PACWEST BANCORP
Form 10-Q
August 09, 2016

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, 2016
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, 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):

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

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 27, 2016, there were 120,412,363 shares of the registrant's common stock outstanding, excluding 1,407,486 shares of unvested restricted stock.

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PACWEST BANCORP AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2016	December 31, 2015
	(Unaudited)	
	(Dollars in thousands)	
ASSETS:		
Cash and due from banks	$226,471	$161,020
Interest-earning deposits in financial institutions	218,882	235,466
Total cash and cash equivalents	445,353	396,486
Securities available-for-sale, at fair value	3,347,546	3,559,437
Federal Home Loan Bank stock, at cost	24,214	19,710
Total investment securities	3,371,760	3,579,147
Gross loans and leases	14,703,326	14,528,165
Deferred fees, net	(61,866)	(49,911)
Allowance for loan and lease losses	(143,289)	(115,111)
Total loans and leases, net	14,498,171	14,363,143
Equipment leased to others under operating leases	204,062	197,452
Premises and equipment, net	38,718	39,197
Foreclosed assets, net	16,181	22,120
Goodwill	2,175,791	2,176,291
Core deposit and customer relationship intangibles, net	43,766	53,220
Deferred tax asset, net	24,413	126,389
Other assets	328,924	335,045
Total assets	$21,147,139	$21,288,490
LIABILITIES:		
Noninterest-bearing deposits	$6,222,696	$6,171,455
Interest-bearing deposits	8,925,313	9,494,727
Total deposits	15,148,009	15,666,182
Borrowings	918,208	621,914
Subordinated debentures	439,322	436,000
Accrued interest payable and other liabilities	128,296	166,703
Total liabilities	16,633,835	16,890,799
Commitments and contingencies (Note 8)		
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, 2016 and December 31, 2015; 123,317,742 and 122,791,729 shares issued, respectively, including 1,407,486 and 1,211,951 shares of unvested restricted stock, respectively)	1,233	1,228
Additional paid-in capital	4,299,259	4,405,775
Retained earnings	186,531	13,907

Treasury stock, at cost (1,497,893 and 1,378,002 shares at June 30, 2016 and December 31, 2015)	(55,463)	(51,047)
Accumulated other comprehensive income, net	81,744	27,828
Total stockholders' equity	4,513,304	4,397,691
Total liabilities and stockholders' equity	$21,147,139	$21,288,490

See Notes to Condensed Consolidated Financial Statements.

PACWEST BANCORP AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

	Three Months Ended			Six Months Ended	
	June 30, 2016	March 31, 2016	June 30, 2015	June 30, 2016	2015
	(Unaudited)				
	(Dollars in thousands, except per share data)				
Interest income:					
Loans and leases	$224,326	$236,375	$203,781	$460,701	$405,878
Investment securities	22,420	22,547	14,570	44,967	26,765
Deposits in financial institutions	308	308	104	616	126
Total interest income	247,054	259,230	218,455	506,284	432,769
Interest expense:					
Deposits	7,823	9,073	11,233	16,896	21,712
Borrowings	352	581	88	933	323
Subordinated debentures	5,122	4,982	4,582	10,104	9,107
Total interest expense	13,297	14,636	15,903	27,933	31,142
Net interest income	233,757	244,594	202,552	478,351	401,627
Provision for credit losses	13,903	20,140	6,529	34,043	22,963
Net interest income after provision for credit losses	219,854	224,454	196,023	444,308	378,664
Noninterest income:					
Service charges on deposit accounts	3,633	3,856	2,612	7,489	5,186
Other commissions and fees	11,073	11,489	7,123	22,562	12,519
Leased equipment income	8,523	8,244	5,375	16,767	10,757
Gain on sale of loans and leases	388	245	163	633	163
Gain (loss) on sale of securities	478	8,110	(186)	8,588	3,089
FDIC loss sharing expense, net	(6,502)	(2,415)	(5,107)	(8,917)	(9,506)
Other income	4,528	5,010	9,643	9,538	18,286
Total noninterest income	22,121	34,539	19,623	56,660	40,494
Noninterest expense:					
Compensation	62,174	61,065	49,033	123,239	96,770
Occupancy	12,193	12,632	10,588	24,825	21,188
Data processing	5,644	5,904	4,402	11,548	8,710
Other professional services	3,223	3,572	3,332	6,795	6,553
Insurance and assessments	4,951	4,965	4,716	9,916	7,741
Intangible asset amortization	4,371	4,746	1,502	9,117	3,003
Leased equipment depreciation	5,286	5,024	3,103	10,310	6,206
Foreclosed assets income, net	(3)	(561)	(2,340)	(564)	(2,004)
Acquisition, integration and reorganization costs	—	200	900	200	2,900
Other expense	12,242	13,141	10,040	25,383	18,569
Total noninterest expense	110,081	110,688	85,276	220,769	169,636
Earnings before income taxes	131,894	148,305	130,370	280,199	249,522
Income tax expense	(49,726)	(57,849)	(45,287)	(107,575)	(91,360)
Net earnings	$82,168	$90,456	$85,083	$172,624	$158,162
Earnings per share:					
Basic	$0.68	$0.74	$0.83	$1.42	$1.54
Diluted	$0.68	$0.74	$0.83	$1.42	$1.54
Dividends declared per share	$0.50	$0.50	$0.50	$1.00	$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, 2016	March 31, 2016	June 30, 2015	June 30, 2016	2015
	(Unaudited) (In thousands)				
Net earnings	$82,168	$90,456	$85,083	$172,624	$158,162
Other comprehensive income (loss), net of tax:					
Unrealized net holding gains (losses) on securities available-for-sale arising during the period	56,514	43,093	(21,213)	99,607	(13,850)
Income tax (expense) benefit related to net unrealized holding gains (losses) arising during the period	(22,965)	(17,655)	8,614	(40,620)	5,509
Unrealized net holding gains (losses) on securities available-for-sale, net of tax	33,549	25,438	(12,599)	58,987	(8,341)
Reclassification adjustment for net (gains) losses included in net earnings [1]	(478)	(8,110)	186	(8,588)	(3,089)
Income tax expense (benefit) related to reclassification adjustment	194	3,323	(76)	3,517	1,305
Reclassification adjustment for net (gains) losses included in net earnings, net of tax	(284)	(4,787)	110	(5,071)	(1,784)
Other comprehensive income (loss), net of tax	33,265	20,651	(12,489)	53,916	(10,125)
Comprehensive income	$115,433	$111,107	$72,594	$226,540	$148,037

(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.

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

	Six Months Ended June 30, 2016						
	Common Stock		Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income	Total
	Shares	Par Value					
	(Unaudited) (Dollars in thousands)						
Balance, December 31, 2015	121,413,727	$1,228	$4,405,775	$13,907	$(51,047)	$ 27,828	$4,397,691
Net earnings	—	—	—	172,624	—	—	172,624
Other comprehensive income - net unrealized gain on securities available-for-sale, net of tax	—	—	—	—	—	53,916	53,916
Restricted stock awarded and earned stock compensation, net of shares forfeited	526,013	5	11,595	—	—	—	11,600
Restricted stock surrendered	(119,891)	—	—	—	(4,416)	—	(4,416)
Tax effect from vesting of restricted stock	—	—	3,683	—	—	—	3,683
Cash dividends paid	—	—	(121,794)	—	—	—	(121,794)
Balance, June 30, 2016	121,819,849	$1,233	$4,299,259	$186,531	$(55,463)	$ 81,744	$4,513,304

See Notes to Condensed Consolidated Financial Statements.

