PACWEST BANCORP
Form 10-Q
August 08, 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 June 30, 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 þ No o
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 þ No o
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):

þ Large accelerated filer		o Accelerated filer
o Non-accelerated filer	(Do not check if a smaller reporting company)	o Smaller reporting company
		o Emerging growth company

o 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 o No þ
As of July 31, 2018, there were 122,429,348 shares of the registrant's common stock outstanding, excluding 1,540,525 shares of unvested restricted stock.

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PACWEST BANCORP
JUNE 30, 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	FRBSF	Federal Reserve Bank of San Francisco
ALM	Asset Liability Management	IRR	Interest Rate Risk
ASC	Accounting Standards Codification	LIHTC	Low Income Housing Tax Credit
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
C&I	Commercial and Industrial	Non-PCI	Non-Purchased Credit Impaired
CDI	Core Deposit Intangible Assets	NSF	Non-Sufficient Funds
CET1	Common Equity Tier 1	OREO	Other Real Estate Owned
CMOs	Collateralized Mortgage Obligations	PD/LGD	Probability of Default/Loss Given Default
CRA	Community Reinvestment Act	PCI	Purchased Credit Impaired
CRI	Customer Relationship Intangible Assets	PRSUs	Performance-Based Restricted Stock Units
CUB	CU Bancorp (a company acquired on October 20, 2017)	S1AM	Square 1 Asset Management, Inc.
CU Bank	California United Bank (a wholly-owned subsidiary of CUB)	SBA	Small Business Administration
DBO	California Department of Business Oversight	SEC	Securities and Exchange Commission
DTAs	Deferred Tax Assets	Tax Equivalent Net Interest Income	Net interest income adjusted for tax-equivalent adjustments related to tax-exempt interest on certain loans and municipal securities
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act	Tax Equivalent NIM	NIM adjusted for tax-equivalent adjustments related to tax-exempt income on certain loans and municipal securities
Efficiency Ratio	Noninterest expense (less intangible asset amortization, net foreclosed assets income/expense, and acquisition, integration and reorganization costs) divided by net revenues (the sum of tax equivalent net interest income plus noninterest income, less gain/loss on sale of securities and gain/loss on sales of assets other than loans and leases)	TCJA	Tax Cuts and Jobs Act
FASB	Financial Accounting Standards Board	TDRs	Troubled Debt Restructurings
FDIC	Federal Deposit Insurance Corporation	TRSAs	Time-Based Restricted Stock Awards
FHLB	Federal Home Loan Bank of San Francisco	U.S. GAAP	U.S. Generally Accepted Accounting Principles

FRB	Board of Governors of the Federal Reserve System	VIE	Variable Interest Entity

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ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

PACWEST BANCORP AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2018	December 31, 2017
	(Unaudited)	
	(Dollars in thousands, except par value amounts)	
ASSETS:		
Cash and due from banks	$245,998	$233,215
Interest-earning deposits in financial institutions	205,567	165,222
Total cash, cash equivalents, and restricted cash	451,565	398,437
Securities available-for-sale, at fair value	3,857,788	3,774,431
Federal Home Loan Bank stock, at cost	26,271	20,790
Total investment securities	3,884,059	3,795,221
Loans held for sale, at lower of cost or fair value	—	481,100
Gross loans and leases held for investment	16,947,502	17,032,221
Deferred fees, net	(62,310)	(59,478)
Allowance for loan and lease losses	(132,139)	(139,456)
Total loans and leases held for investment, net	16,753,053	16,833,287
Equipment leased to others under operating leases	266,576	284,631
Premises and equipment, net	34,513	31,852
Foreclosed assets, net	2,231	1,329
Deferred tax asset, net	25,551	—
Goodwill	2,548,670	2,548,670
Core deposit and customer relationship intangibles, net	67,693	79,626
Other assets	495,646	540,723
Total assets	$24,529,557	$24,994,876
LIABILITIES:		
Noninterest-bearing deposits	$8,126,153	$8,508,044
Interest-bearing deposits	9,803,039	10,357,492
Total deposits	17,929,192	18,865,536
Borrowings	1,187,226	467,342
Subordinated debentures	451,878	462,437
Accrued interest payable and other liabilities	183,302	221,963
Total liabilities	19,751,598	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 June 30, 2018 and December 31, 2017, 126,412,538 and 130,491,108 shares issued, respectively, including 1,545,867 and 1,436,120 shares of unvested restricted stock, respectively)	1,264	1,305
Additional paid-in capital	3,920,715	4,287,487

Retained earnings	951,346	723,471
Treasury stock, at cost (1,844,588 and 1,708,230 shares at June 30, 2018 and December 31, 2017)	(73,026)	(65,836)
Accumulated other comprehensive (loss) income, net	(22,340)	31,171
Total stockholders' equity	4,777,959	4,977,598
Total liabilities and stockholders' equity	$24,529,557	$24,994,876

See Notes to Condensed Consolidated Financial Statements.

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PACWEST BANCORP AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

	Three Months Ended			Six Months Ended	
	June 30, 2018	March 31, 2018	June 30, 2017	June 30, 2018	2017
	(Unaudited) (Dollars in thousands, except per share amounts)				
Interest income:					
Loans and leases	$260,300	$251,085	$234,618	$511,385	$458,796
Investment securities	27,730	26,138	24,689	53,868	47,728
Deposits in financial institutions	484	552	237	1,036	429
Total interest income	288,514	277,775	259,544	566,289	506,953
Interest expense:					
Deposits	16,367	13,818	10,205	30,185	18,582
Borrowings	2,649	920	1,066	3,569	2,084
Subordinated debentures	7,166	6,537	5,800	13,703	11,362
Total interest expense	26,182	21,275	17,071	47,457	32,028
Net interest income	262,332	256,500	242,473	518,832	474,925
Provision for credit losses	17,500	4,000	11,499	21,500	36,227
Net interest income after provision for credit losses	244,832	252,500	230,974	497,332	438,698
Noninterest income:					
Service charges on deposit accounts	4,265	4,174	3,510	8,439	7,268
Other commissions and fees	11,767	10,265	10,583	22,032	20,973
Leased equipment income	9,790	9,587	11,635	19,377	21,110
Gain on sale of loans and leases	106	4,569	649	4,675	1,361
Gain on sale of securities	253	6,311	1,651	6,564	1,552
Other income	13,457	3,653	7,254	17,110	18,132
Total noninterest income	39,638	38,559	35,282	78,197	70,396
Noninterest expense:					
Compensation	69,913	71,023	65,288	140,936	130,168
Occupancy	13,575	13,223	11,811	26,798	23,419
Data processing	6,896	6,659	6,337	13,555	13,352
Other professional services	5,257	4,439	3,976	9,696	7,354
Insurance and assessments	5,330	5,727	4,856	11,057	9,647
Intangible asset amortization	5,587	6,346	3,065	11,933	6,129
Leased equipment depreciation	5,237	5,375	5,232	10,612	10,857
Foreclosed assets income, net	(61)	(122)	(157)	(183)	(14)
Acquisition, integration and reorganization costs	—	—	1,700	—	2,200
Loan expense	3,058	2,271	3,884	5,329	7,271
Other expense	11,657	12,454	11,715	24,111	23,868
Total noninterest expense	126,449	127,395	117,707	253,844	234,251
Earnings before income taxes	158,021	163,664	148,549	321,685	274,843
Income tax expense	(42,286)	(45,388)	(54,902)	(87,674)	(102,528)
Net earnings	$115,735	$118,276	$93,647	$234,011	$172,315
Earnings per share:					
Basic	$0.92	$0.93	$0.77	$1.85	$1.42
Diluted	$0.92	$0.93	$0.77	$1.85	$1.42
Dividends declared per share	$0.60	$0.50	$0.50	$1.10	$1.00

