

PACWEST BANCORP
Form 10-Q
May 10, 2018

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 March 31, 2018

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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth 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 May 7, 2018, there were 125,133,358 shares of the registrant's common stock outstanding, excluding 1,381,135 shares of unvested restricted stock.

PACWEST BANCORP
MARCH 31, 2018 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."

AFX	American Financial Exchange	FRB	Board of Governors of the Federal Reserve System
ALM	Asset Liability Management	FRBSF	Federal Reserve Bank of San Francisco
ASC	Accounting Standards Codification	IRR	Interest Rate Risk
ASU	Accounting Standards Update	MBS	Mortgage-Backed Securities
Basel III	A comprehensive capital framework and rules for U.S. banking organizations approved by the FRB and the FDIC in 2013.	MVE	Market Value of Equity
BHCA	Bank Holding Company Act of 1956, as amended	NII	Net Interest Income
BOLI	Bank Owned Life Insurance	NIM	Net Interest Margin
CapitalSource Inc.	A company acquired on April 7, 2014	Non-PCI	Non-Purchased Credit Impaired
CapitalSource Division	A division of Pacific Western Bank, formed at the closing of the CapitalSource Inc. merger	NSF	Non-Sufficient Funds
C&I	Commercial and Industrial	OREO	Other Real Estate Owned Pacific Western Equipment Finance, a leasing unit sold March 31, 2016
CDI	Core Deposit Intangible Assets	PWEF	Purchased Credit Impaired Performance-Based Restricted Stock Units
CET1	Common Equity Tier 1	PCI	Square 1 Asset Management, Inc.
CMOs	Collateralized Mortgage Obligations	PRSUs	Small Business Administration Securities and Exchange Commission
CRA	Community Reinvestment Act	S1AM	Square 1 Financial, Inc. (a company acquired on October 6, 2015)
CRI	Customer Relationship Intangible Assets	SBA	A division of Pacific Western Bank formed at the closing of the Square 1 acquisition
CUB	CU Bancorp (a company acquired on October 20, 2017)	SEC	Net interest income adjusted for tax-equivalent adjustments related to tax-exempt interest on certain loans and municipal securities
CU Bank	California United Bank (a wholly-owned subsidiary of CUB)	Square 1 Bank Division	NIM adjusted for tax-equivalent adjustments related to tax-exempt income on certain loans and municipal securities
DBO	California Department of Business Oversight	Tax Equivalent Net Interest Income	TCJA
DTAs	Deferred Tax Assets	Tax Equivalent NIM	Tax Cuts and Jobs Act
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act		
Efficiency Ratio	Noninterest expense (less intangible asset amortization, net foreclosed assets income/expense, and acquisition, integration and reorganization costs)		

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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)

FASB	Financial Accounting Standards Board	TDRs	Troubled Debt Restructurings
FCAL	First California Financial Group, Inc. (a company acquired on May 31, 2013)	TRSAs	Time-Based Restricted Stock Awards
FDIC	Federal Deposit Insurance Corporation	U.S. GAAP	U.S. Generally Accepted Accounting Principles
FHLB	Federal Home Loan Bank of San Francisco	VIE	Variable Interest Entity

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

PACWEST BANCORP AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2018 (Unaudited)	December 31, 2017
	(Dollars in thousands, except par value amounts)	
ASSETS:		
Cash and due from banks	\$235,061	\$233,215
Interest-earning deposits in financial institutions	312,735	165,222
Total cash, cash equivalents, and restricted cash	547,796	398,437
Securities available-for-sale, at fair value	3,801,986	3,774,431
Federal Home Loan Bank stock, at cost	17,250	20,790
Total investment securities	3,819,236	3,795,221
Loans held for sale, at lower of cost or fair value	—	481,100
Gross loans and leases held for investment	16,516,627	17,032,221
Deferred fees, net	(61,342)	(59,478)
Allowance for loan and lease losses	(134,275)	(139,456)
Total loans and leases held for investment, net	16,321,010	16,833,287
Equipment leased to others under operating leases	280,648	284,631
Premises and equipment, net	33,686	31,852
Foreclosed assets, net	1,236	1,329
Deferred tax asset, net	12,584	—
Goodwill	2,548,670	2,548,670
Core deposit and customer relationship intangibles, net	73,280	79,626
Other assets	511,184	540,723
Total assets	\$24,149,330	\$24,994,876
LIABILITIES:		
Noninterest-bearing deposits	\$8,232,140	\$8,508,044
Interest-bearing deposits	9,846,648	10,357,492
Total deposits	18,078,788	18,865,536
Borrowings	575,284	467,342
Subordinated debentures	452,223	462,437
Accrued interest payable and other liabilities	175,545	221,963
Total liabilities	19,281,840	20,017,278
Commitments and contingencies		
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 March 31, 2018 and December 31, 2017, 126,537,871 and 130,491,108 shares issued, respectively, including 1,383,914 and 1,436,120 shares of unvested restricted stock, respectively)	1,283	1,305
Additional paid-in capital	4,111,226	4,287,487

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Retained earnings	835,611	723,471
Treasury stock, at cost (1,763,416 and 1,708,230 shares at March 31, 2018 and December 31, 2017)	(68,694)	(65,836)
Accumulated other comprehensive income, net	(11,936)	31,171
Total stockholders' equity	4,867,490	4,977,598
Total liabilities and stockholders' equity	\$24,149,330	\$24,994,876

See Notes to Condensed Consolidated Financial Statements.

PACWEST BANCORP AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

	Three Months Ended		
	March 31,	December	March 31,
	2018	31,	2017
	(Unaudited)		
	(Dollars in thousands, except per share amounts)		
Interest income:			
Loans and leases	\$251,085	\$258,309	\$224,178
Investment securities	26,138	25,712	23,039
Deposits in financial institutions	552	576	192
Total interest income	277,775	284,597	247,409
Interest expense:			
Deposits	13,818	14,041	8,377
Borrowings	920	1,366	1,018
Subordinated debentures	6,537	6,234	5,562
Total interest expense	21,275	21,641	14,957
Net interest income	256,500	262,956	232,452
Provision for credit losses	4,000	6,406	24,728
Net interest income after provision for credit losses	252,500	256,550	207,724
Noninterest income:			
Service charges on deposit accounts	4,174	4,574	3,758
Other commissions and fees	10,265	10,505	10,390
Leased equipment income	9,587	8,258	9,475
Gain on sale of loans and leases	4,569	1,988	712
Gain (loss) on sale of securities	6,311	(3,329)	(99)
Other income	3,653	4,799	10,878
Total noninterest income	38,559	26,795	35,114
Noninterest expense:			
Compensation	71,023	71,986	64,880
Occupancy	13,223	12,715	11,608
Data processing	6,659	6,764	7,015
Other professional services	4,439	5,786	3,378
Insurance and assessments	5,727	5,384	4,791
Intangible asset amortization	6,346	5,062	3,064
Leased equipment depreciation	5,375	5,048	5,625
Foreclosed assets (income) expense, net	(122)	(475)	143
Acquisition, integration and reorganization costs	—	16,085	500
Loan expense	2,271	3,140	3,387
Other expense	12,454	11,373	12,153
Total noninterest expense	127,395	142,868	116,544
Earnings before income taxes	163,664	140,477	126,294
Income tax expense	(45,388)	(56,440)	(47,626)
Net earnings	\$118,276	\$84,037	\$78,668
Earnings per share:			
Basic	\$0.93	\$0.66	\$0.65

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Diluted	\$0.93	\$0.66	\$0.65
Dividends declared per share	\$0.50	\$0.50	\$0.50

See Notes to Condensed Consolidated Financial Statements.

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PACWEST BANCORP AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended		
	March 31, 2018 (Unaudited)	December 31, 2017	March 31, 2017
Net earnings	\$118,276	\$84,037	\$78,668
Other comprehensive (loss) income, net of tax:			
Unrealized net holding (losses) gains on securities available-for-sale arising during the period	(62,669)	(7,146)	11,184
Income tax benefit (expense) related to net unrealized holding (losses) gains arising during the period	17,931	2,574	(4,507)
Unrealized net holding (losses) gains on securities available-for-sale, net of tax	(44,738)	(4,572)	6,677
Reclassification adjustment for net (gains) losses included in net earnings ⁽¹⁾	(6,311)	3,329	99
Income tax expense (benefit) related to reclassification adjustment	1,806	(1,199)	(40)
Reclassification adjustment for net (gains) losses included in net earnings, net of tax	(4,505)	2,130	59
Other comprehensive (loss) income, net of tax	(49,243)	(2,442)	6,736
Comprehensive income	\$69,033	\$81,595	\$85,404

(1) Entire amounts are recognized in "Gain (loss) 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

	Three Months Ended March 31, 2018						Accumulated Other Comprehensive Income	Total
	Common Stock Shares (Unaudited) (Dollars in thousands)	Par Value	Additional Paid-in Capital	Retained Earnings	Treasury Stock			
Balance, December 31, 2017	128,782,878	\$1,305	\$4,287,487	\$723,471	\$(65,836)	\$31,171	\$4,977,598	
Cumulative effects of changes in accounting principles (1)	—	—	—	(6,136)	—	6,136	—	
Net earnings	—	—	—	118,276	—	—	118,276	
Other comprehensive income - net unrealized gain on securities available-for-sale, net of tax	—	—	—	—	—	(49,243)	(49,243)	
Restricted stock awarded and earned stock compensation, net of shares forfeited	96,034	1	7,198	—	—	—	7,199	
Restricted stock surrendered	(55,186)	—	—	—	(2,858)	—	(2,858)	
Common stock repurchased under Stock Repurchase Program	(2,285,855)	(23)	(119,770)	—	—	—	(119,793)	
Cash dividends paid	—	—	(63,689)	—	—	—	(63,689)	
Balance, March 31, 2018	126,537,871	\$1,283	\$4,111,226	\$835,611	\$(68,694)	\$(11,936)	\$4,867,490	

Impact due to adoption on January 1, 2018 of ASU 2016-01, "Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities" and ASU 2018-02, "Income Statement (1) - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income."

See Notes to Condensed Consolidated Financial Statements.