PACWEST BANCORP AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30, 2016	2015
	(Unaudited) (Dollars in thousands)	
Cash flows from operating activities:		
Net earnings	$172,624	$158,162
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	43,813	22,087
Provision for credit losses	34,043	22,963
(Gain) loss on sale of foreclosed assets	(534)	126
Provision for losses on foreclosed assets	—	406
Gain on sale of loans and leases	(633)	(163)
Gain on sale of premises and equipment	(23)	(11)
Gain on sale of securities	(8,588)	(3,089)
Unrealized gain on derivatives and foreign currencies, net	(569)	(1,226)
Earned stock compensation	11,600	8,074
Loss on sale of leasing unit	720	—
Tax effect included in stockholders' equity of restricted stock vesting	(3,683)	(401)
Decrease in accrued and deferred income taxes, net	68,466	72,169
(Increase) decrease in other assets	(2,388)	26,443
Decrease in accrued interest payable and other liabilities	(40,683)	(26,541)
Net cash provided by operating activities	274,165	278,999
Cash flows from investing activities:		
Net increase in loans and leases	(380,289)	(169,071)
Proceeds from sales of loans and leases	78,888	3,784
Securities available-for-sale:		
Proceeds from maturities and paydowns	117,684	63,741
Proceeds from sales	353,374	159,548
Purchases	(177,644)	(375,156)
Net (purchases) redemptions of Federal Home Loan Bank stock	(4,504)	23,359
Proceeds from sales of foreclosed assets	6,602	14,610
Purchases of premises and equipment, net	(3,951)	(3,407)
Proceeds from sales of premises and equipment	24	63
Proceeds from sale of leasing unit	138,955	—
Proceeds from BOLI death benefit	1,853	—
Net increase of equipment leased to others under operating leases	(16,060)	—
Net cash provided by (used in) investing activities	114,932	(282,529)
Cash flows from financing activities:		
Net increase (decrease) in deposits:		
Noninterest-bearing	53,387	461,107
Interest-bearing	(569,414)	361,330
Net increase (decrease) in borrowings	298,324	(380,651)
Restricted stock surrendered	(4,416)	(8,336)
Tax effect included in stockholders' equity of restricted stock vesting	3,683	401

Cash dividends paid	(121,794)	(102,916)
Net cash (used in) provided by financing activities	(340,230)	330,935
Net increase in cash and cash equivalents	48,867	327,405
Cash and cash equivalents at beginning of period	396,486	313,226
Cash and cash equivalents at end of period	$445,353	$640,631
Supplemental disclosures of cash flow information:		
Cash paid for interest	$28,558	$29,006
Cash paid for income taxes	44,908	6,076
Loans transferred to foreclosed assets	129	3,089

See Notes to Condensed Consolidated Financial Statements.

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

Note 1. Organization

PacWest Bancorp is a bank holding company registered under the Bank Holding Company Act of 1956, as amended. Our principal business is to serve as the holding company for our wholly-owned banking subsidiary, Pacific Western Bank. References to "Pacific Western" or the "Bank" refer to Pacific Western Bank together with its wholly-owned subsidiaries. References to “we,” "us," “our,” 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. As of June 30, 2016, the Company had total assets of $21.1 billion, gross loans and leases of $14.7 billion, total deposits of $15.1 billion and total stockholders' equity of $4.5 billion.

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 79 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. The Bank provides commercial banking services, including real estate, construction, and commercial loans and leases, and comprehensive deposit and treasury management services to small and middle-market businesses. Pacific Western offers additional products and services through its CapitalSource and Square 1 Bank divisions. CapitalSource provides cash flow, asset-based, equipment and real estate loans and treasury management services to established middle-market businesses on a national basis. Square 1 Bank 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. When we refer to "CapitalSource Inc." we are referring to the company acquired on April 7, 2014 and when we refer to the "CapitalSource Division" we are referring to a division of Pacific Western.

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, 2016, including the acquisition of Square 1 Financial, Inc. on October 6, 2015. 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 2. Acquisitions, for more information about the Square 1 acquisition.

On March 31, 2016, we sold our Pacific Western Equipment Finance ("PWEF") leasing unit in Midvale, Utah, including approximately $139 million of outstanding lease balances.

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, 2015 as filed with the Securities and Exchange Commission ("Form 10-K").

Basis of Presentation

Our interim consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles (“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 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. Material estimates subject to change in the near term include, among other items, the allowance for credit losses, the carrying value and useful lives 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.

As described in Note 2, Acquisitions, the acquired assets and liabilities of Square 1 were measured at their estimated fair values. We made significant estimates and exercised significant judgment in estimating fair values and accounting for such acquired assets and assumed liabilities.

Reclassifications

Certain prior period amounts have been reclassified to conform to the current period's presentation format. The operating segments previously reported have been aggregated to one segment to conform to the current period's presentation format.

Note 2. Acquisitions

Square 1 Financial, Inc. Acquisition

We acquired Square 1 Financial, Inc. ("Square 1") on October 6, 2015. As part of the acquisition, Square 1 Bank, a wholly-owned subsidiary of Square 1, merged with and into Pacific Western. At closing, we formed the Square 1 Bank Division of the Bank to focus on providing a comprehensive suite of financial services to entrepreneurial businesses and their venture capital and private equity investors nationwide. When we refer to Square 1, we are referring to the company acquired on October 6, 2015, and when we refer to the Square 1 Bank Division, we are referring to a division of Pacific Western.

We completed this acquisition to increase our core deposits, expand our nationwide lending platform, and increase our presence in the technology and life-sciences credit markets. The Square 1 acquisition has been accounted for under the acquisition method of accounting. We acquired $4.6 billion of assets and assumed $3.8 billion of liabilities upon closing of the acquisition. The assets and liabilities, both tangible and intangible, were recorded at their estimated fair values as of the acquisition date. We made significant estimates and exercised significant judgment in estimating fair values and accounting for such acquired assets and liabilities. Such fair values are preliminary estimates and are subject to adjustment for up to one year after the acquisition date or when additional information relative to the closing date fair values becomes available and such information is considered final, whichever is earlier. The fair value of the acquired net tax assets, once the final tax returns have been filed, may change. The application of the acquisition method of accounting resulted in goodwill of $447.9 million. All of the recognized goodwill is expected to be non-deductible for tax purposes.

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

Note 3. Goodwill and Other Intangible Assets
Goodwill arises from the acquisition method of accounting for business combinations and represents the excess of the purchase price over the fair value of the net assets and other identifiable intangible assets acquired. Our intangible assets with definite lives are core deposit intangibles ("CDI") and customer relationship intangibles ("CRI"). Goodwill and other intangible assets deemed to have indefinite lives generated from business combinations are not subject to amortization and are instead tested for impairment no less than annually. Impairment exists when the carrying value of goodwill exceeds its implied fair value. An impairment loss would be recognized in an amount equal to that excess and would be included in “Noninterest expense” in the condensed consolidated statements of earnings. 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, 2016 is 5.8 years. The aggregate CDI and CRI amortization expense is expected to be $16.5 million for 2016. The estimated aggregate amortization expense related to these intangible assets for each of the next five years is $11.5 million for 2017, $8.8 million for 2018, $6.7 million for 2019, $4.7 million for 2020, and $3.0 million for 2021.
The following table presents the changes in the carrying amount of goodwill for the period indicated:

	Goodwill
	(In thousands)
Balance, December 31, 2015	$ 2,176,291
Reduction due to sale of PWEF leasing unit	(500)
Balance, June 30, 2016	$ 2,175,791