See Notes to Condensed Consolidated Financial Statements.

PACWEST BANCORP AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended			Six Months Ended	
	June 30, 2018	March 31, 2018	June 30, 2017	June 30, 2018	2017
	(Unaudited) (In thousands)				
Net earnings	$115,735	$118,276	$93,647	$234,011	$172,315
Other comprehensive (loss) income, net of tax:					
Unrealized net holding (losses) gains on securities available-for-sale arising during the period	(14,325)	(62,669)	30,340	(76,994)	41,524
Income tax benefit (expense) related to net unrealized holding (losses) gains arising during the period	4,102	17,931	(12,350)	22,033	(16,857)
Unrealized net holding (losses) gains on securities available-for-sale, net of tax	(10,223)	(44,738)	17,990	(54,961)	24,667
Reclassification adjustment for net (gains) losses included in net earnings [(1)]	(253)	(6,311)	(1,651)	(6,564)	(1,552)
Income tax expense (benefit) related to reclassification adjustment	72	1,806	672	1,878	632
Reclassification adjustment for net (gains) losses included in net earnings, net of tax	(181)	(4,505)	(979)	(4,686)	(920)
Other comprehensive (loss) income, net of tax	(10,404)	(49,243)	17,011	(59,647)	23,747
Comprehensive income	$105,331	$69,033	$110,658	$174,364	$196,062

(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

	Six Months Ended June 30, 2018						
	Common Stock						
	Shares	Par Value	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
	(Unaudited)						
	(Dollars in thousands)						
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	—	—	—	234,011	—	—	234,011
Other comprehensive loss - net unrealized loss on securities available-for-sale, net of tax	—	—	—	—	—	(59,647)	(59,647)
Restricted stock awarded and earned stock compensation, net of shares forfeited	494,166	5	14,740	—	—	—	14,745
Restricted stock surrendered	(136,358)	—	—	—	(7,190)	—	(7,190)
Common stock repurchased under Stock Repurchase Program	(4,572,736)	(46)	(241,771)	—	—	—	(241,817)
Cash dividends paid	—	—	(139,741)	—	—	—	(139,741)
Balance, June 30, 2018	124,567,950	$1,264	$3,920,715	$951,346	$(73,026)	$ (22,340)	$4,777,959

(1) 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 - 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

	Six Months Ended June 30,	
	2018	2017
	(Unaudited) (In thousands)	
Cash flows from operating activities:		
Net earnings	$234,011	$172,315
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	17,512	15,980
Amortization of net premiums on securities available-for-sale	14,164	20,227
Amortization of intangible assets	11,933	6,129
Provision for credit losses	21,500	36,227
Loss (gain) on sale of foreclosed assets	35	(282)
Provision for losses on foreclosed assets	65	14
Gain on sale of loans and leases	(4,675)	(1,361)
Gain on sale of premises and equipment	(8)	(565)
Gain on sale of securities	(6,564)	(1,552)
Gain on BOLI death benefit	(387)	(1,050)
Unrealized loss (gain) on derivatives and foreign currencies, net	20	(253)
Earned stock compensation	14,745	13,719
(Increase) decrease in deferred income taxes, net	(1,640)	7,823
Decrease (increase) in other assets	53,534	(50,973)
Decrease in accrued interest payable and other liabilities	(47,696)	(31,195)
Net cash provided by operating activities	306,549	185,203
Cash flows from investing activities:		
Net increase in loans and leases	(95,306)	(388,619)
Proceeds from sales of loans and leases	643,261	83,798
Proceeds from maturities and paydowns of securities available-for-sale	157,806	217,399
Proceeds from sales of securities available-for-sale	368,775	86,018
Purchases of securities available-for-sale	(708,167)	(532,849)
Net purchases of Federal Home Loan Bank stock	(5,481)	(189)
Proceeds from sales of foreclosed assets	57	1,281
Purchases of premises and equipment, net	(7,332)	(4,037)
Proceeds from sales of premises and equipment	32	10,306
Proceeds from BOLI death benefit	313	2,478
Net decrease in equipment leased to others under operating leases	7,746	17,262
Net cash provided by (used in) investing activities	361,704	(507,152)
Cash flows from financing activities:		
Net (decrease) increase in noninterest-bearing deposits	(379,436)	44,996
Net (decrease) increase in interest-bearing deposits	(554,453)	962,343
Net increase (decrease) in borrowings	719,884	(688,358)
Net decrease in subordinated debentures	(12,372)	—
Common stock repurchased and restricted stock surrendered	(249,007)	(7,558)
Cash dividends paid	(139,741)	(121,664)
Net cash (used in) provided by financing activities	(615,125)	189,759

Net increase (decrease) in cash, cash equivalents, and restricted cash	53,128	(132,190)
Cash, cash equivalents, and restricted cash, beginning of period	398,437	419,670
Cash, cash equivalents, and restricted cash, end of period	$451,565	$287,480

See Notes to Condensed Consolidated Financial Statements.

PACWEST BANCORP AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30,	
	2018	2017
	(Unaudited) (In thousands)	
Supplemental disclosures of cash flow information:		
Cash paid for interest	$47,569	$30,478
Cash paid for income taxes	23,273	118,878
Loans transferred to foreclosed assets	1,059	580
Transfers from loans held for investment to loans held for sale	—	175,158

See Notes to Condensed Consolidated Financial Statements.