PACWEST BANCORP AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended March 31,	
	2018	2017
	(Unaudited)	
	(In thousands)	
Cash flows from operating activities:		
Net earnings	\$ 118,276	\$ 78,668
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	8,751	8,496
Amortization of net premiums on securities available-for-sale	8,432	10,601
Amortization of intangible assets	6,346	3,064
Provision for credit losses	4,000	24,728
Provision for losses on foreclosed assets	65	—
Gain on sale of loans and leases	(4,569	) (712)
Loss (gain) on sale of premises and equipment	7	(560)
(Gain) loss on sale of securities	(6,311	) 99
Gain on BOLI death benefit	—	(471)
Unrealized (gain) loss on derivatives and foreign currencies, net	(605	) 202
Earned stock compensation	7,199	6,470
Decrease in deferred income taxes, net	7,153	1,091
Decrease in other assets	38,208	661
(Decrease) increase in accrued interest payable and other liabilities	(50,969	) 10,852
Net cash provided by operating activities	135,983	143,189
Cash flows from investing activities:		
Net decrease (increase) in loans and leases	382,590	(157,244)
Proceeds from sales of loans and leases	615,376	37,173
Proceeds from maturities and paydowns of securities available-for-sale	75,125	92,612
Proceeds from sales of securities available-for-sale	306,253	42,996
Purchases of securities available-for-sale	(487,105	) (248,187)
Net redemptions of Federal Home Loan Bank stock	3,540	3,969
Proceeds from sales of foreclosed assets	28	212
Purchases of premises and equipment, net	(3,997	) (1,944)
Proceeds from sales of premises and equipment	—	10,290
Proceeds from BOLI death benefit	—	1,192
Net (increase) decrease in equipment leased to others under operating leases	(1,241	) 114
Net cash provided by (used in) investing activities	890,569	(218,817)
Cash flows from financing activities:		
Net (decrease) increase in noninterest-bearing deposits	(275,579	) 131,170
Net (decrease) increase in interest-bearing deposits	(510,844	) 329,605
Net increase (decrease) in borrowings	107,942	(445,203)
Net decrease in subordinated debentures	(12,372) —
Common stock repurchased and restricted stock surrendered	(122,651	) (2,281)
Cash dividends paid	(63,689) (60,833)
Net cash (used in) financing activities	(877,193) (47,542)

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Net increase (decrease) in cash, cash equivalents, and restricted cash	149,359	(123,170)
Cash, cash equivalents, and restricted cash, beginning of period	398,437	419,670
Cash, cash equivalents, and restricted cash, end of period	\$547,796	\$296,500

See Notes to Condensed Consolidated Financial Statements.

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PACWEST BANCORP AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Three Months
Ended
March 31,
2018 2017
(Unaudited)
(In thousands)

Supplemental disclosures of cash flow information:

Cash paid for interest	\$17,515	\$14,352
Cash paid for income taxes	3,790	2,834
Loans transferred to foreclosed assets	—	78

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. At March 31, 2018, the Bank offers a broad range of loan and lease and deposit products and services through 75 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 asset-based, equipment, real estate, security cash flow 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 29 acquisitions from May 1, 2000 through March 31, 2018. 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. See Note 3.

Acquisitions, for more information about the CUB acquisition.

Significant Accounting Policies

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, 2017 as filed with the Securities and Exchange Commission ("Form 10-K"). Updates to our significant accounting policies described below reflect the impact of the adoption of ASU 2016-01, "Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities" and ASU 2018-03, "Technical Corrections and Improvements to Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities."

Investment Securities

Our significant accounting policy for investment securities applied to both debt and equity securities in prior periods. Effective January 1, 2018, upon the adoption of ASUs 2016-01 and 2018-03, our significant accounting policy for investment securities applies only to debt securities.

PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

Equity Investments

Investments in common or preferred stock that are not publicly traded and certain investments in limited partnerships are considered equity investments that do not have a readily determinable fair value. If we have the ability to significantly influence the operating and financial policies of the investee, the investment is accounted for pursuant to the equity method of accounting. This is generally presumed to exist when we own between 20% and 50% of a corporation, or when we own greater than 5% of a limited partnership or similarly structured entity. Our equity investment carrying values are included in other assets and our share of earnings and losses in equity method investees is included in "Noninterest income - other" on the condensed consolidated statements of earnings. Prior to January 1, 2018, if we did not have significant influence over the investee, the cost method was used to account for the equity interest.

Effective January 1, 2018 with the adoption of ASU 2016-01, our accounting treatment for equity investments differs for those with and without readily determinable fair values. Equity investments with readily determinable fair values are recorded at fair value with changes in fair value recorded in "Noninterest income - other." For equity investments without readily determinable fair values we have elected the "measurement alternative," and therefore carry these investments at cost, less impairment (if any), plus or minus changes in observable prices. On a quarterly basis, we review our equity investments without readily determinable fair values for impairment. We consider a number of qualitative factors such as whether there is a significant deterioration in earnings performance, credit rating, asset quality, or business prospects of the investee in determining if impairment exists. If the investment is considered impaired, an impairment loss equal to the amount by which the carrying value exceeds its fair value is recorded through a charge to earnings. The impairment loss may be reversed in a subsequent period if there are observable transactions for the identical or similar investment of the same issuer at a higher amount than the carrying amount that was established when the impairment was recognized.

Realized gains or losses resulting from the sale of equity investments are calculated using the specific identification method and are included in "Noninterest income - other."

Comprehensive Income

Comprehensive income consists of net earnings and net unrealized gains (losses) on debt securities available for sale, net, and is presented in the consolidated statements of comprehensive income.

Accounting Standards Adopted in 2018

Effective January 1, 2018, the Company adopted ASU 2014-09, "Revenue Recognition (Topic 606): Revenue from Contracts with Customers." ASU 2014-09 supersedes Topic 605, "Revenue Recognition" and requires an entity to recognize revenue at an amount that reflects the consideration to which it expects to be entitled to in exchange for the transfer of promised goods or services to customers.

Substantially all of the Company's revenue is interest income on loans, investment securities, and deposits at other financial institutions which are specifically outside the scope of ASU 2014-09. ASU 2014-09 applies primarily to certain noninterest income items in the Company's condensed consolidated statement of earnings. The Company adopted ASU 2014-09 as of January 1, 2018 using the cumulative effect transition method, which resulted in no adjustment to retained earnings and no material impact on the Company's consolidated financial position, results of operations, or cash flows. The Company did make minor changes to accounting operations and internal controls as part of adopting this new standard. See Note 13. Revenue From Contracts With Customers for further details.

PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

Effective January 1, 2018, the Company adopted ASU 2016-01, "Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities" and ASU 2018-03, "Technical Corrections and Improvements to Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities." ASU 2016-01 contained a number of changes which are applicable to the Company including the following: (1) requires equity investments to be measured at fair value with changes in fair value recognized in net income; (2) allows equity investments without readily determinable fair values to be measured at cost less impairment, if any, plus or minus changes in observable prices (referred to as the "measurement alternative"); and (3) changes certain presentation and disclosure requirements for financial instruments, including using the exit price notion when measuring the fair value of financial instruments (see Note 11. Fair Value Measurements). ASU 2018-03 also clarified certain aspects of the guidance issued in ASU 2016-01, including requiring a prospective transition approach for equity investments without readily determinable fair value in which the measurement alternative is applied.

ASU 2016-01 does not apply to investments accounted for using the equity method, investments in consolidated subsidiaries, FHLB stock, and investments in low income housing tax credit projects. Upon adoption of ASU 2016-01, the Company recorded a transition adjustment to reclassify \$529,000 in net unrealized gains from accumulated other comprehensive income ("AOCI") to retained earnings. The ASU also eliminated the requirement to classify equity investments into different categories such as "Available-for-Sale." The adoption of this ASU may result in more earnings volatility as changes in fair value of certain equity investments will now be recorded in the statement of earnings as opposed to AOCI.

Effective January 1, 2018, the Company adopted ASU 2016-15, "Classification of Certain Cash Receipts and Cash Payments." Upon adoption, the Company applied the retrospective transition method to each period presented. ASU 2016-15 addressed eight issues related to the statement of cash flows, the most relevant to the Company being the classification of proceeds from the settlement of BOLI policies. As the Company classified proceeds from the settlement of BOLI policies in the manner required by ASU 2016-15 in the prior periods presented, there was no change to the Company's consolidated financial position, results of operations, or cash flows for both current and prior periods upon adoption.

Effective January 1, 2018, the Company adopted ASU 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash." Upon adoption, the Company applied the retrospective transition method to each period presented. As the Company does not present restricted cash as a separate line in the statement of financial position, there is no change to the presentation of cash on the statement of cash flows. The nature and amount of our restricted cash is shown in Note 2. Restricted Cash Balances.

Effective January 1, 2018, the Company adopted ASU 2017-01, "Business Combinations (Topic 805): Clarifying the Definition of a Business." ASU 2017-01 provides a new framework for determining whether transactions should be accounted for as acquisitions of assets or businesses. The Company had no acquisitions or purchases of components of a business in the first quarter of 2018, thus, the impact of adopting the new standard had no impact on the Company's consolidated financial position, results of operations, or cash flows.

Effective January 1, 2018, the Company adopted ASU 2017-09, "Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting." ASU 2017-09 provided clarification of what constitutes a modification of a share-based payment award. The Company did not modify any share-based payment awards in the first quarter of 2018, thus, the impact of adopting the new standard had no impact on the Company's consolidated financial position, results of operations, or cash flows.

Effective January 1, 2018, the Company early-adopted ASU 2018-02, "Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income." The TCJA required deferred tax assets and liabilities to be re-measured at its enactment date for the effect of the change in the federal corporate tax rate. This process resulted in "stranded tax effects" in AOCI for deferred tax asset or

liabilities which were established with an offsetting amount in AOCI. ASU 2018-02 allows for a reclassification of the stranded tax effects resulting from the enactment of the TCJA from AOCI to retained earnings. The Company elected to reclassify its stranded tax effects of \$6.665 million from AOCI to retained earnings effective January 1, 2018, while no other income tax effects related to the application of the TCJA were reclassified.

PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

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. In our loan and allowance tables, we realigned our commercial loan portfolio classes and subclasses to better reflect and report our lending, especially in light of the fourth quarter of 2017 cash flow loan sale and the exiting of the origination operations related to general, technology, and healthcare cash flow loans. Prior to the realignment, our commercial portfolio classes were: (1) asset-based, (2) venture capital, (3) cash flow, and (4) equipment finance. After the realignment, our commercial portfolio classes are (1) asset-based (which includes equipment finance), (2) venture capital, and (3) other commercial (which includes retained cash flow). All of the loan and allowance tables, both current period and prior periods, reflect this realignment.

In prior periods, our credit quality disclosures were only for Non-PCI loans and leases. As our gross PCI loan portfolio reduced to less than 0.4% of total loans as of the end of 2017, beginning in 2018 the credit quality disclosures reflect our entire loan and lease portfolio. Accordingly, for the credit quality tables in Note 6. Loans and Leases, amounts related to the 2018 period are for total loans and leases, while amounts related to the 2017 period are for Non-PCI loans and leases only.

NOTE 2. RESTRICTED CASH BALANCES

The Company is required to maintain reserve balances with the FRBSF. Such reserve requirements are based on a percentage of deposit liabilities and may be satisfied by cash on hand. The average reserves required to be held at the FRBSF for the three months ended March 31, 2018 and year ended December 31, 2017 were \$80.7 million and \$77.6 million. As of March 31, 2018 and December 31, 2017, we pledged cash collateral for our derivative contracts of \$3.7 million and \$2.7 million.

PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

NOTE 3. ACQUISITIONS

CUB Acquisition

On October 20, 2017, we completed the acquisition of CUB. As part of the acquisition, CU Bank, a wholly-owned subsidiary of CUB, was merged with and into PacWest's wholly-owned banking subsidiary, Pacific Western Bank. We completed the acquisition to, among other things, enhance our Southern California community bank franchise by adding a \$2.1 billion loan portfolio and \$2.7 billion of core deposits. The CUB acquisition has been accounted for under the acquisition method of accounting. We acquired \$3.5 billion of assets and assumed \$2.8 billion of liabilities upon closing of the acquisition. The assets and liabilities, both tangible and intangible, were recorded at their estimated fair values as of the acquisition date.

We made significant estimates and exercised significant judgment in estimating fair values and accounting for such acquired assets and liabilities. Such fair values are preliminary estimates and are subject to adjustment for up to one year after the acquisition date or when additional information relative to the closing date fair values becomes available and such information is considered final, whichever is earlier. The application of the acquisition method of accounting resulted in goodwill of \$374.7 million. All of the recognized goodwill is non-deductible for tax purposes.

NOTE 4. 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 aggregate amortization expense is expected to be \$22.5 million for 2018. The estimated aggregate amortization expense related to these intangible assets for each of the next five years is \$18.7 million for 2019, \$14.6 million for 2020, \$10.8 million for 2021, \$7.5 million for 2022, and \$1.4 million for 2023.

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

	Three Months Ended		
	March 31,	December 31,	March 31,
	2018	2017	2017
	(In thousands)		
Gross Amount of CDI and CRI:			
Balance, beginning of period	\$ 119,497	\$ 61,997	\$ 64,187
Addition from CUB acquisition	—	57,500	—
Balance, end of period	119,497	119,497	64,187
Accumulated Amortization:			
Balance, beginning of period	(39,871)	(34,809)	(27,821)
Amortization	(6,346)	(5,062)	(3,064)
Balance, end of period	(46,217)	(39,871)	(30,885)
Net CDI and CRI, end of period	\$ 73,280	\$ 79,626	\$ 33,302

PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

NOTE 5. 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	March 31, 2018				December 31, 2017			
	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	\$251,585	\$ 2,748	\$(2,557)	\$251,776	\$243,375	\$ 3,743	\$(844)	\$246,274
Agency CMOs	551,021	840	(5,916)	545,945	277,638	968	(2,897)	275,709
Private label CMOs	114,386	3,071	(1,212)	116,245	122,816	3,813	(642)	125,987
Municipal securities	1,392,261	19,389	(8,064)	1,403,586	1,627,707	53,700	(1,339)	1,680,068
Agency commercial MBS	1,114,430	121	(25,057)	1,089,494	1,169,969	2,758	(8,758)	1,163,969
U.S. Treasury securities	148,217	365	—	148,582	—	—	—	—
SBA securities	148,787	706	(1,229)	148,264	160,214	695	(575)	160,334
Asset-backed securities	81,022	11	(1,299)	79,734	89,425	159	(874)	88,710
Corporate debt securities	17,000	1,360	—	18,360	17,000	2,295	—	19,295
Collateralized loan obligations	—	—	—	—	6,960	55	—	7,015
Equity investments	—	—	—	—	6,421	779	(130)	7,070
Total	\$3,818,709	\$ 28,611	\$(45,334)	\$3,801,986	\$3,721,525	\$ 68,965	\$(16,059)	\$3,774,431

In connection with our adoption of ASU 2016-01 and ASU 2018-03 on January 1, 2018, we reclassified \$7.1 million of equity investments from securities available-for-sale to other assets in the first quarter of 2018. The reclassification was applied prospectively without prior period amounts being restated.

As of March 31, 2018, securities available-for-sale with a fair value of \$433.3 million were pledged as collateral for borrowings, public deposits and other purposes as required by various statutes and agreements.

During the three months ended March 31, 2018, we sold \$299.9 million of securities available-for-sale for a gross realized gain of \$6.8 million and a gross realized loss of \$515,000. During the three months ended March 31, 2017, we sold \$43.1 million of securities available-for-sale for a gross realized gain of \$204,000 and a gross realized loss of \$303,000.

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	March 31, 2018					
	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	\$104,277	\$(1,649)	\$24,518	\$(908)	\$128,795	\$(2,557)
Agency CMOs	251,805	(5,359)	18,377	(557)	270,182	(5,916)
Private label CMOs	92,396	(1,105)	4,446	(107)	96,842	(1,212)
Municipal securities	364,270	(6,320)	30,973	(1,744)	395,243	(8,064)
Agency commercial MBS	1,006,897	(21,302)	67,387	(3,755)	1,074,284	(25,057)
SBA securities	87,303	(1,229)	—	—	87,303	(1,229)
Asset-backed securities	64,382	(1,199)	7,630	(100)	72,012	(1,299)
Total	\$1,971,330	\$(38,163)	\$153,331	\$(7,171)	\$2,124,661	\$(45,334)

Security Type	December 31, 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	\$44,795	\$(311)	\$26,010	\$(533)	\$70,805	\$(844)
Agency CMOs	163,014	(2,452)	20,928	(445)	183,942	(2,897)
Private label CMOs	50,521	(500)	5,035	(142)	55,556	(642)
Municipal securities	67,936	(365)	32,326	(974)	100,262	(1,339)
Agency commercial MBS	579,373	(3,777)	129,060	(4,981)	708,433	(8,758)
SBA securities	74,904	(575)	—	—	74,904	(575)
Asset-backed securities	45,198	(818)	10,473	(56)	55,671	(874)
Equity investments	1,039	(130)	—	—	1,039	(130)
Total	\$1,026,780	\$(8,928)	\$223,832	\$(7,131)	\$1,250,612	\$(16,059)

We reviewed the securities that were in an unrealized loss position at March 31, 2018, and concluded their unrealized 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.

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	March 31, 2018	
	Amortized Cost	Fair Value
	(In thousands)	
Due in one year or less	\$10,384	\$10,517
Due after one year through five years	486,326	483,913
Due after five years through ten years	1,053,610	1,035,714
Due after ten years	2,268,389	2,271,842
Total securities available-for-sale	\$3,818,709	\$3,801,986

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		
	March 31, 2018	December 31, 2017	March 31, 2017
	(In thousands)		
Taxable interest	\$14,599	\$13,724	\$12,166
Non-taxable interest	11,107	11,429	10,381
Dividend income	432	559	492
Total interest income on investment securities	\$26,138	\$25,712	\$23,039

PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

NOTE 6. LOANS AND LEASES

Our 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.

Prior to January 1, 2018, our loan and lease portfolio consisted of Non-PCI loans and leases and PCI loans. Non-PCI loans and leases were those we originated or those we acquired that were not credit impaired at the dates of acquisition. PCI loans were 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. As our gross PCI loan portfolio represented less than 0.4% of total loans as of the end of 2017, beginning in 2018 the PCI loans were accounted for as Non-PCI loans. Accordingly, in the credit quality tables below under "Loans and leases held for investment," amounts related to the 2018 period are for total loans and leases, and amounts related to the 2017 period are for Non-PCI loans and leases.

Loans Held for Sale

In the fourth quarter of 2017, we sold \$1.5 billion of cash flow loans and exited our CapitalSource Division origination operations related to general, technology, and healthcare cash flow loans. As of December 31, 2017, \$1.0 billion of the loans sold had settled, while \$481.1 million were classified as held for sale. In connection with the loan sale and transfer of loans to held for sale, we recognized \$2.2 million in charge-offs during the fourth quarter of 2017 to record the loans at the lower of cost or fair value. The loans held for sale at December 31, 2017 settled in the first quarter of 2018 and we recorded a gain of \$1.3 million.

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:

	March 31, 2018	December 31, 2017		Total
	Total Loans and Leases	Non-PCI Loans and Leases	PCI Loans	Total Loans and Leases
	(In thousands)			
Real estate mortgage	\$7,570,526	\$7,815,355	\$53,658	\$7,869,013
Real estate construction and land	1,699,630	1,611,287	—	1,611,287
Commercial	6,848,576	7,137,978	4,158	7,142,136
Consumer	397,895	409,551	234	409,785
Gross loans and leases held for investment	16,516,627	16,974,171	58,050	17,032,221
Deferred fees, net	(61,342)	(59,464)	(14)	(59,478)
Loans and leases held for investment, net of deferred fees	16,455,285	16,914,707	58,036	16,972,743
Allowance for loan and lease losses	(134,275)	(133,012)	(6,444)	(139,456)
Total loans and leases held for investment, net	\$16,321,010	\$16,781,695	\$51,592	\$16,833,287

PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

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

	March 31, 2018		Total Past Due	Current	Total
	30 - 89 Days Past Due	90 or More Days Past Due			
(In thousands)					
Real estate mortgage:					
Commercial	\$26,262	\$6,849	\$33,111	\$4,999,895	\$5,033,006
Residential	1,512	1,976	3,488	2,517,749	2,521,237
Total real estate mortgage	27,774	8,825	36,599	7,517,644	7,554,243
Real estate construction and land:					
Commercial	—	—	—	789,892	789,892
Residential	2,605	—	2,605	884,505	887,110
Total real estate construction and land	2,605	—	2,605	1,674,397	1,677,002
Commercial:					
Asset-based	—	680	680	2,957,210	2,957,890
Venture capital	737	1,492	2,229	1,918,414	1,920,643
Other commercial	5,133	1,388	6,521	1,941,069	1,947,590
Total commercial	5,870	3,560	9,430	6,816,693	6,826,123
Consumer	1,000	—	1,000	396,917	397,917
Total	\$37,249	\$12,385	\$49,634	\$16,405,651	\$16,455,285

	December 31, 2017		Total Past Due	Current	Total
	30 - 89 Days Past Due	90 or More Days Past Due			
(In thousands)					
Real estate mortgage:					
Commercial	\$29,070	\$9,107	\$38,177	\$5,323,310	\$5,361,487
Residential	6,999	2,022	9,021	2,428,483	2,437,504
Total real estate mortgage	36,069	11,129	47,198	7,751,793	7,798,991
Real estate construction and land:					
Commercial	—	—	—	769,075	769,075
Residential	2,081	—	2,081	820,073	822,154
Total real estate construction and land	2,081	—	2,081	1,589,148	1,591,229
Commercial:					
Asset-based	344	690	1,034	2,923,837	2,924,871
Venture capital	6,533	760	7,293	2,115,418	2,122,711
Other commercial	2,846	1,586	4,432	2,062,906	2,067,338
Total commercial	9,723	3,036	12,759	7,102,161	7,114,920

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Consumer	562	—	562	409,005	409,567
Total ⁽¹⁾	\$48,435	\$14,165	\$62,600	\$16,852,107	\$16,914,707

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

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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 loans and leases held for investment, net of deferred fees, by portfolio segment and class as of the dates indicated:

	March 31, 2018			December 31, 2017 ⁽¹⁾		
	Nonaccrual	Performing	Total	Nonaccrual	Performing	Total
	(In thousands)					
Real estate mortgage:						
Commercial	\$19,116	\$5,013,890	\$5,033,006	\$65,563	\$5,295,924	\$5,361,487
Residential	5,225	2,516,012	2,521,237	3,350	2,434,154	2,437,504
Total real estate mortgage	24,341	7,529,902	7,554,243	68,913	7,730,078	7,798,991
Real estate construction and land:						
Commercial	—	789,892	789,892	—	769,075	769,075
Residential	—	887,110	887,110	—	822,154	822,154
Total real estate construction and land	—	1,677,002	1,677,002	—	1,591,229	1,591,229
Commercial:						
Asset-based	32,838	2,925,052	2,957,890	33,553	2,891,318	2,924,871
Venture capital	21,861	1,898,782	1,920,643	29,424	2,093,287	2,122,711
Other commercial	24,434	1,923,156	1,947,590	23,874	2,043,464	2,067,338
Total commercial	79,133	6,746,990	6,826,123	86,851	7,028,069	7,114,920
Consumer	251	397,666	397,917	20	409,547	409,567
Total	\$103,725	\$16,351,560	\$16,455,285	\$155,784	\$16,758,923	\$16,914,707

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

At March 31, 2018, nonaccrual loans and leases totaled \$103.7 million and included \$11.9 million of loans and leases 90 or more days past due, \$8.7 million of loans and leases 30 to 89 days past due, and \$83.1 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 \$155.8 million at December 31, 2017, including \$14.2 million of the loans and leases 90 or more days past due, \$3.2 million of loans and leases 30 to 89 days past due, and \$138.4 million of current loans and leases that were placed on nonaccrual status based on management's judgment regarding their collectability.