Through the sale of the PWEF leasing unit, $0.5 million of goodwill was allocated to this business group; such goodwill reduction is included in the $0.7 million loss on sale of the PWEF leasing unit and included in "Other income" in the condensed consolidated statement of earnings.
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 31,	June 30,	June 30,	
	2016	2016	2015	2016	2015
	(In thousands)				
Gross Amount of CDI and CRI:					
Balance, beginning of period	$93,824	$95,524	$53,090	$95,524	$53,090
Fully amortized portion	(17,311)	—	—	(17,311)	—
Reduction due to sale of PWEF leasing unit	—	(1,700)	—	(1,700)	—
Balance, end of period	76,513	93,824	53,090	76,513	53,090
Accumulated Amortization:					
Balance, beginning of period	(45,687)	(42,304)	(37,387)	(42,304)	(35,886)
Amortization	(4,371)	(4,746)	(1,502)	(9,117)	(3,003)
Fully amortized portion	17,311	—	—	17,311	—
Reduction due to sale of PWEF leasing unit	—	1,363	—	1,363	—
Balance, end of period	(32,747)	(45,687)	(38,889)	(32,747)	(38,889)
Net CDI and CRI, end of period	$43,766	$48,137	$14,201	$43,766	$14,201

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

Note 4. Investment Securities
Securities Available-for-Sale
The following table presents amortized cost, gross unrealized gains and losses, and carrying values of securities available-for-sale as of the dates indicated:

	June 30, 2016				December 31, 2015			
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 mortgage-backed securities:								
Government agency and government-sponsored enterprise pass-through securities	$509,895	$11,108	$(484)	$520,519	$660,069	$11,517	$(3,746)	$667,840
Government agency and government-sponsored enterprise collateralized mortgage obligations	161,207	4,158	(154)	165,211	193,148	2,633	(1,026)	194,755
Private label collateralized mortgage obligations	144,935	5,385	(751)	149,569	140,065	5,837	(1,106)	144,796
Municipal securities	1,449,194	104,093	(1)	1,553,286	1,508,968	39,435	(1,072)	1,547,331
Government agency and government-sponsored enterprise commercial mortgage-backed securities	449,096	15,584	(281)	464,399	392,729	1,509	(2,797)	391,441
Corporate debt securities	47,218	935	(1,426)	46,727	49,047	327	(950)	48,424
Collateralized loan obligations	155,309	376	(1,798)	153,887	133,192	128	(1,131)	132,189
SBA securities	195,621	1,977	(297)	197,301	211,946	41	(830)	211,157
US Treasury securities	—	—	—	—	70,196	—	(816)	69,380
Government-sponsored enterprise debt securities	—	—	—	—	36,302	611	—	36,913
Asset-backed and other securities	96,910	439	(702)	96,647	116,723	119	(1,631)	115,211
Total	$3,209,385	$144,055	$(5,894)	$3,347,546	$3,512,385	$62,157	$(15,105)	$3,559,437

As of June 30, 2016, securities available for sale with a carrying value of $442.9 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, 2016, we sold $9.9 million of primarily municipal securities for a gross realized gain of $0.6 million and a gross realized loss of $0.1 million. During the three months ended June 30, 2015,

we sold $14.8 million of municipal securities for a gross realized gain of $0.1 million and a gross realized loss of $0.3 million.

During the six months ended June 30, 2016, we sold $344.8 million of various securities, primarily government agency and government-sponsored enterprise ("GSE") pass-through securities and collateralized mortgage obligations, U.S. Treasury securities and GSE debt securities, for a gross realized gain of $9.5 million and a gross realized loss of $0.9 million. During the six months ended June 30, 2015, we sold $156.5 million of government agency and GSE pass-through securities, corporate debt securities, and municipal securities for a gross realized gain of $3.8 million and a gross realized loss of $0.7 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:

	June 30, 2016					
	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 mortgage-backed securities:						
Government agency and government-sponsored enterprise pass-through securities	$142,069	$(465)	$4,618	$(19)	$146,687	$(484)
Government agency and government-sponsored enterprise collateralized mortgage obligations	31,379	(154)	—	—	31,379	(154)
Private label collateralized mortgage obligations	49,862	(534)	3,058	(217)	52,920	(751)
Municipal securities	7,465	(1)	—	—	7,465	(1)
Government agency and government-sponsored enterprise commercial mortgage-backed securities	43,039	(281)	—	—	43,039	(281)
Corporate debt securities	28,792	(1,426)	—	—	28,792	(1,426)
Collateralized loan obligations	58,145	(685)	53,825	(1,113)	111,970	(1,798)
SBA securities	53,519	(297)	—	—	53,519	(297)
Asset-backed and other securities	41,628	(170)	20,993	(532)	62,621	(702)
Total	$455,898	$(4,013)	$82,494	$(1,881)	$538,392	$(5,894)

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

	December 31, 2015					
	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 mortgage-backed securities:						
Government agency and government-sponsored enterprise pass-through securities	$352,042	$(3,480)	$9,342	$(266)	$361,384	$(3,746)
Government agency and government-sponsored enterprise collateralized mortgage obligations	117,786	(1,026)	—	—	117,786	(1,026)
Private label collateralized mortgage obligations	93,533	(1,000)	1,638	(106)	95,171	(1,106)
Municipal securities	126,892	(1,061)	531	(11)	127,423	(1,072)
Government agency and government-sponsored enterprise commercial mortgage-backed securities	236,098	(2,156)	14,230	(641)	250,328	(2,797)
US Treasury securities	69,380	(816)	—	—	69,380	(816)
Corporate debt securities	29,379	(950)	—	—	29,379	(950)
Collateralized loan obligations	100,993	(1,131)	—	—	100,993	(1,131)
SBA securities	179,942	(830)	—	—	179,942	(830)
Asset-backed and other securities	71,619	(1,182)	16,091	(449)	87,710	(1,631)
Total	$1,377,664	$(13,632)	$41,832	$(1,473)	$1,419,496	$(15,105)

We reviewed the securities that were in a loss position at June 30, 2016, and concluded their unrealized losses were not a result of downgraded credit ratings or other indicators of deterioration of the underlying issuers' ability to repay. Such unrealized losses were a result of the level of market interest rates and pricing changes caused by shifting supply and demand dynamics relative to the types of securities. Accordingly, we determined the securities were temporarily impaired and we did not recognize such impairment in the condensed consolidated statements of earnings. Although we occasionally 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 available-for-sale securities portfolio based on amortized cost and carrying value as of the date indicated:

	June 30, 2016	
Maturity:	Amortized Cost	Fair Value
	(In thousands)	
Due in one year or less	$14,761	$14,834
Due after one year through five years	230,982	235,996
Due after five years through ten years	713,952	736,838
Due after ten years	2,249,690	2,359,878
Total securities available-for-sale	$3,209,385	$3,347,546

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.

