

PACWEST BANCORP
Form 10-Q
August 08, 2017

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended June 30, 2017

Commission File No. 001-36408

PACWEST BANCORP

(Exact name of registrant as specified in its charter)

Delaware 33-0885320

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

9701 Wilshire Blvd., Suite 700

Beverly Hills, CA 90212

(Address of Principal Executive Offices, Including Zip Code)

(310) 887-8500

(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

Emerging growth company

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

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

Yes No

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

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

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

Edgar Filing: PACWEST BANCORP - Form 10-Q

PART I

Glossary of Acronyms, Abbreviations, and Terms

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

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

Edgar Filing: PACWEST BANCORP - Form 10-Q

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

3

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

PACWEST BANCORP AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

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

Edgar Filing: PACWEST BANCORP - Form 10-Q

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

See Notes to Condensed Consolidated Financial Statements.

PACWEST BANCORP AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

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

Edgar Filing: PACWEST BANCORP - Form 10-Q

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

See Notes to Condensed Consolidated Financial Statements.

5

PACWEST BANCORP AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

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

See Notes to Condensed Consolidated Financial Statements.

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

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

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

See Notes to Condensed Consolidated Financial Statements.

PACWEST BANCORP AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

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

Edgar Filing: PACWEST BANCORP - Form 10-Q

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

See Notes to Condensed Consolidated Financial Statements.

8

PACWEST BANCORP AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

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

Supplemental disclosures of cash flow information:

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

See Notes to Condensed Consolidated Financial Statements.

PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

NOTE 1. ORGANIZATION

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

We are focused on relationship-based business banking to small, middle-market and venture-backed businesses nationwide. The Bank offers a broad range of loan and lease and deposit products and services through 74 full-service branches located throughout the State of California, one branch located in Durham, North Carolina, and several loan production offices located in cities across the country. We provide commercial banking services, including real estate, construction, and commercial loans, and comprehensive deposit and treasury management services to small and middle-market businesses. We offer additional products and services through our CapitalSource and Square 1 Bank divisions. Our CapitalSource Division provides cash flow, asset-based, equipment, and real estate loans and treasury management services to established middle market businesses on a national basis. Our Square 1 Bank Division offers a comprehensive suite of financial services focused on entrepreneurial businesses and their venture capital and private equity investors, with offices located in key innovation hubs across the United States. In addition, we provide investment advisory and asset management services to select clients through Square 1 Asset Management, Inc., a wholly-owned subsidiary of the Bank and a SEC-registered investment adviser.

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

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

CU Bancorp Merger Announcement

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

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

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

Significant Accounting Policies

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

PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

Accounting Standard Adopted in 2017

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

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

Basis of Presentation

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

Use of Estimates

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

Reclassifications

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

PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

NOTE 2. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill and other intangible assets arise from the acquisition method of accounting for business combinations. Goodwill and other intangible assets generated from business combinations and deemed to have indefinite lives are not subject to amortization and instead are tested for impairment at least annually. Goodwill represents the excess of the purchase price over the fair value of the net assets and other identifiable intangible assets acquired. Impairment exists when the carrying value of the goodwill exceeds its implied fair value. An impairment loss would be recognized in an amount equal to that excess as a charge to "Noninterest expense" in the condensed consolidated statements of earnings.

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

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

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

PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

NOTE 3. INVESTMENT SECURITIES

Securities Available-for-Sale

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

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

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

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

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

PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

Unrealized Losses on Securities Available-for-Sale

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

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

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

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

impaired securities before recovery of their amortized cost.

14

PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

Contractual Maturities of Securities Available-for-Sale

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

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

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

Interest Income on Investment Securities

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

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

PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

NOTE 4. LOANS AND LEASES

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

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

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

Loans Held for Sale

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

Loans and Leases Held for Investment

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

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

Edgar Filing: PACWEST BANCORP - Form 10-Q

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

16

PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

Non PCI Loans and Leases Held for Investment

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

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

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

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

Edgar Filing: PACWEST BANCORP - Form 10-Q

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

PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

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

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

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

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

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

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

PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

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

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

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

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

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

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

Edgar Filing: PACWEST BANCORP - Form 10-Q

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

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

19

PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

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

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

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

PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

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

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

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

PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

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

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

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

PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

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

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

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

PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

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

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

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

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

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

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

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

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

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

PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

Allowance for Loan and Lease Losses

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

Three Months Ended June 30, 2017

	Real Estate						Total
	Real Estate	Construction			Total	Total	
	Mortgage	and Land	Commercial	Consumer	Non-PCI	PCI	
	(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
Provision (negative provision)	1,876	833	6,973	318	10,000	(1,001)	8,999
Balance, end of period	\$37,122	\$ 11,318	\$ 88,364	\$ 2,075	\$ 138,879	\$ 7,079	\$ 145,958

Six Months Ended June 30, 2017

	Real Estate						Total
	Real Estate	Construction			Total	Total	
	Mortgage	and Land	Commercial	Consumer	Non-PCI	PCI	
	(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
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							

Edgar Filing: PACWEST BANCORP - Form 10-Q

impairment	5,954,357	1,157,500	7,733,659	397,741	15,243,257
Acquired loans with deteriorated credit quality					