PACWEST BANCORP AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (Unaudited)

NOTE 1. ORGANIZATION

PacWest Bancorp, a Delaware corporation, is a bank holding company registered under the BHCA, with our corporate headquarters located in Beverly Hills, California. Our principal business is to serve as the holding company for our wholly-owned subsidiary, Pacific Western Bank. References to "Pacific Western" or the "Bank" refer to Pacific Western Bank together with its wholly-owned subsidiaries. References to "we," "us," or the "Company" refer to PacWest Bancorp together with its subsidiaries on a consolidated basis. When we refer to "PacWest" or to the "holding company," we are referring to PacWest Bancorp, the parent company, on a stand-alone basis.

We are focused on relationship-based business banking to small, middle-market and venture-backed businesses nationwide. At June 30, 2018, the Bank offers a broad range of loan and lease and deposit products and services through 74 full-service branches located throughout the State of California, one branch located in Durham, North Carolina, and several loan production offices located in cities across the country. Community Banking provides lending and comprehensive deposit and treasury management services to small and medium-sized businesses conducted primarily through our California-based branch offices. We offer additional products and services through our National Lending and Venture Banking groups. National Lending provides asset-based, equipment, real estate, and security cash flow loans and treasury management services to established middle-market businesses on a national basis. Venture Banking 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 June 30, 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. Impairment as well as upward or downward adjustments resulting from observable price changes in orderly transactions for identical or similar investments are included in “Noninterest income - other.”
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 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 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.

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.

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 half 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 half 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.

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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 combination of the allowance for loan and lease losses and the reserve for unfunded loan commitments), 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.

The allowance for loan and lease losses (“ALLL”) represents management’s estimate of probable credit losses inherent in the loan portfolio as of the balance sheet date. During the second quarter of 2018, the Company changed its ALLL methodology due to the growth and increased complexity of the loan portfolio. The new ALLL methodology included three primary changes: the quantitative component now employs a probability of default/loss given default ("PD/LGD") methodology; the loan segmentation groups our loan portfolio into 21 loan segments with similar risk characteristics (as opposed to 34 loan segments used under the previous methodology); and the historical range of loan performance history (often referred to as the look-back period) was lengthened by one year. The methodology for assessing individually impaired loans did not change under the new ALLL methodology. The ALLL methodology used to derive qualitative adjustments based on other internal or external factors was updated to align with the new PD/LGD methodology being applied to estimate the quantitative general allowance for unimpaired loans. As a result, the composition of the ALLL changed as the quantitative component increased and the qualitative component decreased as the new quantitative methodology now encompasses more information, such as the longer look-back period, that previously required a qualitative adjustment as part of determining the total ALLL estimate. These changes in the ALLL methodology did not result in material changes to management's overall estimate of the ALLL.

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.

Prior to January 1, 2018, 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 periods are for total loans and leases, while amounts related to the 2017 periods are for Non-PCI loans and leases only.

PACWEST BANCORP AND SUBSIDIARIES
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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 six months ended June 30, 2018 and year ended December 31, 2017 were $80.6 million and $77.6 million. As of June 30, 2018 and December 31, 2017, we pledged cash collateral for our derivative contracts of $2.5 million and $2.7 million.
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 provisional 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.

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

	Three Months Ended			Six Months Ended	
	June 30, 2018	March 31, 2018	June 30, 2017	June 30, 2018	2017
	(In thousands)				
Gross Amount of CDI and CRI:					
Balance, beginning of period	$119,497	$119,497	$64,187	$119,497	$64,187
Fully amortized portion	—	—	—	—	—
Balance, end of period	119,497	119,497	64,187	119,497	64,187
Accumulated Amortization:					
Balance, beginning of period	(46,217)	(39,871)	(30,885)	(39,871)	(27,821)
Amortization	(5,587)	(6,346)	(3,065)	(11,933)	(6,129)
Fully amortized portion	—	—	—	—	—
Balance, end of period	(51,804)	(46,217)	(33,950)	(51,804)	(33,950)
Net CDI and CRI, end of period	$67,693	$73,280	$30,237	$67,693	$30,237

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:

	June 30, 2018				December 31, 2017			
Security Type	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	$263,915	$ 2,466	$(2,793)	$263,588	$243,375	$ 3,743	$(844)	$246,274
Agency CMOs	562,970	348	(8,427)	554,891	277,638	968	(2,897)	275,709
Private label CMOs	101,082	2,857	(1,703)	102,236	122,816	3,813	(642)	125,987
Municipal securities	1,399,851	20,374	(8,133)	1,412,092	1,627,707	53,700	(1,339)	1,680,068
Agency commercial MBS	1,131,301	—	(34,085)	1,097,216	1,169,969	2,758	(8,758)	1,163,969
U.S. Treasury securities	262,558	373	(590)	262,341	—	—	—	—
SBA securities	79,317	—	(1,966)	77,351	160,214	695	(575)	160,334
Asset-backed securities	71,095	—	(1,314)	69,781	89,425	159	(874)	88,710
Corporate debt securities	17,000	1,292	—	18,292	17,000	2,295	—	19,295
Collateralized loan obligations	—	—	—	—	6,960	55	—	7,015
Equity investments [1]	—	—	—	—	6,421	779	(130)	7,070
Total	$3,889,089	$ 27,710	$(59,011)	$3,857,788	$3,721,525	$ 68,965	$(16,059)	$3,774,431

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(1) 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 June 30, 2018, securities available-for-sale with a fair value of $433.2 million were pledged as collateral for borrowings, public deposits, and other purposes as required by various statutes and agreements.

PACWEST BANCORP AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (Unaudited)

During the three months ended June 30, 2018, we sold $62.3 million of securities available-for-sale for a gross realized gain of $313,000 and a gross realized loss of $60,000. During the three months ended June 30, 2017, we sold $41.4 million of securities available-for-sale for a gross realized gain of $1.7 million and a gross realized loss of $76,000.

During the six months ended June 30, 2018, we sold $362.2 million of securities available-for-sale for a gross realized gain of $7.1 million and a gross realized loss of $575,000. During the six months ended June 30, 2017, we sold $84.5 million of securities available-for-sale for a gross realized gain of $1.9 million and a gross realized loss of $379,000.