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

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,	
	2016	2016	2015	2016	2015
	(In thousands)				
Taxable interest	$11,406	$11,396	$7,577	$22,802	$15,050
Non-taxable interest	10,503	10,726	4,808	21,229	8,702
Dividend income	511	425	2,185	936	3,013
Total interest income on investment securities	$22,420	$22,547	$14,570	$44,967	$26,765

Note 5. Loans and Leases
The Company’s 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 all contractually required payments would be collected, are referred to collectively as non-purchased credit impaired loans, or "Non-PCI loans." Purchased loans for which there was, at the acquisition date, evidence of credit deterioration since their origination and for which it was deemed probable that we would be unable to collect all contractually required payments, are referred to as purchased credit impaired loans, or "PCI loans".
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 are recognized as an adjustment to interest income over the contractual life of the loans using the effective interest method or taken into income on an accelerated basis when the related loans are paid off or 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.
The following table summarizes the composition of our loan and lease portfolio as of the dates indicated:

	June 30, 2016			December 31, 2015		
	Non-PCI Loans and Leases	PCI Loans	Total	Non-PCI Loans and Leases	PCI Loans	Total
	(In thousands)					
Real estate mortgage	$5,581,646	$120,633	$5,702,279	$5,706,903	$168,725	$5,875,628
Real estate construction and land	706,493	2,700	709,193	534,307	2,656	536,963
Commercial	8,065,687	13,311	8,078,998	7,977,067	17,415	7,994,482
Consumer	212,599	257	212,856	120,793	299	121,092
Total gross loans and leases	14,566,425	136,901	14,703,326	14,339,070	189,095	14,528,165
Deferred fees, net	(61,845)	(21)	(61,866)	(49,861)	(50)	(49,911)
	14,504,580	136,880	14,641,460	14,289,209	189,045	14,478,254

Total loans and leases, net of deferred fees						
Allowance for loan and lease losses	(132,000)	(11,289)	(143,289)	(105,534)	(9,577)	(115,111)
Total net loans and leases	$14,372,580	$125,591	$14,498,171	$14,183,675	$179,468	$14,363,143

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

Non Purchased Credit Impaired (Non PCI) Loans and Leases
The following tables present an aging analysis of our Non PCI loans and leases by portfolio segment and class as of the dates indicated:

	June 30, 2016				
	30 - 89 Days Past Due	90 or More Days Past Due	Total Past Due	Current	Total
	(In thousands)				
Real estate mortgage:					
Commercial	$5,400	$14,244	$19,644	$4,446,762	$4,466,406
Residential	442	1,896	2,338	1,094,636	1,096,974
Total real estate mortgage	5,842	16,140	21,982	5,541,398	5,563,380
Real estate construction and land:					
Commercial	—	—	—	414,466	414,466
Residential	—	—	—	281,767	281,767
Total real estate construction and land	—	—	—	696,233	696,233
Commercial:					
Cash flow	458	1,852	2,310	3,039,552	3,041,862
Asset-based	—	—	—	2,682,264	2,682,264
Venture capital	3,548	—	3,548	1,657,719	1,661,267
Equipment finance	41,361	2,509	43,870	603,070	646,940
Total commercial	45,367	4,361	49,728	7,982,605	8,032,333
Consumer	—	4	4	212,630	212,634
Total Non-PCI loans and leases	$51,209	$20,505	$71,714	$14,432,866	$14,504,580

	December 31, 2015				
	30 - 89 Days Past Due	90 or More Days Past Due	Total Past Due	Current	Total
	(In thousands)				
Real estate mortgage:					
Commercial	$3,947	$13,075	$17,022	$4,534,936	$4,551,958
Residential	3,391	905	4,296	1,131,809	1,136,105
Total real estate mortgage	7,338	13,980	21,318	5,666,745	5,688,063
Real estate construction and land:					
Commercial	—	—	—	343,360	343,360
Residential	—	—	—	184,360	184,360
Total real estate construction and land	—	—	—	527,720	527,720
Commercial:					
Cash flow	2,048	1,427	3,475	3,058,793	3,062,268
Asset-based	1	—	1	2,547,532	2,547,533
Venture capital	250	700	950	1,451,477	1,452,427

Equipment finance	359	94	453	889,896	890,349
Total commercial	2,658	2,221	4,879	7,947,698	7,952,577
Consumer	626	1,307	1,933	118,916	120,849
Total Non-PCI loans and leases	$10,622	$17,508	$28,130	$14,261,079	$14,289,209

PACWEST BANCORP AND SUBSIDIARIES
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It is the Company's policy to discontinue accruing interest 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 or 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. 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 by portfolio segment and class as of the dates indicated:

	June 30, 2016			December 31, 2015		
	Nonaccrual	Performing	Total	Nonaccrual	Performing	Total
	(In thousands)					
Real estate mortgage:						
Commercial	$29,183	$4,437,223	$4,466,406	$52,363	$4,499,595	$4,551,958
Residential	4,238	1,092,736	1,096,974	4,914	1,131,191	1,136,105
Total real estate mortgage	33,421	5,529,959	5,563,380	57,277	5,630,786	5,688,063
Real estate construction and land:						
Commercial	—	414,466	414,466	—	343,360	343,360
Residential	368	281,399	281,767	372	183,988	184,360
Total real estate construction and land	368	695,865	696,233	372	527,348	527,720
Commercial:						
Cash flow	38,146	3,003,716	3,041,862	15,800	3,046,468	3,062,268
Asset-based	1,986	2,680,278	2,682,264	2,505	2,545,028	2,547,533
Venture capital	1,088	1,660,179	1,661,267	124	1,452,303	1,452,427
Equipment finance	52,432	594,508	646,940	51,410	838,939	890,349
Total commercial	93,652	7,938,681	8,032,333	69,839	7,882,738	7,952,577
Consumer	214	212,420	212,634	1,531	119,318	120,849
Total Non-PCI loans and leases	$127,655	$14,376,925	$14,504,580	$129,019	$14,160,190	$14,289,209

At June 30, 2016, nonaccrual loans and leases totaled $127.7 million and included $20.5 million of loans and leases 90 or more days past due, $45.0 million of loans and leases 30 to 89 days past due, and $62.2 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 $129.0 million at December 31, 2015, including $16.8 million of the loans and leases 90 or more days past due, $3.6 million of loans and leases 30 to 89 days past due, and $108.6 million of current loans and leases that were placed on nonaccrual status based on management's judgment regarding their collectability.

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 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, 2016			December 31, 2015		
	Classified	Nonclassified	Total	Classified	Nonclassified	Total
	(In thousands)					
Real estate mortgage:						
Commercial	$99,573	$4,366,833	$4,466,406	$98,436	$4,453,522	$4,551,958
Residential	15,256	1,081,718	1,096,974	12,627	1,123,478	1,136,105
Total real estate mortgage	114,829	5,448,551	5,563,380	111,063	5,577,000	5,688,063
Real estate construction and land:						
Commercial	610	413,856	414,466	571	342,789	343,360
Residential	1,371	280,396	281,767	1,395	182,965	184,360
Total real estate construction and land	1,981	694,252	696,233	1,966	525,754	527,720
Commercial:						
Cash flow	212,200	2,829,662	3,041,862	183,726	2,878,542	3,062,268
Asset-based	33,187	2,649,077	2,682,264	19,340	2,528,193	2,547,533
Venture capital	19,758	1,641,509	1,661,267	19,105	1,433,322	1,452,427
Equipment finance	58,705	588,235	646,940	54,054	836,295	890,349
Total commercial	323,850	7,708,483	8,032,333	276,225	7,676,352	7,952,577
Consumer	375	212,259	212,634	2,500	118,349	120,849
Total Non-PCI loans and leases	$441,035	$14,063,545	$14,504,580	$391,754	$13,897,455	$14,289,209

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 higher allowances for credit losses.

