average Balance ⁽¹⁾	Interest Income Recognized	Weighted Average Balance ⁽¹⁾	Interest Income Recognized
Impaired Loans and Leases	(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)

	Six Months Ended June 30,			
	2017 ⁽²⁾		2016	
	Weighted Interest	Weighted Interest	Weighted Interest	Weighted Interest
	Average Income	Average Income	Average Income	Average Income
Impaired Loans and Leases	Balance ⁽¹⁾	Recognized	Balance ⁽¹⁾	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, 2017		2016	
	Pre- Modification Outstanding Number of Loans	Post- Modification Outstanding Recorded Investment	Pre- Modification Outstanding Number of Loans	Post- Modification Outstanding 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, 2017		2016	
	Pre- Modification Outstanding Number of Loans	Post- Modification Outstanding Recorded Investment	Pre- Modification Outstanding Number of Loans	Post- Modification Outstanding 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 That Subsequently Defaulted	Three Months Ended June 30,		Number of Loans	Number of Loans
	2017	2016		
	Recorded	Recorded	Investment ⁽¹⁾	Investment ⁽¹⁾
	(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 That Subsequently Defaulted	Six Months Ended June 30,		Number of Loans	Number of Loans
	2017	2016		
	Recorded	Recorded	Investment ⁽¹⁾	Investment ⁽¹⁾
	(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 Non-PCI	Total PCI	Total
	Real Estate Mortgage (In thousands)	Construction and Land	Commercial	Consumer			
	Allowance for Loan 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 Non-PCI	Total PCI	Total
	Real Estate Mortgage (In thousands)	Construction and Land	Commercial	Consumer			
	Allowance for Loan and Lease Losses:						
Balance, beginning of 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 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

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impairment	\$117,441	\$5,840	\$104,008	\$485	\$227,774		
Collectively evaluated for impairment	5,954,357	1,157,500	7,733,659	397,741	15,243,257		
Acquired loans with 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

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PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

	Three Months Ended June 30, 2016						
	Real Estate				Total	Total	Total
	Real Estate Mortgage	Construction and Land	Commercial	Consumer				Non-PCI	PCI
	(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	Total
	Real Estate Mortgage	Construction and Land	Commercial	Consumer				Non-PCI	PCI
	(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:							

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Individually evaluated for impairment	\$92,284	\$ 7,498	\$98,247	\$ 394	\$198,423		
Collectively evaluated for impairment	5,471,096	688,735	7,934,086	212,240	14,306,157		
Acquired loans with 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 Allowance for Loan and Lease Losses	Non-PCI Reserve for Unfunded Loan Commitments	Non-PCI Allowance for Credit Losses	PCI Allowance for Loan Losses	Total Allowance for Credit 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 Allowance for Loan and Lease Losses	Non-PCI Reserve for Unfunded Loan Commitments	Non-PCI Allowance for Credit Losses	PCI Allowance for Loan Losses	Total Allowance for Credit 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 Allowance for Loan and Lease Losses	Non-PCI Reserve for Unfunded Loan Commitments	Non-PCI Allowance for Credit Losses	PCI Allowance for Loan Losses	Total Allowance for Credit 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 Allowance for Loan and Lease Losses (In thousands)	Non-PCI Reserve for Unfunded Loan Commitments	Non-PCI Allowance for Credit Losses	PCI Allowance for Loan Losses	Total Allowance for Credit 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, 2017	December 31, 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 Assets (In 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 ⁽¹⁾	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 ⁽²⁾	(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, 2017	December 31, 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 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	—

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

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PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

Measured on a Recurring Basis	Fair Value Measurements as of 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 of Inputs	Weighted Average 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 Label CMOs	Asset-Backed Securities	Equity 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 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 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 Measured on a Non Recurring Basis	Three Months Ended		Six Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 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	—
Total losses	\$16,647	\$603	\$24,462	\$16,779

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

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:

	June 30, 2017				
	Carrying Amount	Total	Level 1	Level 2	Level 3
(In thousands)					
Financial Assets:					
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, and savings deposits	14,546,898	14,546,898	—	14,546,898	—

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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	—

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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)				
Financial Assets:					
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	—
Financial Liabilities:					
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	—
Loans Held for Sale					

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)				
Basic Earnings Per Share:					
Net earnings	\$93,647	\$78,668	\$82,168	\$172,315	\$172,624
Less: Earnings allocated to unvested restricted stock ⁽¹⁾	(1,080)	(999)	(863)	(2,082)	(1,933)
Net earnings allocated to common shares	\$92,567	\$77,669	\$81,305	\$170,233	\$170,691
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
Diluted Earnings Per Share:					
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.