As of March 31, 2018, our ten largest loan relationships on nonaccrual status had an aggregate carrying value of \$68.8 million and represented 66.3% of total nonaccrual loans and leases.

PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

The following table presents the credit risk rating categories for loans and leases held for investment, net of deferred fees, by portfolio segment and class as of the dates indicated. Classified loans and leases are those with a credit risk rating of either substandard or doubtful.

	March 31, 2018			
	Classified	Special Mention	Pass	Total
	(In thousands)			
Real estate mortgage:				
Commercial	\$44,635	\$158,496	\$4,829,875	\$5,033,006
Residential	12,436	1,672	2,507,129	2,521,237
Total real estate mortgage	57,071	160,168	7,337,004	7,554,243
Real estate construction and land:				
Commercial	453	—	789,439	789,892
Residential	—	30,626	856,484	887,110
Total real estate construction and land	453	30,626	1,645,923	1,677,002
Commercial:				
Asset-based	49,913	54,882	2,853,095	2,957,890
Venture capital	31,364	124,303	1,764,976	1,920,643
Other commercial	68,813	43,681	1,835,096	1,947,590
Total commercial	150,090	222,866	6,453,167	6,826,123
Consumer	428	1,456	396,033	397,917
Total	\$208,042	\$415,116	\$15,832,127	\$16,455,285

	December 31, 2017 ⁽¹⁾			
	Classified	Special Mention	Pass	Total
	(In thousands)			
Real estate mortgage:				
Commercial	\$93,795	\$122,488	\$5,145,204	\$5,361,487
Residential	8,425	4,582	2,424,497	2,437,504
Total real estate mortgage	102,220	127,070	7,569,701	7,798,991
Real estate construction and land:				
Commercial	—	—	769,075	769,075
Residential	—	619	821,535	822,154
Total real estate construction and land	—	619	1,590,610	1,591,229
Commercial:				
Asset-based	51,000	37,256	2,836,615	2,924,871
Venture capital	49,671	114,210	1,958,830	2,122,711
Other commercial	75,251	21,883	1,970,204	2,067,338
Total commercial	175,922	173,349	6,765,649	7,114,920
Consumer	263	1,130	408,174	409,567
Total	\$278,405	\$302,168	\$16,334,134	\$16,914,707

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

PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

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.

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, net of deferred fees, by portfolio segment as of the dates indicated:

	March 31, 2018			December 31, 2017 ⁽¹⁾		
	Nonaccrual Loans and Leases	Performing Troubled Debt Restructured Loans	Total Impaired and Leases	Nonaccrual Loans and Leases	Performing Troubled Debt Restructured Loans	Total Impaired and Leases
	(In thousands)					
Real estate mortgage	\$24,341	\$ 51,031	\$75,372	\$68,913	\$ 47,560	\$116,473
Real estate construction and land	—	5,670	5,670	—	5,690	5,690
Commercial	79,133	3,349	82,482	86,851	3,488	90,339
Consumer	251	123	374	20	100	120
Total	\$103,725	\$ 60,173	\$163,898	\$155,784	\$ 56,838	\$212,622

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

PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

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

Impaired Loans and Leases	March 31, 2018			December 31, 2017 ⁽¹⁾		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
(In thousands)						
With An Allowance Recorded:						
Real estate mortgage:						
Commercial	\$ 13,884	\$ 14,690	\$ 576	\$ 15,750	\$ 16,548	\$ 628
Residential	4,295	4,926	512	2,787	2,957	342
Commercial:						
Venture capital	17,367	18,312	4,970	16,565	17,203	4,267
Other commercial	18,048	31,672	8,171	20,404	29,951	8,368
Consumer	295	355	16	100	100	16
With No Related Allowance Recorded:						
Real estate mortgage:						
Commercial	\$ 48,729	\$ 63,283		\$ 93,827	\$ 105,923	
Residential	8,464	10,674		4,109	4,481	
Real estate construction and land:						
Commercial	5,670	5,670		5,690	5,689	
Commercial:						
Asset-based	32,838	55,890		33,553	54,911	
Venture capital	6,129	29,786		14,534	40,029	
Other commercial	8,100	27,819		5,283	9,351	
Consumer	79	179		20	93	
Total Loans and Leases With and Without an Allowance Recorded:						
Real estate mortgage	\$ 75,372	\$ 93,573	\$ 1,088	\$ 116,473	\$ 129,909	\$ 970
Real estate construction and land	5,670	5,670	—	5,690	5,689	—
Commercial	82,482	163,479	13,141	90,339	151,445	12,635
Consumer	374	534	16	120	193	16
Total	\$ 163,898	\$ 263,256	\$ 14,245	\$ 212,622	\$ 287,236	\$ 13,621

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

PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

	Three Months Ended March 31,			
	2018		2017	
	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	\$13,884	\$ 201	\$14,350	\$ 206
Residential	4,295	23	3,501	12
Commercial:				
Venture capital	14,598	—	4,693	—
Other commercial	16,851	15	44,333	15
Consumer	295	2	187	—
With No Related Allowance Recorded:				
Real estate mortgage:				
Commercial	\$46,782	\$ 765	\$92,753	\$ 560
Residential	8,464	45	5,216	15
Real estate construction and land:				
Commercial	5,670	89	6,111	67
Residential	—	—	572	2
Commercial:				
Asset-based	32,838	—	30,739	—
Venture capital	4,474	—	2,429	—
Other commercial	7,859	1,147	4,750	30
Consumer	79	—	127	2
Total Loans and Leases With and Without an Allowance Recorded:				
Real estate mortgage	\$73,425	\$ 1,034	\$115,820	\$ 793
Real estate construction and land	5,670	89	6,683	69
Commercial	76,620	1,162	86,944	45
Consumer	374	2	314	2
Total	\$156,089	\$ 2,287	\$209,761	\$ 909

(1) For loans and leases reported as impaired at March 31, 2018 and 2017, amounts were calculated based on the period of time such loans and leases were impaired during the reported period.

PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

The following table presents our troubled debt restructurings of loans held for investment by portfolio segment and class for the periods indicated:

Troubled Debt Restructurings of Investment Loans	Three Months Ended March 31, 2018		2017	
	Pre-Modification Outstanding	Post-Modification Outstanding	Pre-Modification Outstanding	Post-Modification Outstanding
	Number Recorded	Recorded	Number Recorded	Recorded
(Dollars in thousands)				
Real estate mortgage:				
Commercial	—	\$ —	1	\$ 64
Residential	—	—	2	42
Commercial:				
Venture capital	—	—	3	13,065
Other commercial	2	11,783	4	719
Consumer	—	—	1	97
Total	2	\$ 11,783	11	\$ 13,987

The following table presents troubled debt restructurings of loans held for investment by portfolio segment and class that subsequently defaulted for the periods indicated:

Troubled Debt Restructurings That Subsequently Defaulted	Three Months Ended March 31, 2018		2017	
	Number Recorded	Recorded	Number Recorded	Recorded
	of Investment Loans ⁽¹⁾	of Investment Loans ⁽¹⁾	of Investment Loans ⁽¹⁾	of Investment Loans ⁽¹⁾
(Dollars in thousands)				
Commercial:				
Other commercial	1	\$ 2,250	—	\$ —
Consumer	—	—	1	28
Total	1	\$ 2,250	(2)1	\$ 28 (3)

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 March 31, 2018, the (1) population of defaulted restructured loans includes only those loans restructured after March 31, 2017. The table excludes defaulted troubled debt restructurings in those classes for which the recorded investment was zero at the end of the period.

(2) Represents the balance at March 31, 2018, and there were no charge-offs.

(3) Represents the balance at March 31, 2017, and there were no charge-offs.

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 loans and leases held for investment by portfolio segment for the periods indicated:

Three Months Ended March 31, 2018

	Real Estate				
	Real Estate	Construction			
	Mortgage	and Land	Commercial	Consumer	Total
	(In thousands)				
Allowance for Loan and Lease Losses:					
Balance, beginning of period	\$40,051	\$ 13,055	\$84,022	\$2,328	\$ 139,456
Charge-offs	(2,598	) —	(9,524	) (31	) (12,153
Recoveries	1,657	9	5,487	45	7,198
Provision (negative provision)	1,048	5,126	(6,205	) (195	) (226
Balance, end of period	\$40,158	\$ 18,190	\$73,780	\$2,147	\$ 134,275

Ending Allowance by

Impairment Methodology:

Individually evaluated for impairment	\$1,088	\$ —	\$13,141	\$16	\$14,245
Collectively evaluated for impairment	\$39,070	\$ 18,190	\$60,639	\$2,131	\$120,030

Ending Loans and Leases by

Impairment Methodology:

Individually evaluated for impairment	\$74,390	\$ 5,670	\$82,434	\$324	\$162,818
Collectively evaluated for impairment	7,479,853	1,671,332	6,743,689	397,593	16,292,467
Ending balance	\$7,554,243	\$ 1,677,002	\$6,826,123	\$397,917	\$16,455,285

PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

	Three Months Ended March 31, 2017						
	Real Estate				Total	Total	
	Real Estate	Construction	Commercial	Consumer	Non-PCI	PCI	Total
	Mortgage	and Land					
	(In thousands)						
Allowance for Loan and Lease Losses:							
Balance, beginning of period	\$37,765	\$10,045	\$93,853	\$2,092	\$143,755	\$13,483	\$157,238
Charge-offs	(1,544)	) —	(19,285)	) (99)	) (20,928)	) (2,230)	) (23,158)
Recoveries	230	8	2,448	53	2,739	—	2,739
Provision (negative provision)	(1,083)	) 423	25,118	(198)	) 24,260	228	24,488
Balance, end of period	\$35,368	\$10,476	\$102,134	\$1,848	\$149,826	\$11,481	\$161,307
Ending Allowance by Impairment Methodology:							
Individually evaluated for impairment	\$1,070	\$—	\$12,267	\$90	\$13,427		
Collectively evaluated for impairment	\$34,298	\$10,476	\$89,867	\$1,758	\$136,399		
Acquired loans with deteriorated credit quality						\$11,481	
Ending Loans and Leases by Impairment Methodology:							
Individually evaluated for impairment	\$118,275	\$6,683	\$103,221	\$281	\$228,460		
Collectively evaluated for impairment	5,768,694	1,101,553	7,979,457	382,190	15,231,894		
Acquired loans with deteriorated credit quality						\$96,335	
Ending balance	\$5,886,969	\$1,108,236	\$8,082,678	\$382,471	\$15,460,354	\$96,335	\$15,556,689

PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

Allowance for Credit Losses

The allowance for credit losses is the combination of the allowance for loan and lease losses and the reserve for unfunded loan commitments. The 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 allowance for loan and lease losses, reserve for unfunded loan commitments for the periods indicated:

	Three Months Ended March 31, 2018				
	Allowance for	Reserve for	Total		
	Loan and Lease Losses	Unfunded Loan Commitments	Allowance for Credit Losses		
	(In thousands)				
Balance, beginning of period	\$ 139,456	\$ 28,635	\$ 168,091		
Charge-offs	(12,153)	—	(12,153)		
Recoveries	7,198	—	7,198		
Net charge-offs	(4,955)	—	(4,955)		
Provision (negative provision)	(226)	4,226	4,000		
Balance, end of period	\$ 134,275	\$ 32,861	\$ 167,136		
	Three Months Ended March 31, 2017				
	Non-PCI Allowance for	Reserve for		PCI	Total
	Loan and Lease Losses	Unfunded Loan Commitments	Allowance for Credit Losses	Allowance for Loan Losses	Allowance for Credit Losses
	(In thousands)				
Balance, beginning of period	\$ 143,755	\$ 17,523	\$ 161,278	\$ 13,483	\$ 174,761
Charge-offs	(20,928)	—	(20,928)	(2,230)	(23,158)
Recoveries	2,739	—	2,739	—	2,739
Net charge-offs	(18,189)	—	(18,189)	(2,230)	(20,419)
Provision	24,260	240	24,500	228	24,728
Balance, end of period	\$ 149,826	\$ 17,763	\$ 167,589	\$ 11,481	\$ 179,070

PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

NOTE 7. FORECLOSED ASSETS

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

Property Type	March	December
	31, 2018	31, 2017
	(In thousands)	
Construction and land development	\$219	\$ 219
Commercial real estate	64	64
Single family residence	953	1,019
Total other real estate owned, net	1,236	1,302
Other foreclosed assets	—	27
Total foreclosed assets, net	\$1,236	\$ 1,329

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, 2017	\$ 1,329
Provision for losses	(65)
Reductions related to sales	(28)
Balance, March 31, 2018	\$ 1,236

NOTE 8. OTHER ASSETS

The following table presents the detail of our other assets as of the dates indicated:

Other Assets	March	December
	31, 2018	31, 2017
	(In thousands)	
Cash surrender value of BOLI	\$195,163	\$193,917
Interest receivable	78,822	82,935
Taxes receivable	64,739	98,998
CRA investments	53,838	49,432
Low income housing tax credit ("LIHTC") investments	43,793	39,235
Equity investments without readily determinable fair values	15,642	14,856
Equity investments with readily determinable fair values	5,028	—
Other assets	54,159	61,350
Total other assets	\$511,184	\$540,723

The Company has purchased life insurance policies on certain employees and has also acquired life insurance policies through acquisitions. BOLI is recorded at the amount that can be realized under the insurance contract, which is the cash surrender value. The increase in the cash surrender value each period is recorded to "Noninterest income - other." The Company makes various investments for CRA investment purposes including, but not limited to, CRA-related loan pool investments, CRA-related equity investments and investments in LIHTC partnerships. The loan pool and other CRA equity investments primarily consist of investments in partnerships which provide affordable housing and participations in loan pools which provide low-cost loans to low and moderate income applicants.

PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

The Company invests as a limited partner in LIHTC partnerships that operate qualified affordable housing projects and generate tax benefits for investors, including federal low income housing tax credits. The partnerships are deemed to be VIEs because they do not have sufficient equity investment at risk and are structured with non-substantive voting rights. We are not the primary beneficiary of the VIEs and do not consolidate them. As a practical expedient, we amortize the investment in proportion to the allocated tax benefits using the proportional amortization method of accounting and record such benefits net of investment amortization in income tax expense.

Our equity investments without readily determinable fair values include investments in privately held companies and limited partnerships as well as investments in entities from which we issued trust preferred securities. On January 1, 2018, we adopted ASU 2016-01 and ASU 2018-03 which changed the way we account for equity investments without readily determinable fair values previously accounted for using the cost method. Upon adoption, we have elected to measure our equity investments without readily determinable fair values using the measurement alternative. The Company reclassified \$1.2 million of equity securities without readily determinable fair values previously included in securities available-for-sale to other assets on our condensed consolidated balance sheet in the first quarter of 2018. The reclassification was applied prospectively without prior period amounts being restated. Carrying values of these investments are adjusted to fair value upon observable transactions for identical or similar investments of the same issuer. We did not identify any observable transactions for our equity investments without readily determinable fair values during the three months ended March 31, 2018 that would require us to adjust the carrying value of these investments held as of March 31, 2018. Beginning January 1, 2018, unrealized and realized gains and losses on equity investments without readily determinable fair values are recorded in "Noninterest income - other."

Our equity investments with readily determinable fair values include investments in public companies and publicly-traded mutual funds. The Company reclassified \$5.9 million of equity securities with readily determinable fair values previously included in securities available-for-sale to other assets on our condensed consolidated balance sheet in the first quarter of 2018. The reclassification was applied prospectively without prior period amounts being restated. Beginning January 1, 2018, unrealized and realized gains and losses on equity investments with readily determinable fair values are recorded in "Noninterest income - other."

The remaining other assets balance of \$54.2 million at March 31, 2018 consists of, among other things, prepaid expenses, other receivables, equity warrants, and derivative assets.

PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

NOTE 9. BORROWINGS AND SUBORDINATED DEBENTURES

Borrowings

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

	March 31, 2018		December 31, 2017	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate
	(Dollars in thousands)			
Non recourse debt	\$284	6.94 %	\$342	6.87 %
FHLB secured advances	340,000	1.87 %	332,000	1.41 %
FHLB unsecured overnight advance	135,000	1.85 %	135,000	1.34 %
AFX borrowings	100,000	1.82 %	—	— %
Total borrowings	\$575,284		\$467,342	

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 March 31, 2018, this debt had a weighted average remaining maturity of 1.7 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 March 31, 2018 of \$3.9 billion, collateralized by a blanket lien on \$5.7 billion of certain qualifying loans. As of March 31, 2018, the balance outstanding was a \$340.0 million overnight advance. As of December 31, 2017, the balance outstanding was a \$332.0 million overnight advance.

FRBSF Secured Line of Credit. The Bank has a secured line of credit with the FRBSF. As of March 31, 2018, the Bank had secured borrowing capacity of \$1.7 billion collateralized by liens covering \$2.1 billion of certain qualifying loans. As of March 31, 2018 and December 31, 2017, there were no balances outstanding.

FHLB Unsecured Line of Credit. The Bank has a \$135.0 million unsecured line of credit with the FHLB for the purchase of overnight funds, of which \$135.0 million was outstanding at March 31, 2018. At December 31, 2017, the balance outstanding was \$135.0 million.

Federal Funds Arrangements with Commercial Banks. As of March 31, 2018, the Bank had unsecured lines of credit of \$75.0 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 March 31, 2018 and December 31, 2017, there were no balances outstanding. The Bank is a member of the AFX, 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 March 31, 2018 the balance outstanding was \$100.0 million in overnight borrowings. As of December 31, 2017, there were no balances outstanding.

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	March 31, 2018		December 31, 2017		Date	Maturity	Rate Index
	Amount	Rate	Amount	Rate	Issued	Date	(Quarterly Reset)
	(Dollars in thousands)						
Trust V	\$10,310	5.28%	\$10,310	4.70%	8/15/2003	9/17/2033	3 month LIBOR + 3.10
Trust VI	10,310	5.17%	10,310	4.64%	9/3/2003	9/15/2033	3 month LIBOR + 3.05
Trust CII	5,155	5.13%	5,155	4.55%	9/17/2003	9/17/2033	3 month LIBOR + 2.95
Trust VII	61,856	4.52%	61,856	4.13%	2/5/2004	4/23/2034	3 month LIBOR + 2.75
Trust CIII	20,619	3.81%	20,619	3.28%	8/15/2005	9/15/2035	3 month LIBOR + 1.69
Trust FCCI	16,495	3.72%	16,495	3.19%	1/25/2007	3/15/2037	3 month LIBOR + 1.60
Trust FCBI	10,310	3.67%	10,310	3.14%	9/30/2005	12/15/2035	3 month LIBOR + 1.55
Trust CS 2005-1	82,475	4.07%	82,475	3.54%	11/21/2005	12/15/2035	3 month LIBOR + 1.95
Trust CS 2005-2	128,866	3.72%	128,866	3.33%	12/14/2005	1/30/2036	3 month LIBOR + 1.95
Trust CS 2006-1	51,545	3.72%	51,545	3.33%	2/22/2006	4/30/2036	3 month LIBOR + 1.95
Trust CS 2006-2	51,550	3.72%	51,550	3.33%	9/27/2006	10/30/2036	3 month LIBOR + 1.95
Trust CS 2006-3 ⁽¹⁾	31,773	1.72%	30,986	1.72%	9/29/2006	10/30/2036	3 month EURIBOR + 2.05
Trust CS 2006-4	16,470	3.72%	16,470	3.33%	12/5/2006	1/30/2037	3 month LIBOR + 1.95
Trust CS 2006-5	6,650	3.72%	6,650	3.33%	12/19/2006	1/30/2037	3 month LIBOR + 1.95
Trust CS 2007-2	39,177	3.72%	39,177	3.33%	6/13/2007	7/30/2037	3 month LIBOR + 1.95
Trust I ⁽²⁾	—	—	% 6,186	3.64%	12/10/2004	3/15/2035	3 month LIBOR + 2.05
Trust II ⁽²⁾	—	—	% 3,093	3.34%	12/23/2005	3/15/2036	3 month LIBOR + 1.75
Trust III ⁽²⁾	—	—	% 3,093	3.44%	6/30/2006	9/18/2036	3 month LIBOR + 1.85
Gross subordinated debentures	543,561		555,146				
Unamortized discount ⁽³⁾	(91,338)		(92,709)				
Net subordinated debentures	\$452,223		\$462,437				

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

(2) Acquired in the CUB acquisition on October 20, 2017 and redeemed in the first quarter of 2018.