Non PCI nonaccrual loans and leases and performing troubled debt restructured loans are considered impaired for reporting purposes. The following table presents the composition of our impaired loans and leases as of the dates indicated:

	June 30, 2016			December 31, 2015		
	Nonaccrual Loans/Leases	Performing Restructured Loans	Total Impaired Loans/Leases	Nonaccrual Loans/Leases	Performing Restructured Loans	Total Impaired Loans/Leases
	(In thousands)					
Real estate mortgage	$33,421	$ 59,549	$ 92,970	$57,277	$ 27,133	$ 84,410
Real estate construction and land	368	7,130	7,498	372	7,631	8,003
Commercial	93,652	4,799	98,451	69,839	5,221	75,060
Consumer	214	231	445	1,531	197	1,728
Total	$127,655	$ 71,709	$ 199,364	$129,019	$ 40,182	$ 169,201

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

	June 30, 2016			December 31, 2015		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
	(In thousands)					
With An Allowance Recorded:						
Real estate mortgage:						
Commercial	$26,853	$28,163	$ 1,085	$17,967	$19,219	$ 777
Residential	2,160	2,208	145	2,278	2,435	681
Real estate construction and land:						
Residential	740	740	16	747	747	26
Commercial:						
Cash flow	26,356	26,989	4,830	14,072	20,312	7,079
Asset-based	2,352	2,766	1,954	3,901	4,423	2,511
Venture capital	1,088	1,090	752	—	—	—
Equipment finance	52,433	59,609	20,088	11,193	11,894	8,032
Consumer	361	368	186	365	372	157
With No Related Allowance Recorded:						
Real estate mortgage:						
Commercial	$54,482	$64,272		$58,678	$68,333	
Residential	9,475	14,619		5,487	11,406	
Real estate construction and land:						
Commercial	6,758	6,756		7,256	7,256	
Commercial:						
Cash flow	12,512	21,612		2,825	5,121	
Asset-based	3,710	3,777		2,729	2,726	
Venture capital	—	—		124	125	
Equipment finance	—	—		40,216	44,194	
Consumer	84	152		1,363	1,945	
Total Non-PCI Loans and Leases With and Without an Allowance Recorded:						
Real estate mortgage	$92,970	$109,262	$ 1,230	$84,410	$101,393	$ 1,458
Real estate construction and land	7,498	7,496	16	8,003	8,003	26
Commercial	98,451	115,843	27,624	75,060	88,795	17,622
Consumer	445	520	186	1,728	2,317	157
Total	$199,364	$233,121	$ 29,056	$169,201	$200,508	$ 19,263

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

	Three Months Ended June 30, 2016		2015	
	Weighted Average Balance(1)	Interest Income Recognized	Weighted Average Balance(1)	Interest Income Recognized
	(In thousands)			
With An Allowance Recorded:				
Real estate mortgage:				
Commercial	$ 26,853	$ 258	$ 14,634	$ 173
Residential	2,160	14	2,423	8
Real estate construction and land:				
Commercial	—	—	392	5
Residential	740	4	755	4
Commercial:				
Cash flow	26,356	9	15,688	12
Asset-based	2,352	10	6,090	37
Venture capital	693	—	—	—
Equipment finance	50,390	—	9,178	—
Consumer	359	3	302	2
With No Related Allowance Recorded:				
Real estate mortgage:				
Commercial	$ 51,378	$ 778	$ 32,871	$ 80
Residential	7,908	46	5,663	7
Real estate construction and land:				
Commercial	6,758	56	6,971	58
Commercial:				
Cash flow	12,512	1	3,535	38
Asset-based	3,178	42	1,257	17
Equipment finance	—	—	57,873	—
Consumer	82	—	3,359	2
Total Non-PCI Loans and Leases With and				

Without an Allowance Recorded:				
Real estate mortgage	$ 88,299	$ 1,096	$ 55,591	$ 268
Real estate construction and land	7,498	60	8,118	67
Commercial	95,481	62	93,621	104
Consumer	441	3	3,661	4
Total	$ 191,719	$ 1,221	$ 160,991	$ 443

(1) For Non-PCI loans and leases reported as impaired at June 30, 2016 and 2015, amounts were calculated based on the period of time such loans and leases were impaired during the reported period.

PACWEST BANCORP AND SUBSIDIARIES
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	Six Months Ended June 30, 2016 Weighted Average Balance[1] (In thousands)	2016 Interest Income Recognized	2015 Weighted Average Balance[1]	2015 Interest Income Recognized
With An Allowance Recorded:				
Real estate mortgage:				
Commercial	$ 23,959	$ 516	$ 14,215	$ 333
Residential	1,609	22	2,305	15
Real estate construction and land:				
Commercial	—	—	392	11
Residential	740	8	755	8
Commercial:				
Cash flow	17,914	18	15,664	22
Asset-based	2,289	18	5,289	55
Venture capital	347	—	—	—
Equipment finance	48,914	—	6,446	—
Consumer	336	6	302	5
With No Related Allowance Recorded:				
Real estate mortgage:				
Commercial	$ 52,810	$ 968	$ 31,715	$ 151
Residential	6,796	60	5,082	13
Real estate construction and land:				
Commercial	6,758	112	6,971	114
Commercial:				
Cash flow	12,432	2	3,535	84
Asset-based	2,710	71	1,123	30
Equipment finance	—	—	32,547	—
Consumer	82	1	3,359	4
Total Non-PCI Loans and Leases With and				

Without an Allowance Recorded:				
Real estate mortgage	$ 85,174	$ 1,566	$ 53,317	$ 512
Real estate construction and land	7,498	120	8,118	133
Commercial	84,606	109	64,604	191
Consumer	418	7	3,661	9
Total	$ 177,696	$ 1,802	$ 129,700	$ 845

(1) For Non-PCI loans and leases reported as impaired at June 30, 2016 and 2015, amounts were calculated based on the period of time such loans and leases were impaired during the reported period.

PACWEST BANCORP AND SUBSIDIARIES
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Troubled debt restructurings are a result of rate reductions, term extensions, fee concessions, and debt forgiveness or a combination thereof. The following tables present new troubled debt restructurings of Non-PCI loans for the periods indicated:

	Three Months Ended June 30,					
	2016			2015		
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	1	$ 1,000	$ 1,000	3	$ 1,345	$ 1,345
Residential	5	4,878	4,878	7	1,131	1,105
Real estate construction and land:						
Commercial	—	—	—	2	7,004	7,004
Commercial:						
Cash flow	6	30,300	30,300	4	112	112
Asset-based	2	1,504	1,504	6	3,309	3,309
Equipment finance	4	1,624	—	5	49,205	49,205
Consumer	2	738	30	—	—	—
Total	20	$ 40,044	$ 37,712	27	$ 62,106	$ 62,080

	Six Months Ended June 30,					
	2016			2015		
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	5	$ 4,140	$ 4,140	12	$ 6,506	$ 6,458
Residential	6	5,043	5,043	12	2,044	1,878
Real estate construction and land:						
Commercial	—	—	—	3	9,614	9,614
Commercial:						
Cash flow	10	30,557	30,557	8	873	694
Asset-based	4	2,133	2,133	12	4,708	4,708
Equipment finance	6	4,284	2,660	9	53,338	53,338
Consumer	3	798	90	1	91	91
Total	34	$ 46,955	$ 44,623	57	$ 77,174	$ 76,781

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

The following tables present troubled debt restructurings that subsequently defaulted for the periods indicated:

Troubled Debt Restructurings That Subsequently Defaulted:	Three Months Ended June 30, 2016 Number of Loans	Recorded Investment[(1)]		2015 Number of Loans	Recorded Investment[(1)]	
	(Dollars in thousands)					
Real estate mortgage:						
Commercial	2	$ 2,572		1	$ 971	
Residential	—	—		2	263	
Commercial:						
Asset-based	—	—		1	375	
Equipment finance	1	39,912	(4)	2	1,635	
Consumer	—	—		1	16	
Total	3	$ 42,484	(2)	7	$ 3,260	(3)

(1) The population of defaulted restructured loans for the period indicated includes only those loans restructured during the preceding 12-month period. 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.
(3) Represents the balance at June 30, 2015, and there were no charge-offs.
(4) The term of the modification for this loan expired in the second quarter of 2016 and was not renewed until the third quarter of 2016. Thus, the loan was in payment default under the loan's original terms at June 30, 2016. As of the date of this filing, the borrower is current in accordance with the renewed contractual terms, which are generally consistent with those of the prior modification.