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:

	June 30, 2018					
	Less Than 12 Months		12 Months or More		Total	
Security Type	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(In thousands)					
Residential MBS and CMOs:						
Agency MBS	$101,684	$(1,697)	$29,300	$(1,096)	$130,984	$(2,793)
Agency CMOs	464,725	(7,943)	18,149	(484)	482,874	(8,427)
Private label CMOs	80,735	(1,672)	4,172	(31)	84,907	(1,703)
Municipal securities	344,023	(6,238)	30,188	(1,895)	374,211	(8,133)
Agency commercial MBS	1,021,518	(29,290)	75,698	(4,795)	1,097,216	(34,085)
U.S. Treasury securities	147,739	(590)	—	—	147,739	(590)
SBA securities	63,348	(1,575)	14,003	(391)	77,351	(1,966)
Asset-backed securities	46,299	(600)	23,482	(714)	69,781	(1,314)
Total	$2,270,071	$(49,605)	$194,992	$(9,406)	$2,465,063	$(59,011)

	December 31, 2017					
	Less Than 12 Months		12 Months or More		Total	
Security Type	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)]	1,039	(130)	—	—	1,039	(130)
Total	$1,026,780	$(8,928)	$223,832	$(7,131)	$1,250,612	$(16,059)

(1) 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.

PACWEST BANCORP AND SUBSIDIARIES
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We reviewed the securities that were in an unrealized loss position at June 30, 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.

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:

	June 30, 2018	
Maturities	Amortized Cost	Fair Value
	(In thousands)	
Due in one year or less	$20,945	$21,035
Due after one year through five years	594,720	589,860
Due after five years through ten years	997,539	971,186
Due after ten years	2,275,885	2,275,707
Total securities available-for-sale	$3,889,089	$3,857,788

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

Interest Income on Investment Securities

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

	Three Months Ended			Six Months Ended	
	June 30,	March 31,	June 30,	June 30,	
	2018	2018	2017	2018	2017
	(In thousands)				
Taxable interest	$17,106	$14,599	$13,517	$31,705	$25,683
Non-taxable interest	10,276	11,107	10,750	21,383	21,131
Dividend income	348	432	422	780	914
Total interest income on investment securities	$27,730	$26,138	$24,689	$53,868	$47,728

PACWEST BANCORP AND SUBSIDIARIES
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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 and Leases Held for Investment
The following table summarizes the composition of our loans and leases held for investment as of the dates indicated:

	June 30, 2018	December 31, 2017		
	Total Loans and Leases	Non-PCI Loans and Leases	PCI Loans	Total Loans and Leases
	(In thousands)			
Real estate mortgage	$7,581,962	$7,815,355	$53,658	$7,869,013
Real estate construction and land	1,896,969	1,611,287	—	1,611,287
Commercial	7,089,887	7,137,978	4,158	7,142,136
Consumer	378,684	409,551	234	409,785
Gross loans and leases held for investment	16,947,502	16,974,171	58,050	17,032,221
Deferred fees, net	(62,310)	(59,464)	(14)	(59,478)
Loans and leases held for investment, net of deferred fees	16,885,192	16,914,707	58,036	16,972,743
Allowance for loan and lease losses	(132,139)	(133,012)	(6,444)	(139,456)
Total loans and leases held for investment, net	$16,753,053	$16,781,695	$51,592	$16,833,287

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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:

	June 30, 2018				
	30 - 89 Days Past Due	90 or More Days Past Due	Total Past Due	Current	Total
	(In thousands)				
Real estate mortgage:					
Commercial	$3,497	$10,377	$13,874	$4,996,806	$5,010,680
Residential	3,362	445	3,807	2,551,887	2,555,694
Total real estate mortgage	6,859	10,822	17,681	7,548,693	7,566,374
Real estate construction and land:					
Commercial	—	—	—	831,462	831,462
Residential	5,969	—	5,969	1,036,595	1,042,564
Total real estate construction and land	5,969	—	5,969	1,868,057	1,874,026
Commercial:					
Asset-based	—	662	662	3,183,638	3,184,300
Venture capital	—	1,534	1,534	2,006,671	2,008,205
Other commercial	2,363	3,876	6,239	1,867,368	1,873,607
Total commercial	2,363	6,072	8,435	7,057,677	7,066,112
Consumer	75	28	103	378,577	378,680
Total	$15,266	$16,922	$32,188	$16,853,004	$16,885,192

	December 31, 2017				
	30 - 89 Days Past Due	90 or More Days Past Due	Total Past Due	Current	Total
	(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

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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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:

	June 30, 2018			December 31, 2017 (1)		
	Nonaccrual	Performing	Total	Nonaccrual	Performing	Total
	(In thousands)					
Real estate mortgage:						
Commercial	$33,105	$4,977,575	$5,010,680	$65,563	$5,295,924	$5,361,487
Residential	3,527	2,552,167	2,555,694	3,350	2,434,154	2,437,504
Total real estate mortgage	36,632	7,529,742	7,566,374	68,913	7,730,078	7,798,991
Real estate construction and land:						
Commercial	—	831,462	831,462	—	769,075	769,075
Residential	10,450	1,032,114	1,042,564	—	822,154	822,154
Total real estate construction and land	10,450	1,863,576	1,874,026	—	1,591,229	1,591,229
Commercial:						
Asset-based	29,677	3,154,623	3,184,300	33,553	2,891,318	2,924,871
Venture capital	27,940	1,980,265	2,008,205	29,424	2,093,287	2,122,711
Other commercial	8,782	1,864,825	1,873,607	23,874	2,043,464	2,067,338
Total commercial	66,399	6,999,713	7,066,112	86,851	7,028,069	7,114,920
Consumer	264	378,416	378,680	20	409,547	409,567
Total	$113,745	$16,771,447	$16,885,192	$155,784	$16,758,923	$16,914,707

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

At June 30, 2018, nonaccrual loans and leases totaled $113.7 million and included $16.9 million of loans and leases 90 or more days past due, $3.4 million of loans and leases 30 to 89 days past due, and $93.4 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 June 30, 2018, our ten largest loan relationships on nonaccrual status had an aggregate carrying value of $81.5 million and represented 71.6% of total nonaccrual loans and leases.

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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.