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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” 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, 2017	March 31, 2017	June 30, 2016	June 30, 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.

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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 ⁽¹⁾	8.26	% 7.08	% 7.37	% 7.68	% 7.78	%
Return on average tangible equity ⁽²⁾	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/ Tangible Book Value Per Share	June 30, 2017	December 31, 2016
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(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 ⁽¹⁾	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 ⁽¹⁾	11.27	% 11.02	%

(1) Tangible common equity divided by tangible assets.

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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
Annualized return on:					
Average assets	1.71 %	1.47 %	1.57 %	1.59 %	1.65 %
Average tangible equity ⁽¹⁾⁽²⁾	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.

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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)								
ASSETS:									
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		
LIABILITIES AND STOCKHOLDERS' EQUITY:									
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	

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Net interest rate spread	4.92 %	4.89 %	5.09 %						
Net interest margin	5.21 %	5.16 %	5.33 %						
Total deposits ⁽³⁾	\$ 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 ⁽⁴⁾	\$ 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.

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	Six Months Ended			June 30, 2016		
	June 30, 2017			June 30, 2016		
	Average	Interest	Yields	Average	Interest	Yields
	Balance	Income/ Expense	and Rates	Balance	Income/ Expense	and Rates
	(Dollars in thousands)					
ASSETS:						
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 ⁽¹⁾	15,398,037	458,796	6.01 %	14,469,877	460,701	6.40 %
Investment securities ⁽²⁾	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 ⁽²⁾	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		
LIABILITIES AND STOCKHOLDERS' EQUITY:						
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) ⁽²⁾		\$484,557			\$488,207	
Net interest rate spread			4.91 %			5.19 %
Net interest margin			5.19 %			5.43 %
Total deposits ⁽³⁾	\$16,133,282	\$18,582	0.23 %	\$15,649,358	\$16,896	0.22 %
Funding sources ⁽⁴⁾	\$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, 2017	March 31, 2017	June 30, 2016	June 30, 2017	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 ⁽¹⁾	172,576	173,030	127,655		
Non PCI classified loans and leases ⁽¹⁾	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, 2017	March 31, 2017	June 30, 2016	June 30, 2017	June 30, 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, 2017	March 31, 2017	June 30, 2016	June 30, 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, 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 ⁽¹⁾	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 ⁽²⁾	(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, 2017	March 31, 2017	December 31, 2016	June 30, 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, 2017	March 31, 2017	June 30, 2016	June 30, 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	%
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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, 2017	March 31, 2017	June 30, 2016	June 30, 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, 2017	March 31, 2017	December 31, 2016	June 30, 2016	
(Dollars in thousands)					
Nonaccrual Non-PCI loans and leases ⁽¹⁾	\$ 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 ⁽²⁾	\$ 55,910	\$ 56,501	\$ 64,952	\$ 71,709	
Classified Non-PCI loans and leases ⁽¹⁾	\$ 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 Accruing and 30 - 89 Days Past Due	
	June 30, 2017			March 31, 2017			June 30,	March 31,
	Amount	% of Loan Category		Amount	% of Loan Category		2017 Amount	2017 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 ⁽¹⁾	\$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, 2017	March 31, 2017	December 31, 2016	June 30, 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.

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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%

(1) Ratios for June 30, 2017 reflect the minimum required plus capital conservation buffer phase-in for 2017; ratios for 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 Within One Year	Due in One to Three Years	Due in Three to Five Years	Due After Five Years	Total
	(In thousands)				
Time deposits ⁽¹⁾	2,164,512	139,886	23,485	—	2,327,883
Short-term borrowings	217,000	—	—	—	217,000
Long-term debt obligations ⁽¹⁾	228	226	—	541,205	541,659
Contractual interest ⁽²⁾	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.

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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 Interest Rate Scenario	Forecasted Net Interest Income (Tax Equivalent) (Dollars in millions)	Forecasted Percentage Change From Base	Forecasted Net Interest Margin (Tax Equivalent)	Forecasted Net Interest Margin Change 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 Market Value of Equity (Dollars in millions)	Change From Base	Percentage Change From Base	Percentage of Total Assets	Ratio of Projected Market Value to Book 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 Number of Shares Purchased (1)	Price Paid Per Share	Average Publicly Announced Program (2)	Total	Maximum
				Number of Shares Purchased as Part of	Dollar Value of Shares That May Yet Be Purchased Under the Program (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 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