Troubled Debt Restructurings That Subsequently Defaulted:	Six Months Ended June 30, 2016 Number of Loans	Recorded Investment[(1)]		2015 Number of Loans	Recorded Investment[(1)]	
	(Dollars in thousands)					
Real estate mortgage:						
Commercial	2	$ 2,572		1	$ 971	
Residential	—	—		2	263	
Commercial:						
Asset-based	—	—		1	375	
Equipment finance	1	39,912	(4)	2	1,635	
Consumer	—	—		1	16	
Total	3	$ 42,484	(2)	7	$ 3,260	(3)

(1) The population of defaulted restructured loans for the period indicated includes only those loans restructured during the preceding 12-month period. 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.
(3) Represents the balance at June 30, 2015, and there were no charge-offs.
(4)

The term of the modification for this loan expired in the second quarter of 2016 and was not renewed until the third quarter of 2016. Thus, the loan was in payment default under the loan's original terms at June 30, 2016. As of the date of this filing, the borrower is current in accordance with the renewed contractual terms, which are generally consistent with those of the prior modification.

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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 by portfolio segment and PCI loans for the periods indicated:

	Three Months Ended June 30, 2016						
	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	$29,099	$ 6,876	$ 83,957	$ 875	$120,807	$9,554	$130,361
Charge-offs	(866)	—	(655)	(191)	(1,712)	(168)	(1,880)
Recoveries	939	6	312	23	1,280	—	1,280
Provision	159	971	9,790	705	11,625	1,903	13,528
Balance, end of period	$29,331	$ 7,853	$ 93,404	$ 1,412	$132,000	$11,289	$143,289

	Six Months Ended June 30, 2016						
	Real Estate 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	$36,654	$ 7,137	$61,082	$661	$105,534	$9,577	$115,111
Charge-offs	(1,603)	—	(4,700)	(782)	(7,085)	(331)	(7,416)
Recoveries	1,938	158	626	39	2,761	—	2,761
Provision (negative provision)	(7,658)	558	36,396	1,494	30,790	2,043	32,833
Balance, end of period	$29,331	$ 7,853	$93,404	$1,412	$132,000	$11,289	$143,289
Amount of the allowance applicable to loans and leases:							
Individually evaluated for impairment	$1,230	$ 16	$27,624	$186	$29,056		
Collectively evaluated for impairment	$28,101	$ 7,837	$65,780	$1,226	$102,944		
Acquired loans with deteriorated credit quality						$11,289	
The ending balance of the loan and lease portfolio is							

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

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	Three Months Ended June 30, 2015						
	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	$30,911	$ 2,173	$ 45,794	$ 802	$79,680	$12,698	$92,378
Charge-offs	(62)	—	(534)	(27)	(623)	—	(623)
Recoveries	200	12	1,744	34	1,990	101	2,091
Provision (negative provision)	(1,141)	1,723	3,527	(109)	4,000	1,529	5,529
Balance, end of period	$29,908	$ 3,908	$ 50,531	$ 700	$85,047	$14,328	$99,375

	Six Months Ended June 30, 2015						
	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	$25,097	$ 4,248	$39,858	$ 1,253	$70,456	$13,999	$84,455
Charge-offs	(1,515)	—	(8,929)	(90)	(10,534)	(579)	(11,113)
Recoveries	1,495	644	2,154	228	4,521	112	4,633
Provision (negative provision)	4,831	(984)	17,448	(691)	20,604	796	21,400
Balance, end of period	$29,908	$ 3,908	$50,531	$700	$85,047	$14,328	$99,375
Amount of the allowance applicable to loans and leases:							
Individually evaluated for impairment	$1,461	$ 49	$13,305	$ 193	$15,008		
Collectively evaluated for impairment	$28,447	$ 3,859	$37,226	$ 507	$70,039		
Acquired loans with deteriorated credit quality						$14,328	
The ending balance of the loan and lease portfolio is composed of loans and leases:							
Individually evaluated for impairment	$56,297	$ 8,118	$98,767	$ 3,585	$166,767		
	$5,354,134	$ 340,621	$5,867,335	$ 82,694	$11,644,784		

Collectively evaluated for impairment							
Acquired loans with deteriorated credit quality						$222,638	
Ending balance of loans and leases	$5,410,431	$348,739	$5,966,102	$86,279	$11,811,551	$222,638	$12,034,189

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Note 6. Foreclosed Assets
The following table summarizes foreclosed assets as of the dates indicated:

	June 30,	December 31,
Property Type:	2016	2015
	(In thousands)	
Commercial real estate	$—	$ 487
Construction and land development	13,800	13,801
Single family residence	852	952
Total other real estate owned, net	14,652	15,240
Other foreclosed assets	1,529	6,880
Total foreclosed assets, net	$16,181	$ 22,120

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, 2015	$ 22,120
Foreclosures	129
Provision for losses	—
Reductions related to sales	(6,068)
Balance, June 30, 2016	$ 16,181

Note 7. Borrowings and Subordinated Debentures
Borrowings
The following table summarizes our borrowings as of the dates indicated:

	June 30, 2016		December 31, 2015	
	Amount	Rate	Amount	Rate
	(Dollars in thousands)			
Non recourse debt	$1,208	6.25%	$3,914	5.49%
FHLB secured overnight advance	787,000	0.47%	618,000	0.27%
FHLB unsecured overnight advance	90,000	0.47%	—	— %
American Financial Exchange overnight borrowing	40,000	0.55%	—	— %
Total borrowings	$918,208		$621,914	

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, 2016, this debt had a weighted average remaining maturity of 2.1 years.

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

FHLB Secured Lines of Credit. The borrowing arrangement with the FHLB is based on an FHLB program collateralized by a blanket lien on certain qualifying loans that are not pledged to the FRBSF. As of June 30, 2016, the borrowing capacity under the FHLB secured borrowing lines was $2.0 billion. As of June 30, 2016 and December 31, 2015, the balances outstanding were $787.0 million and $618.0 million.