	June 30, 2018			
	Classified	Special Mention	Pass	Total
	(In thousands)			
Real estate mortgage:				
Commercial	$71,030	$243,045	$4,696,605	$5,010,680
Residential	11,453	2,167	2,542,074	2,555,694
Total real estate mortgage	82,483	245,212	7,238,679	7,566,374
Real estate construction and land:				
Commercial	448	3,807	827,207	831,462
Residential	10,450	23,032	1,009,082	1,042,564
Total real estate construction and land	10,898	26,839	1,836,289	1,874,026
Commercial:				
Asset-based	35,429	67,628	3,081,243	3,184,300
Venture capital	54,219	99,485	1,854,501	2,008,205
Other commercial	52,829	66,615	1,754,163	1,873,607
Total commercial	142,477	233,728	6,689,907	7,066,112
Consumer	434	1,069	377,177	378,680
Total	$236,292	$506,848	$16,142,052	$16,885,192

	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
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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 TDRs are considered impaired for reporting purposes. TDRs 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:

	June 30, 2018			December 31, 2017 (1)		
	Nonaccrual Loans and Leases	Performing TDRs	Total Impaired Loans and Leases	Nonaccrual Loans and Leases	Performing TDRs	Total Impaired Loans and Leases
	(In thousands)					
Real estate mortgage	$36,632	$ 50,500	$87,132	$68,913	$ 47,560	$116,473
Real estate construction and land	10,450	5,549	15,999	—	5,690	5,690
Commercial	66,399	1,982	68,381	86,851	3,488	90,339
Consumer	264	117	381	20	100	120
Total	$113,745	$ 58,148	$171,893	$155,784	$ 56,838	$212,622

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

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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:

	June 30, 2018			December 31, 2017 [1]		
Impaired Loans and Leases	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
	(In thousands)					
With An Allowance Recorded:						
Real estate mortgage:						
Commercial	$7,786	$7,687	$ 248	$15,750	$16,548	$ 628
Residential	2,419	2,424	224	2,787	2,957	342
Commercial:						
Venture capital	26,181	27,429	7,120	16,565	17,203	4,267
Other commercial	1,360	1,360	1,360	20,404	29,951	8,368
Consumer	—	—	—	100	100	16
With No Related Allowance Recorded:						
Real estate mortgage:						
Commercial	$68,610	$88,748		$93,827	$105,923	
Residential	8,317	10,845		4,109	4,481	
Real estate construction and land:						
Commercial	5,549	5,552		5,690	5,689	
Residential	10,450	11,074		—	—	
Commercial:						
Asset-based	29,677	56,650		33,553	54,911	
Venture capital	2,800	28,496		14,534	40,029	
Other commercial	8,363	28,392		5,283	9,351	
Consumer	381	543		20	93	
Total Loans and Leases With and Without an Allowance Recorded:						
Real estate mortgage	$87,132	$109,704	$ 472	$116,473	$129,909	$ 970
Real estate construction and land	15,999	16,626	—	5,690	5,689	—
Commercial	68,381	142,327	8,480	90,339	151,445	12,635
Consumer	381	543	—	120	193	16
Total	$171,893	$269,200	$ 8,952	$212,622	$287,236	$ 13,621

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

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	Three Months Ended June 30,			
	2018		2017	
Impaired Loans and Leases	Weighted Average Balance[1]	Interest Income Recognized	Weighted Average Balance[1]	Interest Income Recognized
	(In thousands)			
With An Allowance Recorded:				
Real estate mortgage:				
Commercial	$7,786	$ 103	$17,591	$ 214
Residential	2,419	21	3,253	14
Commercial:				
Asset-based	—	—	202	—
Venture capital	18,449	—	11,400	—
Other commercial	688	—	34,065	34
Consumer	—	—	239	2
With No Related Allowance Recorded:				
Real estate mortgage:				
Commercial	$58,733	$ 725	$90,778	$ 742
Residential	8,293	44	5,365	15
Real estate construction and land:				
Commercial	5,549	93	5,840	70
Residential	10,450	—	—	—
Commercial:				
Asset-based	29,677	—	30,925	—
Venture capital	2,800	—	6,045	—
Other commercial	8,508	335	12,594	27
Consumer	355	2	120	—
Total Loans and Leases With and Without an Allowance Recorded:				
Real estate mortgage	$77,231	$ 893	$116,987	$ 985
Real estate construction and land	15,999	93	5,840	70
Commercial	60,122	335	95,231	61
Consumer	355	2	359	2
Total	$153,707	$ 1,323	$218,417	$ 1,118

(1) For loans and leases reported as impaired at June 30, 2018 and 2017, amounts were calculated based on the period of time such loans and leases were impaired during the reported period.

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PACWEST BANCORP AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (Unaudited)

	Six Months Ended June 30,			
	2018		2017	
Impaired Loans and Leases	Weighted Average Balance[1]	Interest Income Recognized	Weighted Average Balance[1]	Interest Income Recognized
	(In thousands)			
With An Allowance Recorded:				
Real estate mortgage:				
Commercial	$7,786	$ 204	$17,591	$ 425
Residential	2,419	42	3,252	27
Commercial:				
Asset-based	—	—	101	—
Venture capital	15,715	—	6,900	—
Other commercial	346	—	33,770	63
Consumer	—	—	213	4
With No Related Allowance Recorded:				
Real estate mortgage:				
Commercial	$55,214	$ 1,378	$89,107	$ 1,289
Residential	8,277	88	5,334	29
Real estate construction and land:				
Commercial	5,549	184	5,840	140
Residential	5,254	—	—	—
Commercial:				
Asset-based	29,677	—	30,756	—
Venture capital	2,645	—	4,276	—
Other commercial	7,946	1,377	9,488	44
Consumer	341	4	120	—
Total Loans and Leases With and Without an Allowance Recorded:				
Real estate mortgage	$73,696	$ 1,712	$115,284	$ 1,770
Real estate construction and land	10,803	184	5,840	140
Commercial	56,329	1,377	85,291	107
Consumer	341	4	333	4
Total	$141,169	$ 3,277	$206,748	$ 2,021

(1) For loans and leases reported as impaired at June 30, 2018 and 2017, amounts were calculated based on the period of time such loans and leases were impaired during the reported period.