(3) Amount represents the fair value adjustment on trust preferred securities 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 10. 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:

	March 31, 2018	December 31, 2017
	(In thousands)	
Loan commitments to extend credit	\$6,352,803	\$6,234,061
Standby letters of credit	337,678	320,063
Total	\$6,690,481	\$6,554,124

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.

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, the Company invests 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 March 31, 2018 and December 31, 2017, we had commitments to contribute capital to these entities totaling \$79.4 million and \$62.6 million. We also had commitments to contribute up to an additional \$2.5 million to private equity funds at March 31, 2018 and December 31, 2017.

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.

PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

NOTE 11. 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.

The Company uses 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 March 31, 2018			
	Total	Level 1	Level 2	Level 3
	(In thousands)			
Securities available for sale:				
Residential MBS and CMOs:				
Agency MBS	\$251,776	\$—	\$251,776	\$—
Agency CMOs	545,945	—	545,945	—
Private label CMOs	116,245	—	94,164	22,081
Municipal securities	1,403,586	—	1,403,586	—
Agency commercial MBS	1,089,494	—	1,089,494	—
U.S. Treasury securities	148,582	148,582	—	—
SBA securities	148,264	—	148,264	—
Asset-backed securities	79,734	—	43,316	36,418
Corporate debt securities	18,360	—	18,360	—
Total securities available-for-sale	3,801,986	148,582	3,594,905	58,499
Equity warrants	5,284	—	—	5,284
Other derivative assets	3,327	—	3,327	—

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Equity investments with readily determinable fair values	5,028	5,028	—	—
Total recurring assets	\$3,815,625	\$153,610	\$3,598,232	\$63,783
Derivative liabilities	\$642	\$—	\$642	\$—

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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, 2017			
	Total	Level 1	Level 2	Level 3
	(In thousands)			
Securities available for sale:				
Residential MBS and CMOs:				
Agency MBS	\$246,274	\$—	\$246,274	\$—
Agency CMOs	275,709	—	275,709	—
Private label CMOs	125,987	—	103,113	22,874
Municipal securities	1,680,068	—	1,680,068	—
Agency commercial MBS	1,163,969	—	1,163,969	—
SBA securities	160,334	—	160,334	—
Asset-backed securities	88,710	—	46,601	42,109
Corporate debt securities	19,295	—	19,295	—
Collateralized loan obligations	7,015	—	7,015	—
Equity investments	7,070	5,922	1,148	—
Total securities available-for-sale	3,774,431	5,922	3,703,526	64,983
Equity warrants	5,161	—	—	5,161
Other derivative assets	1,873	—	1,873	—
Total recurring assets	\$3,781,465	\$5,922	\$3,705,399	\$70,144
Derivative liabilities	\$1,379	\$—	\$1,379	\$—

During the three months ended March 31, 2018, there were no transfers of assets between Level 1 and Level 2, and there was a \$13,000 transfer of private label CMOs from Level 3 to Level 2 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:

	March 31, 2018		Asset-Backed Securities	
	Private Label CMOs	Weighted Average	Range	Weighted Average
Unobservable Inputs	Range of Inputs	Input	Range of Inputs	Input
Voluntary annual prepayment speeds	3.8% - 52.7%	8.3%	5% - 15%	14.0%
Annual default rates	0.1% - 16.5%	2.5%	1% - 2%	1.9%
Loss severity rates	3.2% - 105.7%	46.3%	10% - 60%	55.2%
Discount rates	2.0% - 10.3%	5.3%	3.2% - 4.3%	3.6%

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:

	March 31, 2018
	Equity Warrants
	Weighted
	Average
Unobservable Inputs	Input
Volatility	16.8%
Risk-free interest rate	2.4%
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, 2017	\$22,874	\$ 42,109	\$ 5,161	
Total included in earnings	165	(10	) 248
Total included in other comprehensive income	(141	) (228) —	
Issuances	—	—	206	
Sales	—	—	(331)
Transfer to Level 2	(13) —	—	
Net settlements	(804	) (5,453) —	
Balance, March 31, 2018	\$22,081	\$ 36,418	\$ 5,284	

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

Measured on a Non Recurring Basis	Fair Value Measurement as of			
	Total	Level 1	Level 2	Level 3
	March 31, 2018			
	(In thousands)			
Impaired loans	\$45,557	\$ —	—\$1,128	\$44,429
OREO	953	—	953	—
Total non-recurring	\$46,510	\$ —	—\$2,081	\$44,429

Measured on a Non Recurring Basis	Fair Value Measurement as of			
	Total	Level 1	Level 2	Level 3
	December 31, 2017			
	(In thousands)			
Impaired Non PCI loans	\$61,095	\$ —	—\$5,143	\$55,952
Loans held for sale	483,563	—	483,563	—
Total non-recurring	\$544,658	\$ —	—\$488,706	\$55,952

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 March 31,	
	2018	2017
	(In thousands)	
Impaired loans ⁽¹⁾	\$7,816	\$13,617
OREO	65	—
Total losses	\$7,881	\$13,617

(1) Loss for 2018 period relates to total loans. Loss for 2017 period relates to Non-PCI loans.

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	March 31, 2018		Unobservable Inputs	Range	Weighted Average
	Fair Value (In thousands)	Valuation Technique			
Impaired loans	\$32,638	Discounted cash flows	Discount rates	2.00% - 10.20%	7.33%
Impaired loans	11,791	Third party appraisals	No discounts		
Total non-recurring Level 3	\$44,429				

ASC Topic 825, "Financial Instruments," (as amended by ASU 2016-01 and ASU 2018-03) 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.

On January 1, 2018, we adopted ASU 2016-01 and ASU 2018-03 which requires the use of the exit price notion when measuring the fair values of financial instruments for disclosure purposes. Starting in the first quarter of 2018, we updated our methodology used to estimate fair values for our loan portfolios to conform to the new requirements.

PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

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

	March 31, 2018					
	Carrying	Estimated Fair Value				
	Amount	Total	Level 1	Level 2	Level 3	
(In thousands)						
Financial Assets:						
Cash and due from banks	\$235,061	\$235,061	\$235,061	\$	—\$	—
Interest earning deposits in financial institutions	312,735	312,735	312,735	—	—	—
Securities available for sale	3,801,986	3,801,986	148,582	3,594,905	58,499	—
Investment in FHLB stock	17,250	17,250	—	17,250	—	—
Loans and leases held for investment, net	16,321,010	16,247,325	—	1,128	16,246,197	—
Equity warrants	5,284	5,284	—	—	5,284	—
Other derivative assets	3,327	3,327	—	3,327	—	—
Equity investments with readily determinable fair values	5,028	5,028	5,028	—	—	—
Financial Liabilities:						
Core deposits	15,661,529	15,661,529	—	15,661,529	—	—
Non-core non-maturity deposits	585,399	585,399	—	585,399	—	—
Time deposits	1,831,860	1,820,330	—	1,820,330	—	—
Borrowings	575,284	575,285	575,000	285	—	—
Subordinated debentures	452,223	435,985	—	435,985	—	—
Derivative liabilities	642	642	—	642	—	—
December 31, 2017						
	Carrying	Estimated Fair Value				
	Amount	Total	Level 1	Level 2	Level 3	
(In thousands)						
Financial Assets:						
Cash and due from banks	\$233,215	\$233,215	\$233,215	\$	—\$	—
Interest earning deposits in financial institutions	165,222	165,222	165,222	—	—	—
Securities available for sale	3,774,431	3,774,431	5,922	3,703,526	64,983	—
Investment in FHLB stock	20,790	20,790	—	20,790	—	—
Loans held for sale	481,100	483,563	—	483,563	—	—
Loans and leases held for investment, net	16,833,287	17,023,098	—	5,143	17,017,955	—
Equity warrants	5,161	5,161	—	—	5,161	—
Other derivative assets	1,873	1,873	—	1,873	—	—
Financial Liabilities:						
Core deposits	15,937,012	15,937,012	—	15,937,012	—	—
Non-core non-maturity deposits	863,202	863,202	—	863,202	—	—
Time deposits	2,065,322	2,055,104	—	2,055,104	—	—
Borrowings	467,342	467,342	467,000	342	—	—
Subordinated debentures	462,437	444,383	—	444,383	—	—
Derivative liabilities	1,379	1,379	—	1,379	—	—

PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

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, as amended by ASU 2016-01 and ASU 2018-03), see Note 1. Nature of Operations and Summary of Significant Accounting Policies, and Note 12. Fair Value Measurements, to the Consolidated Financial Statements of the Company's 2017 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 March 31, 2018, the amounts that will actually be realized or paid at settlement or maturity of the instruments could be significantly different.

NOTE 12. EARNINGS PER SHARE

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

	Three Months Ended		
	March 31, 2018	December 31, 2017	March 31, 2017
	(Dollars in thousands, except per share data)		
Basic Earnings Per Share:			
Net earnings	\$118,276	\$84,037	\$78,668
Less: Earnings allocated to unvested restricted stock ⁽¹⁾	(1,115)	(951)	(999)
Net earnings allocated to common shares	\$117,161	\$83,086	\$77,669
Weighted-average basic shares and unvested restricted stock outstanding	127,487	127,971	121,346
Less: Weighted-average unvested restricted stock outstanding	(1,413)	(1,440)	(1,503)
Weighted-average basic shares outstanding	126,074	126,531	119,843
Basic earnings per share	\$0.93	\$0.66	\$0.65
Diluted Earnings Per Share:			
Net earnings allocated to common shares	\$117,161	\$83,086	\$77,669
Weighted-average basic shares outstanding	126,074	126,531	119,843
Diluted earnings per share	\$0.93	\$0.66	\$0.65

(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.

PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

NOTE 13. REVENUE FROM CONTRACTS WITH CUSTOMERS

The Company adopted Topic 606 Revenue from Contracts with Customers effective as of January 1, 2018 and has applied the guidance to all contracts within the scope of Topic 606 as of that date. Revenue from contracts with customers in the scope of Topic 606 is measured based on the consideration specified in the contract with a customer, and excludes amounts collected on behalf of third parties. The Company recognizes revenue from contracts with customers when it satisfies its performance obligations. The Company's performance obligations are typically satisfied as services are rendered and payment is generally collected at the time services are rendered, or on a monthly, quarterly or annual basis. The Company had no material unsatisfied performance obligations as of March 31, 2018. In certain cases, other parties are involved with providing products and services to our customers. If the Company is a principal in the transaction (providing goods or services itself), revenues are reported based on the gross consideration received from the customer and any related expenses are reported gross in noninterest expense. If the Company is an agent in the transaction (arranging for another party to provide goods or services), the Company reports its net fee or commission retained as revenue. Rebates, waivers, and reversals are recorded as a reduction of revenue either when the revenue is recognized by the Company or at the time the rebate, waiver, or reversal is earned by the customer. The Company has elected the following practical expedients: (1) we do not disclose information about remaining performance obligations that have original expected durations of one year or less; and (2) we do not adjust the consideration from customers for the effects of a significant financing component if at contract inception the period between when the Company transfers the goods or services and when the customer pays for that good or service will be one year or less.