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FRBSF Secured Line of Credit. The Bank has a secured line of credit with the FRBSF. As of June 30, 2016, the Bank had secured borrowing capacity of $1.8 billion collateralized by liens covering $3.0 billion of certain qualifying loans. As of June 30, 2016 and December 31, 2015, there were no balances outstanding.
Federal Funds Arrangements with Commercial Banks. As of June 30, 2016, the Bank had uncommitted unsecured lines of credit of $80.0 million with correspondent banks for the purchase of overnight funds, subject to availability of funds. These lines are renewable annually and have no unused commitment fees. As of June 30, 2016 and December 31, 2015, there were no balances outstanding. In March 2016, the Bank became a member of the American Financial Exchange, through which it may either borrow or lend funds on an overnight basis with a group of pre-approved commercial banks. The availability of funds changes daily. As of June 30, 2016, the balance outstanding was $40.0 million.
FHLB Unsecured Line of Credit. The Bank has a $99.0 million unsecured line of credit with the FHLB for the purchase of overnight funds. As of June 30, 2016, the balance outstanding was $90.0 million. As of December 31, 2015, there was no balance outstanding.
Subordinated Debentures
The following table summarizes the terms of each issuance of subordinated debentures outstanding as of the dates indicated:

	June 30, 2016		December 31, 2015		Date	Maturity	Rate Index
Series:	Amount	Rate	Amount	Rate	Issued	Date	(Quarterly Reset)
	(Dollars in thousands)						
Trust V	$10,310	3.76%	$10,310	3.63%	8/15/2003	9/17/2033	3 month LIBOR + 3.10
Trust VI	10,310	3.70%	10,310	3.39%	9/3/2003	9/15/2033	3 month LIBOR + 3.05
Trust CII	5,155	3.61%	5,155	3.35%	9/17/2003	9/17/2033	3 month LIBOR + 2.95
Trust VII	61,856	3.39%	61,856	3.07%	2/5/2004	4/23/2034	3 month LIBOR + 2.75
Trust CIII	20,619	2.34%	20,619	2.20%	8/15/2005	9/15/2035	3 month LIBOR + 1.69
Trust FCCI	16,495	2.25%	16,495	2.11%	1/25/2007	3/15/2037	3 month LIBOR + 1.60
Trust FCBI	10,310	2.20%	10,310	2.06%	9/30/2005	12/15/2035	3 month LIBOR + 1.55
Trust CS 2005-1	82,475	2.60%	82,475	2.46%	11/21/2005	12/15/2035	3 month LIBOR + 1.95
Trust CS 2005-2	128,866	2.59%	128,866	2.27%	12/14/2005	1/30/2036	3 month LIBOR + 1.95
Trust CS 2006-1	51,545	2.59%	51,545	2.27%	2/22/2006	4/30/2036	3 month LIBOR + 1.95
Trust CS 2006-2	51,550	2.59%	51,550	2.27%	9/27/2006	10/30/2036	3 month LIBOR + 1.95
Trust CS 2006-3 (1)	28,541	1.80%	28,007	1.98%	9/29/2006	10/30/2036	3 month EURIBOR + 2.05
Trust CS 2006-4	16,470	2.59%	16,470	2.27%	12/5/2006	1/30/2037	3 month LIBOR + 1.95
Trust CS 2006-5	6,650	2.59%	6,650	2.27%	12/19/2006	1/30/2037	3 month LIBOR + 1.95
Trust CS 2007-2	39,177	2.59%	39,177	2.27%	6/13/2007	7/30/2037	3 month LIBOR + 1.95
Gross subordinated debentures	540,329		539,795				
Unamortized discount (2)	(101,007)		(103,795)				
Net subordinated debentures	$439,322		$436,000				

(1) Denomination is in Euros with a value of €25.8 million.
(2) Amount represents the fair value adjustment on subordinated debentures assumed in acquisitions.

Interest payments made by the Company on subordinated debentures are considered dividend payments under the Board of Governors of the Federal Reserve System (“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 8. 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, standby letters of credit, and commitments to purchase equipment being acquired for lease to others. 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, 2016	December 31, 2015
	(In thousands)	
Loan commitments to extend credit	$3,888,686	$3,580,655
Standby letters of credit	210,617	210,292
Commitments to purchase equipment being acquired for lease to others	—	6,663
	$4,099,303	$3,797,610

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.
Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. We provide standby letters of credit in conjunction with several of our lending arrangements and property lease obligations. Most guarantees expire within one year from the date of issuance. If a borrower defaults on its commitments subject to any letter of credit issued under these arrangements, we would be required to meet the borrower's financial obligation but would seek repayment of that financial obligation from the borrower. In some cases, borrowers have pledged cash and investment securities as collateral with us under these arrangements.
In addition, we invest in low income housing project partnerships, which provide income tax credits, and in small business investment companies that call for capital contributions up to an amount specified in the partnership agreements. As of June 30, 2016 and December 31, 2015, we had commitments to contribute capital to these entities totaling $27.4 million and $19.2 million. We also had commitments to contribute up to an additional $2.9 million and $2.8 million to 17 and 11 private equity funds at June 30, 2016 and December 31, 2015. We had commitments to purchase approximately $150 million of loans which expire in June 2017. The amount purchased will be based, in part, on the amount of portfolio paydowns which occur during the commitment period.
Legal Matters
In the ordinary course of our business, the Company is party to various legal actions, which we believe are incidental to the operation of our business. The outcome of such legal actions and the timing of ultimate resolution are inherently difficult to predict. In the opinion of management, based upon currently available information, any resulting liability, in addition to amounts already accrued, and taking into consideration insurance which may be applicable, would not have a material adverse effect on the Company’s financial statements or operations.
Kinde Durkee Investigation
The United States Attorney's Office for the Eastern District of California is conducting an investigation relating to the handling by First California Bank ("FCB") of its banking relationship with Kinde Durkee. Ms. Durkee, who had maintained certain of her accounts with FCB, was convicted in 2012 of embezzling funds from certain California politicians, among others. FCB was acquired by PacWest Bancorp and merged into Pacific Western Bank in May 2013. We understand that the investigation is focused on whether any civil or criminal laws were violated by FCB or

its employees. Pacific Western is cooperating with the investigation.

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Note 9. 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, government agency and government sponsored enterprise residential and commercial mortgage-backed securities, collateralized loan obligations, registered publicly rated private label collateralized mortgage obligations ("CMOs") and asset-backed securitizations.
- Level 3: Inputs to a valuation methodology that are unobservable, supported by little or no market activity, and significant to the fair value measurement. These valuation methodologies generally include pricing models, discounted cash flow models, or a determination of fair value that requires significant management judgment or estimation. This category also includes observable inputs from a pricing service not corroborated by observable market data, and includes our non-rated private label CMOs, non-rated private label asset-backed securities, and equity warrants.

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

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

	Fair Value Measurements as of June 30, 2016			
Measured on a Recurring Basis:	Total	Level 1	Level 2	Level 3
	(In thousands)			
Securities available for sale:				
Residential mortgage-backed securities:				
Government agency and government sponsored enterprise pass-through securities	$520,519	$—	$520,519	$—
Government agency and government sponsored enterprise collateralized mortgage obligations	165,211	—	165,211	—
Private label collateralized mortgage obligations	149,569	—	80,539	69,030
Municipal securities	1,553,286	—	1,553,286	—
Government agency and government sponsored enterprise commercial mortgage-backed securities	464,399	—	464,399	—
Corporate debt securities	46,727	—	46,727	—
Collateralized loan obligations	153,887	—	153,887	—
SBA securities	197,301	—	197,301	—

Asset-backed and other securities	96,647	2,714	77,797	16,136
Total securities available-for-sale	3,347,546	2,714	3,259,666	85,166
Derivative assets	2,484	—	2,484	—
Equity warrants	5,192	—	—	5,192
Total recurring assets	$3,355,222	$2,714	$3,262,150	$90,358
Derivative liabilities	$2,740	$—	$2,740	$—

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Measured on a Recurring Basis:	Fair Value Measurements as of December 31, 2015 Total	Level 1	Level 2	Level 3
	(In thousands)			
Securities available for sale:				
Residential mortgage-backed securities:				
Government agency and government sponsored enterprise pass-through securities	$667,840	$—	$667,840	$—
Government agency and government sponsored enterprise collateralized mortgage obligations	194,755	—	194,755	—
Private label collateralized mortgage obligations	144,796	—	63,555	81,241
Municipal securities	1,547,331	—	1,547,331	—
Government agency and government sponsored enterprise commercial mortgage-backed securities	391,441	—	391,441	—
Corporate debt securities	48,424	—	48,424	—
Collateralized loan obligations	132,189	—	132,189	—
SBA securities	211,157	—	211,157	—
US Treasury securities	69,380	69,380	—	—
Government sponsored enterprise debt securities	36,913	—	36,913	—
Asset-backed and other securities	115,211	2,562	94,449	18,200
Total securities available-for-sale	3,559,437	71,942	3,388,054	99,441
Derivative assets	11,919	—	11,919	—
Equity warrants	4,914	—	—	4,914
Total recurring assets	$3,576,270	$71,942	$3,399,973	$104,355
Derivative liabilities	$1,397	$—	$1,397	$—

There were no transfers of assets either between Level 1 and Level 2 nor in or out of Level 3 of the fair value hierarchy for assets measured on a recurring basis during the six months ended June 30, 2016.