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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:

	Three Months Ended June 30,					
	2018			2017		
Troubled Debt Restructurings	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
	(Dollars in thousands)					
Real estate mortgage:						
Commercial	—	$ —	$ —	3	$ 1,465	$ 1,465
Residential	3	1,704	645	3	720	437
Real estate construction and land:						
Residential	—	—	—	1	362	—
Commercial:						
Asset-based	—	—	—	2	665	665
Venture capital	4	5,236	5,236	2	92	92
Other commercial	2	31	31	8	17,288	17,289
Consumer	1	27	27	—	—	—
Total	10	$ 6,998	$ 5,939	19	$ 20,592	$ 19,948

	Six Months Ended June 30,					
	2018			2017		
Troubled Debt Restructurings	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
	(Dollars in thousands)					
Real estate mortgage:						
Commercial	—	$ —	$ —	4	$ 1,529	$ 1,465
Residential	3	1,704	645	5	762	479
Real estate construction and land:						
Residential	—	—	—	1	362	—
Commercial:						
Asset-based	—	—	—	2	665	665
Venture capital	4	5,236	5,236	5	13,157	13,157
Other commercial	4	11,814	11,814	12	18,007	18,008
Consumer	1	27	27	1	97	97
Total	12	$ 18,781	$ 17,722	30	$ 34,579	$ 33,871

In the three months ended June 30, 2018, there were no loans restructured in the preceding 12-month period which subsequently defaulted after being restructured. In the six months ended June 30, 2018, one other commercial loan of $2.1 million restructured in the preceding 12-month period defaulted after being restructured. In the three and six months ended June 30, 2017, there were no loans restructured in the preceding 12-month period which subsequently defaulted after being restructured.

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 June 30, 2018				
	Real Estate Mortgage	Real Estate Construction and Land	Commercial	Consumer	Total
	(In thousands)				
Allowance for Loan and Lease Losses:					
Balance, beginning of period	$40,158	$ 18,190	$ 73,780	$ 2,147	$134,275
Charge-offs	(4,747)	—	(13,425)	(63)	(18,235)
Recoveries	120	17	912	50	1,099
Net (charge-offs) recoveries	(4,627)	17	(12,513)	(13)	(17,136)
Provision (negative provision)	9,936	8,003	(2,461)	(478)	15,000
Balance, end of period	$45,467	$ 26,210	$ 58,806	$ 1,656	$132,139

	Six Months Ended June 30, 2018				
	Real Estate Mortgage	Real Estate Construction 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	(7,345)	—	(22,949)	(94)	(30,388)
Recoveries	1,777	26	6,399	95	8,297
Net (charge-offs) recoveries	(5,568)	26	(16,550)	1	(22,091)
Provision (negative provision)	10,984	13,129	(8,666)	(673)	14,774
Balance, end of period	$45,467	$26,210	$58,806	$1,656	$132,139
Ending Allowance by Impairment Methodology:					
Individually evaluated for impairment	$472	$—	$8,480	$—	$8,952
Collectively evaluated for impairment	$44,995	$26,210	$50,326	$1,656	$123,187
Ending Loans and Leases by Impairment Methodology:					
Individually evaluated for impairment	$83,931	$15,998	$67,228	$—	$167,157
Collectively evaluated for impairment	7,482,443	1,858,028	6,998,884	378,680	16,718,035
Ending balance	$7,566,374	$1,874,026	$7,066,112	$378,680	$16,885,192

PACWEST BANCORP AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (Unaudited)

	Three Months Ended June 30, 2017						
	Real Estate Mortgage	Real Estate Construction and Land	Commercial	Consumer	Total Non-PCI	Total PCI	Total
	(In thousands)						
Allowance for Loan and Lease Losses:							
Balance, beginning of period	$35,368	$ 10,476	$ 102,134	$ 1,848	$149,826	$11,481	$161,307
Charge-offs	(142)	—	(22,696)	(113)	(22,951)	(3,459)	(26,410)
Recoveries	20	9	1,953	22	2,004	58	2,062
Net (charge-offs) recoveries	(122)	9	(20,743)	(91)	(20,947)	(3,401)	(24,348)
Provision (negative provision)	1,876	833	6,973	318	10,000	(1,001)	8,999
Balance, end of period	$37,122	$ 11,318	$ 88,364	$ 2,075	$138,879	$7,079	$145,958

	Six Months Ended June 30, 2017						
	Real Estate Mortgage	Real Estate Construction and Land	Commercial	Consumer	Total Non-PCI	Total PCI	Total
	(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	(1,686)	—	(41,981)	(212)	(43,879)	(5,689)	(49,568)
Recoveries	250	17	4,401	75	4,743	58	4,801
Net (charge-offs) recoveries	(1,436)	17	(37,580)	(137)	(39,136)	(5,631)	(44,767)
Provision (negative provision)	793	1,256	32,091	120	34,260	(773)	33,487
Balance, end of period	$37,122	$11,318	$88,364	$2,075	$138,879	$7,079	$145,958
Ending Allowance by Impairment Methodology:							
Individually evaluated for impairment	$1,415	$—	$11,564	$333	$13,312		
Collectively evaluated for impairment	$35,707	$11,318	$76,800	$1,742	$125,567		
Acquired loans with deteriorated credit quality						$7,079	
Ending Loans and Leases by Impairment Methodology:							
Individually evaluated for							

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

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 June 30, 2018		
	Allowance for Loan and Lease Losses	Reserve for Unfunded Loan Commitments	Total Allowance for Credit Losses
	(In thousands)		
Balance, beginning of period	$134,275	$ 32,861	$167,136
Charge-offs	(18,235)	—	(18,235)
Recoveries	1,099	—	1,099
Net charge-offs	(17,136)	—	(17,136)
Provision	15,000	2,500	17,500
Balance, end of period	$132,139	$ 35,361	$167,500

	Six Months Ended June 30, 2018		
	Allowance for Loan and Lease Losses	Reserve for Unfunded Loan Commitments	Total Allowance for Credit Losses
	(In thousands)		
Balance, beginning of period	$139,456	$ 28,635	$168,091
Charge-offs	(30,388)	—	(30,388)
Recoveries	8,297	—	8,297
Net charge-offs	(22,091)	—	(22,091)
Provision	14,774	6,726	21,500
Balance, end of period	$132,139	$ 35,361	$167,500

	Three Months Ended June 30, 2017				
	Non-PCI				
	Allowance for Loan and Lease Losses	Reserve for Unfunded Loan Commitments	Allowance for Credit Losses	PCI Allowance for Loan Losses	Total Allowance for Credit Losses
	(In thousands)				
Balance, beginning of period	$149,826	$ 17,763	$167,589	$11,481	$179,070

Charge-offs	(22,951)	—	(22,951)	(3,459)	(26,410)
Recoveries	2,004	—	2,004	58	2,062
Net charge-offs	(20,947)	—	(20,947)	(3,401)	(24,348)
Provision (negative provision)	10,000	2,500	12,500	(1,001)	11,499
Balance, end of period	$ 138,879	$ 20,263	$ 159,142	$ 7,079	$ 166,221