Nature of Goods and Services

Substantially all of the Company's revenue, such as interest income on loans, investment securities, and interest-earning deposits in financial institutions, is specifically out-of-scope of Topic 606. For the revenue that is in-scope, the following is a description of principal activities, separated by the timing of revenue recognition, from which the Company generates its revenue from contracts with customers:

Revenue earned at a point in time. Examples of revenue earned at a point in time are ATM transaction fees, wire transfer fees, NSF fees, and credit and debit card interchange fees. Revenue is generally derived from transactional information accumulated by our systems and is recognized as revenue immediately as the transactions occur or upon providing the service to complete the customer's transaction. The Company is the principal in each of these contracts with the exception of credit and debit card interchange fees, in which case the Company is acting as the agent and records revenue net of expenses paid to the principal.

Revenue earned over time. The Company earns certain revenue from contracts with customers monthly. Examples of this type of revenue are deposit account service fees, investment management fees, merchant referral services, MasterCard marketing incentives and safe deposit box fees. Account service charges, management fees and referral fees are recognized on a monthly basis while any transaction-based revenue is recorded as the activity occurs. Revenue is primarily based on the number and type of transactions and is generally derived from transactional information accumulated by our systems. Revenue is recorded in the same period as the related transactions occur or services are rendered to the customer.

PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

Disaggregation of Revenue

The following table presents interest income and noninterest income, the components of total revenue, as disclosed in the condensed consolidated statements of earnings and the related amounts which are from contracts with customers within the scope of Topic 606. As illustrated here, substantially all of our revenue is specifically excluded from the scope of Topic 606.

	Three Months Ended March 31, 2018	
	Total	Revenue from Contracts With Customers
	(In thousands)	
Total interest income	\$277,775	\$ —
Noninterest income:		
Service charges on deposit accounts	4,174	4,174
Other commissions and fees	10,265	4,651
Leased equipment income	9,587	—
Gain on sale of loans	4,569	—
Gain on sale of securities	6,311	—
Other income	3,653	461
Total noninterest income	38,559	9,286
Total revenue	\$316,334	\$ 9,286

The following table presents revenue from contracts with customers based on the timing of revenue recognition for the period indicated:

	Three Months Ended March 31, 2018 (In thousands)
Products and services transferred at a point in time	\$ 4,661
Products and services transferred over time	4,625
Total revenue from contracts with customers	\$ 9,286

Contract Balances

The following table provides information about receivables, contract assets and contract liabilities from contracts with customers:

	March 31, 2018 (In thousands)
Receivables, which are included in "Other assets"	\$ 1,438
Contract assets, which are included in "Other assets"	\$ —
Contract liabilities, which are included in "Interest payable and other liabilities"	\$ 719

Contract liabilities relate to advance consideration received from customers for which revenue is recognized over the life of the contract. The change in contract liabilities for the three months ended March 31, 2018 due to revenue recognized that was included in the contract liability balance at the beginning of the period was \$33,000.

PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

NOTE 14. STOCK-BASED COMPENSATION

The Company's 2017 Stock Incentive Plan, or the 2017 Plan, permits stock-based compensation awards to officers, directors, employees, and consultants. As of March 31, 2018, 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 March 31, 2018, there were 3,537,972 shares available for grant under the 2017 Plan. Though frozen for new issuances, certain awards issued under the 2003 Stock Incentive Plan, or the 2003 Plan, remain outstanding.

Restricted Stock

Restricted stock amortization totaled \$7.2 million, \$5.4 million, and \$6.5 million for the three months ended March 31, 2018, December 31, 2017 and March 31, 2017. 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 March 31, 2018 totaled \$52.1 million.

Time-Based Restricted Stock Awards

At March 31, 2018, there were 1,383,914 shares of unvested TRSAs outstanding pursuant to the Company's 2003 and 2017 Stock Incentive Plans (the "Plans"). The TRSAs generally vest ratably 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.

Performance-Based Restricted Stock Units

At March 31, 2018, there were 325,741 unvested PRSUs granted. 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 either the 2017 Plan or the 2003 Plan until they vest. PRSUs are granted and initially expensed based on a target number. The number of shares 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 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.

PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

NOTE 15. RECENTLY ISSUED ACCOUNTING STANDARDS

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, and is effective for annual and interim periods in fiscal years beginning after December 15, 2018. There have been further amendments, including practical expedients, with the issuance of ASU 2018-01, "Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842" in January 2018. The FASB has also approved an optional transition method when adopting Topic 842, which would allow companies to elect not to adjust their comparative period financial information, and effectively apply the requirements of the new standard prospectively. The Company will adopt the standard effective January 1, 2019. The Company has reviewed its current lessee portfolio and is assessing the impact of the new standard on its financial statements, related disclosures, systems, and internal controls. The accounting changes are expected to relate primarily to its leased branches and office space which are currently accounted for as operating leases. The Company is on track with its implementation plan which includes a new software solution and procedures. The Company has not yet determined the quantitative effect ASU 2016-02 will have on its consolidated financial position and results of operations. For information on the Company's future minimum lease payments refer to Note 8. Premises and Equipment, Net in our Annual Report on Form 10-K for the year ended December 31, 2017.

In June 2016, the FASB issued ASU 2016-13, "Measurement of Credit Losses on Financial Instruments," which significantly changes the way entities recognize credit losses and impairment of financial assets recorded at amortized cost. Currently, the credit loss and impairment model for loans and leases 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 new current expected credit loss ("CECL") model, the standard requires immediate recognition of estimated credit losses expected to occur over the remaining life of the asset. The forward-looking concept of CECL to estimate future credit losses will broaden the range of data to consider including, but not limited to, past and current events and conditions along with reasonable and supportable forecasts that affect expected collectability. The new standard will also add new disclosure requirements.

The Company has established a multidisciplinary project team, developed an implementation plan, selected a software solution, completed the readiness assessment, and is engaged in the implementation phase of the project. The Company, with the assistance of a third party adviser, is working on: (1) developing a new expected loss model with supportable assumptions, (2) identifying data, reporting, and disclosure gaps, (3) assessing updates to accounting policies, and (4) documenting new processes and controls. ASU 2016-13 is effective for interim and annual periods in fiscal years beginning after December 15, 2019, with earlier adoption permitted. The Company plans to adopt this standard on January 1, 2020. Entities are required to use a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is adopted (modified-retrospective approach). A prospective transition approach is required for debt securities for which an other-than-temporary impairment had been recognized before the adoption date. The new standard will be significant to the policies, processes, and methodology used to determine credit losses, however the Company has not yet determined the quantitative effect ASU 2016-13 will have on its consolidated financial position and 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 consolidated financial position or results of operations.

PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

NOTE 16. SUBSEQUENT EVENTS

Common Stock Dividends

On April 24, 2018, the Company announced that the Board of Directors had declared a quarterly cash dividend of \$0.60 per common share. The cash dividend is payable on May 31, 2018 to stockholders of record at the close of business on May 21, 2018.

The Company has evaluated events that have occurred subsequent to March 31, 2018 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 capital management, including reducing excess capital, intentions to expand the Bank’s lending business; net interest income, net interest margin, allowance for loan and lease losses, deposit growth, loan and lease portfolio growth and production, liquidity, profitability, goodwill and intangible assets, interest rate risk management, and effective tax rates. All statements contained in this Form 10-Q that are not clearly historical in nature are forward-looking, and the words “anticipate,” “assume,” “intend,” “believe,” “forecast,” “expect,” “estimate,” “plan,” “continue,” “will,” “should,” “look forward” and similar expressions are generally intended to identify forward-looking statements. All forward-looking statements (including statements regarding future financial and operating results and future transactions and their results) involve risks, uncertainties and contingencies, many of which are beyond our control, which may cause actual results, performance, or achievements to differ materially from anticipated results, performance or achievements. Actual results could differ materially from those contained or implied by such forward-looking statements for a variety of factors, including without limitation:

- our ability to complete future acquisitions 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 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;

the impact on the value of our DTAs and on our net income or regulatory capital if corporate tax rates in the U.S. are reduced, or if other changes are made to 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.

The Bank is focused on relationship-based business banking to small, middle-market and venture-backed businesses nationwide. At March 31, 2018, the Bank offers a broad range of loan and lease and deposit products and services through 75 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 asset-based, equipment, real estate, security cash flow 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, for the first quarter of 2018, accounted for 86.9% of our net revenue (net interest income plus noninterest income).

At March 31, 2018, we had total assets of \$24.1 billion, including \$16.5 billion of total loans and leases, net of deferred fees, and \$3.8 billion of securities available-for-sale, compared to \$25.0 billion of total assets, including \$17.5 billion of total loans and leases, net of deferred fees, and \$3.8 billion of securities available-for-sale at December 31, 2017. The \$845.5 million decrease in total assets during the three months ended March 31, 2018 was due primarily to a \$998.6 million decrease in loans and leases, offset partially by a \$149.4 million increase in cash and cash equivalents. The decrease in loans and leases was driven mostly by payoffs and paydowns of \$1.9 billion and settlement of the loans held for sale at December 31, 2017, offset partially by new production of \$788.5 million and disbursements of \$747.4 million.

At March 31, 2018, we had total liabilities of \$19.3 billion, including total deposits of \$18.1 billion and borrowings of \$575.3 million, compared to \$20.0 billion of total liabilities, including \$18.9 billion of total deposits and \$467.3 million of borrowings at December 31, 2017. The \$735.4 million decrease in total liabilities since year-end was due mainly to a \$275.5 million decrease in core deposits, a \$277.8 million decrease in non-core non-maturity deposits, and a \$233.5 million decrease in time deposits, offset partially by a \$107.9 million increase in borrowings, primarily short-term FHLB advances. At March 31, 2018, core deposits totaled \$15.7 billion, or 87% of total deposits, and time deposits totaled \$1.8 billion, or 10% of total deposits.

Recent Events

CUB Acquisition

On October 20, 2017, PacWest completed the acquisition of CUB in a transaction valued at \$670.6 million. As part of the acquisition, CU Bank, a wholly-owned subsidiary of CUB, was merged with and into PacWest's wholly-owned banking subsidiary, Pacific Western Bank.

CU Bank was a commercial bank headquartered in Los Angeles, California with nine branches located in Los Angeles, Orange, Ventura and San Bernardino counties. We completed the acquisition to, among other things, enhance our Southern California community bank franchise by adding a \$2.1 billion loan portfolio and \$2.7 billion of core deposits.

We recorded the acquired assets and liabilities, both tangible and intangible, at their estimated fair values as of the acquisition date which increased total assets by \$3.5 billion. The application of the acquisition method of accounting resulted in goodwill of \$374.7 million.