PACWEST BANCORP AND SUBSIDIARIES
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	Six Months Ended June 30, 2017				
	Non-PCI				
	Allowance for Loan and Lease Losses	Reserve for Unfunded Loan Commitments	Allowance for Credit Losses	PCI Allowance for Loan Losses	Total Allowance for Credit Losses
	(In thousands)				
Balance, beginning of period	$143,755	$ 17,523	$161,278	$13,483	$174,761
Charge-offs	(43,879)	—	(43,879)	(5,689)	(49,568)
Recoveries	4,743	—	4,743	58	4,801
Net charge-offs	(39,136)	—	(39,136)	(5,631)	(44,767)
Provision (negative provision)	34,260	2,740	37,000	(773)	36,227
Balance, end of period	$138,879	$ 20,263	$159,142	$7,079	$166,221

NOTE 7. FORECLOSED ASSETS

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

Property Type	June 30, 2018	December 31, 2017
	(In thousands)	
Construction and land development	$219	$ 219
Multi family	1,059	—
Commercial real estate	—	64
Single family residence	953	1,019
Total other real estate owned, net	2,231	1,302
Other foreclosed assets	—	27
Total foreclosed assets, net	$2,231	$ 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
Transfers to foreclosed assets from loans	1,059
Provision for losses	(65)
Reductions related to sales	(92)
Balance, June 30, 2018	$ 2,231

PACWEST BANCORP AND SUBSIDIARIES
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NOTE 8. OTHER ASSETS
The following table presents the detail of our other assets as of the dates indicated:

Other Assets	June 30, 2018	December 31, 2017
	(In thousands)	
Cash surrender value of BOLI	$195,911	$193,917
Interest receivable	81,816	82,935
Taxes receivable	37,022	98,998
CRA investments	54,474	49,432
Low income housing tax credit ("LIHTC") investments	48,468	39,235
Equity investments without readily determinable fair values	15,525	14,856
Equity investments with readily determinable fair values	4,569	—
Prepaid expenses	20,153	17,800
Other	37,708	43,550
Total other assets	$495,646	$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.
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. 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. During the six months ended June 30, 2018, we sold a portion of one of our equity investments without a readily determinable fair value for an amount in excess of its basis, and consequently increased by $286,000 the remaining carrying value of this investment at June 30, 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 $37.7 million at June 30, 2018 consists of, among other things, other receivables, equity warrants, and derivative assets.

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NOTE 9. BORROWINGS AND SUBORDINATED DEBENTURES
Borrowings
The following table summarizes our borrowings as of the dates indicated:

	June 30, 2018			December 31, 2017		
	Amount	Weighted Average Rate		Amount	Weighted Average Rate	
	(Dollars in thousands)					
Non recourse debt	$226	7.04	%	$342	6.87	%
FHLB secured advances	945,000	2.08	%	332,000	1.41	%
FHLB unsecured overnight advance	146,000	1.97	%	135,000	1.34	%
AFX borrowings	96,000	2.10	%	—	—	%
Total borrowings	$1,187,226			$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 June 30, 2018, this debt had a weighted average remaining maturity of 1.3 years.
The Bank has established secured and unsecured lines of credit under which it may borrow funds from time to time on a term or overnight basis from the FHLB, the FRBSF, and other financial institutions.
FHLB Secured Line of Credit. The Bank had secured financing capacity with the FHLB as of June 30, 2018 of $3.5 billion, collateralized by a blanket lien on $5.0 billion of certain qualifying loans. As of June 30, 2018, the balance outstanding was a $945.0 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 June 30, 2018, the Bank had secured borrowing capacity of $1.3 billion collateralized by liens covering $1.7 billion of certain qualifying loans. As of June 30, 2018 and December 31, 2017, there were no balances outstanding.
FHLB Unsecured Line of Credit. The Bank has a $146.0 million unsecured line of credit with the FHLB for the purchase of overnight funds, of which $146.0 million was outstanding at June 30, 2018. At December 31, 2017, the balance outstanding was $135.0 million.
Federal Funds Arrangements with Commercial Banks. As of June 30, 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 June 30, 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 June 30, 2018, the balance outstanding was $96.0 million, which consisted of a $95.0 million overnight borrowing and a $1.0 million one-month borrowing with a maturity date of July 30, 2018. As of December 31, 2017, there were no balances outstanding.

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

	June 30, 2018		December 31, 2017		Date	Maturity	Rate Index
Series	Amount	Rate	Amount	Rate	Issued	Date	(Quarterly Reset)
	(Dollars in thousands)						
Trust V	$10,310	5.43%	$10,310	4.70%	8/15/2003	9/17/2033	3 month LIBOR + 3.10
Trust VI	10,310	5.39%	10,310	4.64%	9/3/2003	9/15/2033	3 month LIBOR + 3.05
Trust CII	5,155	5.28%	5,155	4.55%	9/17/2003	9/17/2033	3 month LIBOR + 2.95
Trust VII	61,856	5.11%	61,856	4.13%	2/5/2004	4/23/2034	3 month LIBOR + 2.75
Trust CIII	20,619	4.03%	20,619	3.28%	8/15/2005	9/15/2035	3 month LIBOR + 1.69
Trust FCCI	16,495	3.94%	16,495	3.19%	1/25/2007	3/15/2037	3 month LIBOR + 1.60
Trust FCBI	10,310	3.89%	10,310	3.14%	9/30/2005	12/15/2035	3 month LIBOR + 1.55
Trust CS 2005-1	82,475	4.29%	82,475	3.54%	11/21/2005	12/15/2035	3 month LIBOR + 1.95
Trust CS 2005-2	128,866	4.31%	128,866	3.33%	12/14/2005	1/30/2036	3 month LIBOR + 1.95
Trust CS 2006-1	51,545	4.31%	51,545	3.33%	2/22/2006	4/30/2036	3 month LIBOR + 1.95
Trust CS 2006-2	51,550	4.31%	51,550	3.33%	9/27/2006	10/30/2036	3 month LIBOR + 1.95
Trust CS 2006-3 (1)	30,097	1.72%	30,986	1.72%	9/29/2006	10/30/2036	3 month EURIBOR + 2.05
Trust CS 2006-4	16,470	4.31%	16,470	3.33%	12/5/2006	1/30/2037	3 month LIBOR + 1.95
Trust CS 2006-5	6,650	4.31%	6,650	3.33%	12/19/2006	1/30/2037	3 month LIBOR + 1.95
Trust CS 2007-2	39,177	4.31%	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	541,885		555,146				
Unamortized discount (3)	(90,007)		(92,709)				
Net subordinated debentures	$451,878		$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.