Loan Sales and Loans Held for Sale

In the fourth quarter of 2017, we sold \$1.5 billion of cash flow loans and exited our CapitalSource Division origination operations related to general, technology, and healthcare cash flow loans. As of December 31, 2017, \$1.0 billion of the loans sold had settled, while \$481.1 million were classified as held for sale. In connection with the loan sale and transfer of loans to held for sale, we recognized \$2.2 million in charge-offs during the fourth quarter of 2017 to record the loans at the lower of cost or fair value. The loans held for sale at December 31, 2017 settled in the first quarter of 2018 and we recorded a gain of \$1.3 million.

Federal Tax Reform

The TCJA was signed into law on December 22, 2017 and represents the first major overhaul of the United States federal income tax system in more than 30 years. The TCJA reduced the federal corporate tax rate from 35% to 21% effective January 1, 2018. Other changes affecting us include immediate deductions for certain new investments instead of deductions for bonus depreciation expense over time, modification of the deduction for performance-based executive compensation and limiting the amount of FDIC insurance assessments that are deductible. We currently estimate that our 2018 effective tax rate will be approximately 28%.

Stock Repurchase Program

Our Stock Repurchase Program was initially authorized by PacWest's Board of Directors in October 2016 pursuant to which the Company could, until December 31, 2017, purchase shares of its common stock for an aggregate purchase price not to exceed \$400 million. In November 2017, PacWest's Board of Directors amended the Stock Repurchase Program to reduce the authorized purchase amount to \$150 million and extend the maturity date to December 31, 2018. On February 14, 2018, PacWest's Board of Directors amended the Stock Repurchase Program to increase the authorized purchase amount to \$350 million and extend the maturity date to February 28, 2019.

The amount and exact timing of any repurchases will depend upon market conditions and other factors. The Stock Repurchase Program may be suspended or discontinued at any time. During the first quarter of 2018, the Company repurchased 2,285,855 shares of common stock for a total amount of \$119.8 million. All shares repurchased under the Stock Repurchase Program were retired upon settlement. At March 31, 2018, the remaining amount that could be used to repurchase shares under the Stock Repurchase Program was \$296.7 million.

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 if related to a quarterly period) 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 interest on certain loans and municipal securities based on a 21% federal statutory tax rate for 2018 and a 35% federal statutory tax rate for prior periods. 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 multi-family properties, industrial properties, office properties, hospitality properties, and retail properties. Our C&I loan products include equipment-secured loans and leases, asset-secured loans, loans to finance companies, cash flow loans primarily to security monitoring companies, and venture capital loans to either venture capital firms directly for working capital or to venture capital-backed companies to support operations. Our loan origination process emphasizes credit quality. We have a number of large credit relationships and individual commitments. Our commitment sizes vary by loan product and can reach up to \$150 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 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.

We regularly review our loans and leases to determine whether there has been any deterioration in credit quality resulting 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 unemployment rate, rate of inflation, increases in the general level of interest rates, declines in real estate values, changes in commodity prices, 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 our loans are concentrated 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:

	Three Months Ended		
	March 31, 2018	December 31, 2017	March 31, 2017
Efficiency Ratio			
	(Dollars in thousands)		
Noninterest expense	\$ 127,395	\$ 142,868	\$ 116,544
Less: Intangible asset amortization	6,346	5,062	3,064
Foreclosed assets (income) expense, net	(122)	(475)	143
Acquisition, integration and reorganization costs	—	16,085	500
Noninterest expense used for efficiency ratio	\$ 121,171	\$ 122,196	\$ 112,837
Net interest income (tax equivalent)	\$ 258,472	\$ 268,230	\$ 237,235
Noninterest income	38,559	26,795	35,114
Net revenues	297,031	295,025	272,349
Less: Gain (loss) on sale of securities	6,311	(3,329)	(99)
Net revenues used for efficiency ratio	\$ 290,720	\$ 298,354	\$ 272,448
Efficiency ratio	41.7	% 41.0	% 41.4

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 identify critical policies as those that 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 on loans and leases held for investment, accounting for business combinations, and the realization of deferred income tax assets and liabilities. For further information, refer to our Annual Report on Form 10-K for the year ended December 31, 2017.

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 reconciliations of these non-GAAP measurements to the GAAP measurements are presented in the following tables for and as of the periods presented.

	Three Months Ended			
	March 31, 2018	December 31, 2017	March 31, 2017	
Return on Average Tangible Equity	(Dollars in thousands)			
Net earnings	\$118,276	\$84,037	\$78,668	
Average stockholders' equity	\$4,901,207	\$4,920,498	\$4,503,675	
Less: Average intangible assets	2,625,593	2,495,876	2,209,112	
Average tangible common equity	\$2,275,614	\$2,424,622	\$2,294,563	
Return on average equity ⁽¹⁾	9.79	% 6.78	% 7.08	%
Return on average tangible equity ⁽²⁾	21.08	% 13.75	% 13.90	%

(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	March 31, 2018	December 31, 2017	
	(Dollars in thousands, except per share data)		
Stockholders' equity	\$4,867,490	\$4,977,598	
Less: Intangible assets	2,621,950	2,628,296	
Tangible common equity	\$2,245,540	\$2,349,302	
Total assets	\$24,149,330	\$24,994,876	
Less: Intangible assets	2,621,950	2,628,296	
Tangible assets	\$21,527,380	\$22,366,580	
Equity to assets ratio	20.16	% 19.91	%
Tangible common equity ratio ⁽¹⁾	10.43	% 10.50	%
Book value per share	\$38.47	\$38.65	
Tangible book value per share ⁽²⁾	\$17.75	\$18.24	
Shares outstanding	126,537,871	128,782,878	

(1) Tangible common equity divided by tangible assets.

(2) Tangible common equity divided by shares outstanding.

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Results of Operations

Earnings Performance

The following table presents performance metrics for the periods indicated:

	Three Months Ended			
	March 31, 2018	December 31, 2017	March 31, 2017	
	(Dollars in thousands, except per share data)			
Earnings Summary:				
Net interest income	\$256,500	\$262,956	\$232,452	
Provision for credit losses	(4,000)	(6,406)	(24,728)	
Noninterest income	38,559	26,795	35,114	
Noninterest expense	(127,395)	(142,868)	(116,544)	
Earnings before income taxes	163,664	140,477	126,294	
Income tax expense	(45,388)	(56,440)	(47,626)	
Net earnings	\$118,276	\$84,037	\$78,668	
Performance Measures:				
Diluted earnings per share	\$0.93	\$0.66	\$0.65	
Annualized return on:				
Average assets	1.99	% 1.34	% 1.47	%
Average tangible equity ⁽¹⁾⁽²⁾	21.08	% 13.75	% 13.90	%
Net interest margin (tax equivalent)	5.11	% 4.97	% 5.16	%
Efficiency ratio	41.7	% 41.0	% 41.4	%

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

(2) See "Non-GAAP Measurements."

First Quarter of 2018 Compared to Fourth Quarter of 2017

Net earnings for the first quarter of 2018 were \$118.3 million, or \$0.93 per diluted share, compared to net earnings for the fourth quarter of 2017 of \$84.0 million, or \$0.66 per diluted share. The \$34.2 million increase in net earnings was due mainly to lower noninterest expense of \$15.5 million, higher noninterest income of \$11.8 million, lower income tax expense of \$11.1 million, and a lower provision for credit losses of \$2.4 million, offset partially by lower net interest income of \$6.5 million. The decrease in noninterest expense was due to lower acquisition, integration and reorganization costs of \$16.1 million related to the CUB acquisition completed in the fourth quarter of 2017. The increase in noninterest income was due mainly to a higher gain on sale of securities of \$9.6 million. In the first quarter of 2018, we sold certain securities for a net gain of \$6.3 million, whereas in the fourth quarter of 2017, we made a tax-related decision to sell certain securities resulting in a net loss of \$3.3 million. The decrease in income tax expense was due primarily to the TCJA which reduced our effective tax rate to 27.7% in the first quarter of 2018 from 40.2% in the fourth quarter of 2017. Net interest income declined by \$6.5 million due mostly to two fewer days in the current quarter and a lower average loan and lease balance, offset partially by a higher yield on average loans and leases.

First Quarter of 2018 Compared to First Quarter of 2017

Net earnings for the first quarter of 2018 were \$118.3 million, or \$0.93 per diluted share, compared to net earnings for the first quarter of 2017 of \$78.7 million, or \$0.65 per diluted share. The \$39.6 million increase in net earnings was due mainly to higher net interest income of \$24.0 million, a lower provision for credit losses of \$20.7 million and higher noninterest income of \$3.4 million, offset partially by higher noninterest expense of \$10.9 million. The increase in net interest income was due mainly to a higher average interest-earning assets balance and a higher yield on average loans and leases, offset by a lower yield on average investment securities and higher interest expense. The provision for credit losses was lower in the first quarter of 2018 due to higher recoveries and the first quarter of 2017 included higher specific provisions for impaired loans. The increase in noninterest income was due mostly to a higher gain on sale of securities of \$6.4 million. The increase in noninterest expense was due mostly to (1) higher compensation expense of \$6.1 million related to inclusion of the CUB operations since its October 2017 acquisition, and (2) higher intangible asset amortization of \$3.3 million due to the intangible assets related to the CUB acquisition.

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								
	March 31, 2018			December 31, 2017			March 31, 2017		
	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:									
Loans and leases ⁽¹⁾⁽²⁾	\$ 16,682,124	\$ 251,260	6.11 %	\$ 17,426,873	\$ 258,586	5.89 %	\$ 15,297,044	\$ 224,178	5.94 %
Investment securities ⁽³⁾	3,682,138	27,935	3.08 %	3,807,928	30,709	3.20 %	3,257,448	27,822	3.46 %
Deposits in financial institutions	150,674	552	1.49 %	179,379	576	1.27 %	100,751	192	0.77 %
Total interest earning assets ⁽⁴⁾	20,514,936	279,747	5.53 %	21,414,180	289,871	5.37 %	18,655,243	252,192	5.48 %
Other assets	3,556,212			3,375,656			2,990,291		
Total assets	\$ 24,071,148			\$ 24,789,836			\$ 21,645,534		
LIABILITIES AND STOCKHOLDERS' EQUITY:									
Interest checking deposits	\$ 2,311,988	3,050	0.54 %	\$ 2,340,166	2,891	0.49 %	\$ 1,505,439	1,167	0.31 %
Money market deposits	5,038,119	6,812	0.55 %	5,415,630	7,214	0.53 %	4,866,720	4,410	0.37 %
Savings deposits	685,173	258	0.15 %	702,023	279	0.16 %	711,529	298	0.17 %
Time deposits	1,923,963	3,698	0.78 %	2,120,749	3,657	0.68 %	2,246,547	2,502	0.45 %
Total interest bearing deposits	9,959,243	13,818	0.56 %	10,578,568	14,041	0.53 %			