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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:

	June 30, 2018	December 31, 2017
	(In thousands)	
Loan commitments to extend credit	$6,429,587	$6,234,061
Standby letters of credit	315,388	320,063
Total	$6,744,975	$6,554,124

Commitments to extend credit are contractual agreements to lend to our customers when customers are in compliance with their contractual credit agreements and when customers have contractual availability to borrow under such agreements. 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 real estate 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 June 30, 2018 and December 31, 2017, we had commitments to contribute capital to these entities totaling $87.2 million and $62.6 million. We also had commitments to contribute up to an additional $1.5 million and $2.5 million to private equity funds at June 30, 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.

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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:

	Fair Value Measurements as of June 30, 2018			
Measured on a Recurring Basis	Total	Level 1	Level 2	Level 3
	(In thousands)			
Securities available for sale:				
Residential MBS and CMOs:				
Agency MBS	$263,588	$—	$263,588	$—
Agency CMOs	554,891	—	554,891	—
Private label CMOs	102,236	—	88,485	13,751
Municipal securities	1,412,092	—	1,412,092	—
Agency commercial MBS	1,097,216	—	1,097,216	—
U.S. Treasury securities	262,341	262,341	—	—
SBA securities	77,351	—	77,351	—
Asset-backed securities	69,781	—	36,948	32,833
Corporate debt securities	18,292	—	18,292	—
Total securities available-for-sale	3,857,788	262,341	3,548,863	46,584
Equity warrants	5,168	—	—	5,168
Other derivative assets	2,814	—	2,814	—

Equity investments with readily determinable fair values	4,569	4,569	—	—
Total recurring assets	$3,870,339	$266,910	$3,551,677	$51,752
Derivative liabilities	$362	$—	$362	$—

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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 (1)	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	$—

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(1) 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.

During the six months ended June 30, 2018, there was a $48,000 transfer from Level 3 equity warrants to Level 1 equity investments with readily determinable fair values 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:

	June 30, 2018			
	Private Label CMOs		Asset-Backed Securities	
Unobservable Inputs	Range of Inputs	Weighted Average Input	Range of Inputs	Weighted Average Input
Voluntary annual prepayment speeds	4.9% - 48.1%	9.5%	5% - 15%	14.1%
Annual default rates	0.1% - 9%	2.4%	1% - 2%	1.9%
Loss severity rates	9.7% - 118.8%	48.0%	10% - 60%	55.7%
Discount rates	2.1% - 10.8%	6.3%	3.2% - 4.3%	3.6%

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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:

Unobservable Inputs	June 30, 2018 Equity Warrants Weighted Average Input
Volatility	16.5%
Risk-free interest rate	2.6%
Remaining life assumption (in years)	3.6

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	376	(21)	1,474
Total included in other comprehensive income	(272)	(239)	—
Issuances	—	—	326
Sales	—	—	(1,745)
Net settlements	(9,227)	(9,016)	—
Transfers to Level 1	—	—	(48)
Balance, June 30, 2018	$13,751	$ 32,833	$ 5,168

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 June 30, 2018 Total	Level 1	Level 2	Level 3
	(In thousands)			
Impaired loans	$76,321	$ —	$15,862	$60,459
OREO	953	—	953	—
Total non-recurring	$77,274	$ —	$16,815	$60,459

Measured on a Non Recurring Basis	Fair Value Measurement as of December 31, 2017 Total	Level 1	Level 2	Level 3
	(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

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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 June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
	(In thousands)			
Impaired loans (1)	$12,076	$9,435	$15,994	$17,250
Loans held for sale	—	7,198	—	7,198
OREO	—	14	65	14
Total losses	$12,076	$16,647	$16,059	$24,462

(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	June 30, 2018 Fair Value (In thousands)	Valuation Technique	Unobservable Inputs	Range	Weighted Average
Impaired loans	$19,980	Discounted cash flows	Discount rates	3.75% - 7.75%	6.82%
Impaired loans	27,282	Market approach	Adjustments for age and type of collateral		
Impaired loans	8,927	Enterprise valuation with revenue multiple	Illiquidity discount	20%	20%
Impaired loans	4,270	Third party appraisals	No discounts		
Total non-recurring Level 3	$60,459				

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

	June 30, 2018				
	Carrying	Estimated Fair Value			
	Amount	Total	Level 1	Level 2	Level 3
	(In thousands)				
Financial Assets:					
Cash and due from banks	$245,998	$245,998	$245,998	$ —	$ —
Interest earning deposits in financial institutions	205,567	205,567	205,567	—	—
Securities available for sale	3,857,788	3,857,788	262,341	3,548,863	46,584
Investment in FHLB stock	26,271	26,271	—	26,271	—
Loans and leases held for investment, net	16,753,053	16,438,905	—	15,862	16,423,043
Equity warrants	5,168	5,168	—	—	5,168
Other derivative assets	2,814	2,814	—	2,814	—
Equity investments with readily determinable fair values	4,569	4,569	4,569	—	—
Financial Liabilities:					
Core deposits	15,586,238	15,586,238	—	15,586,238	—
Non-core non-maturity deposits	607,388	607,388	—	607,388	—
Time deposits	1,735,566	1,724,232	—	1,724,232	—
Borrowings	1,187,226	1,187,168	1,186,000	1,168	—
Subordinated debentures	451,878	435,641	—	435,641	—
Derivative liabilities	362	362	—	362	—

	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	—

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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 June 30, 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			Six Months Ended	
	June 30, 2018	March 31, 2018	June 30, 2017	June 30, 2018	2017
	(Dollars in thousands, except per share data)				
Basic Earnings Per Share:					
Net earnings	$115,735	$118,276	$93,647	$234,011	$172,315
Less: Earnings allocated to unvested restricted stock[1]	(1,348)	(1,115)	(1,080)	(2,469)	(2,082)
Net earnings allocated to common shares	$114,387	$117,161	$92,567	$231,542	$170,233
Weighted-average basic shares and unvested restricted stock outstanding	126,082	127,487	121,422	126,780	121,384
Less: Weighted-average unvested restricted stock outstanding	(1,466)	(1,413)	(1,455)	(1,439)	(1,479)
Weighted-average basic shares outstanding	124,616	126,074	119,967	125,341	119,905
Basic earnings per share	$0.92	$0.93	$0.77	$1.85	$1.42
Diluted Earnings Per Share:					
Net earnings allocated to common shares	$114,387	$117,161	$92,567	$231,542	$170,233
Weighted-average basic shares outstanding	124,616	126,074	119,967	125,341	119,905
Diluted earnings per share	$0.92	$0.93	$0.77	$1.85	$1.42

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

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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 June 30, 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.

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Disaggregation of Revenue