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 June 30, 2016:

	Private Label CMOs		Asset-Backed Securities	
Unobservable Inputs:	Range of Inputs	Weighted Average Input	Range of Inputs	Weighted Average Input
Voluntary annual prepayment speeds	0.9% - 24.5%	11.6%	5% - 40%	14.2%
Annual default rates	0.2% - 14.7%	1.9%	1% - 8%	3.7%
Loss severity rates	5.4% - 94.1%	23.2%	10% - 91%	52.4%
Discount rates	0.8% - 65.8%	3.7%	1.7% - 4.7%	2.8%

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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 June 30, 2016:

Unobservable Inputs:	Equity Warrants Weighted Average Input
Volatility	23.8%
Risk-free interest rate	0.8%
Remaining life assumption (in years)	3.7

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

	Private Label CMOs	Asset-Backed Securities	Equity Warrants
	(In thousands)		
Balance, December 31, 2015	$81,241	$ 18,200	$4,914
Total included in earnings	830	31	88
Total included in other comprehensive income	(1,409)	12	—
Sales	—	—	(922)
Issuances	—	—	1,112
Net settlements	(11,632)	(2,107)	—
Balance, June 30, 2016	$69,030	$ 16,136	$5,192

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

	Fair Value Measurement as of June 30, 2016			
Measured on a Non Recurring Basis:	Total	Level 1	Level 2	Level 3
	(In thousands)			
Impaired Non PCI loans	$95,657	$ —	$3,471	$92,186

	Fair Value Measurement as of December 31, 2015			
Measured on a Non Recurring Basis:	Total	Level 1	Level 2	Level 3
	(In thousands)			
Impaired Non PCI loans	$40,817	$ —	$9,367	$31,450
Other real estate owned	14,101	—	14,101	—
Investments carried at cost	107	—	—	107
Total non-recurring	$55,025	$ —	$23,468	$31,557

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
Losses on Assets Measured on a Non Recurring Basis:	2016	2015	2016	2015
	(In thousands)			
Impaired Non PCI loans	$(603)	$(4,531)	$(16,779)	$(12,573)
Other real estate owned	—	(282)	—	(406)
Total loss	$(603)	$(4,813)	$(16,779)	$(12,979)

The following table presents the valuation methodology and unobservable inputs for Level 3 assets measured at fair value on a nonrecurring basis as of June 30, 2016:

Asset:	Fair Value	Valuation Technique	Unobservable Inputs	Range	Weighted Average
	(In thousands)				
Impaired Non-PCI loans	$ 52,264	Discounted cash flows	Discount rates	0% - 10.20%	6.71%
	38,775	Third party appraisals	Discounts	9.00% - 10.00%	9.17%
	1,147	Third party appraisals	No discounts		
Total non-recurring Level 3	$ 92,186				

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

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

	June 30, 2016				
	Carrying or Contract	Estimated Fair Value			
	Amount	Total	Level 1	Level 2	Level 3
	(In thousands)				
Financial Assets:					
Cash and due from banks	$226,471	$226,471	$226,471	$ —	$ —
Interest earning deposits in financial institutions	218,882	218,882	218,882	—	—
Securities available for sale	3,347,546	3,347,546	2,714	3,259,666	85,166
Investment in FHLB stock	24,214	24,214	—	24,214	—
Investments carried at cost	1,773	4,584	—	—	4,584
Loans and leases, net	14,498,171	14,461,301	—	3,471	14,457,830
Derivative assets	2,484	2,484	—	2,484	—
Equity warrants	5,192	5,192	—	—	5,192
Financial Liabilities:					
Deposits:					
Demand, money market, interest checking, and savings deposits	12,384,812	12,384,812	—	12,384,812	—
Time deposits	2,763,197	2,762,439	—	2,762,439	—
Borrowings	918,208	918,208	917,000	1,208	—

Subordinated debentures	439,322	423,026	—	423,026	—
Derivative liabilities	2,740	2,740	—	2,740	—

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	December 31, 2015				
	Carrying or Contract	Estimated Fair Value			
	Amount	Total	Level 1	Level 2	Level 3
	(In thousands)				
Financial Assets:					
Cash and due from banks	$161,020	$161,020	$161,020	$ —	$ —
Interest earning deposits in financial institutions	235,466	235,466	235,466	—	—
Securities available for sale	3,559,437	3,559,437	71,942	3,388,054	99,441
Investment in FHLB stock	19,710	19,710	—	19,710	—
Investments carried at cost	2,267	6,789	—	—	6,789
Loans and leases, net	14,363,143	14,393,558	—	9,367	14,384,191
Derivative assets	11,919	11,919	—	11,919	—
Equity warrants	4,914	4,914	—	—	4,914
Financial Liabilities:					
Deposits:					
Demand, money market, interest checking, and savings deposits	11,513,826	11,513,826	—	11,513,826	—
Time deposits	4,152,356	4,152,920	—	4,152,920	—
Borrowings	621,914	622,438	618,000	4,438	—
Subordinated debentures	436,000	419,762	—	419,762	—
Derivative liabilities	1,397	1,397	—	1,397	—

For information regarding the valuation methodologies used to measure our assets recorded at fair value (under ASC Topic 820), and for estimating fair value for financial instruments not recorded at fair value (under ASC Topic 825), see Note 1 - Nature of Operations and Summary of Significant Accounting Policies and Note 13 - Fair Value Measurements to the Consolidated Financial Statements of the Company's 2015 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, 2016, the amounts that will actually be realized or paid at settlement or maturity of the instruments could be significantly different.

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

Note 10. 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, 2016	March 31, 2016	June 30, 2015	June 30, 2016	2015
	(Dollars in thousands, except per share data)				
Basic Earnings Per Share:					
Net earnings	$82,168	$90,456	$85,083	$172,624	$158,162
Less: Earnings allocated to unvested restricted stock (1)	(863)	(1,067)	(807)	(1,933)	(1,570)
Net earnings allocated to common shares	$81,305	$89,389	$84,276	$170,691	$156,592
Weighted-average basic shares and unvested restricted stock outstanding	121,799	121,598	103,030	121,698	103,033
Less: Weighted-average unvested restricted stock outstanding	(1,481)	(1,392)	(1,060)	(1,436)	(1,091)
Weighted-average basic shares outstanding	120,318	120,206	101,970	120,262	101,942
Basic earnings per share	$0.68	$0.74	$0.83	$1.42	$1.54
Diluted Earnings Per Share:					
Net earnings allocated to common shares	$81,305	$89,389	$84,276	$170,691	$156,592
Weighted-average basic shares outstanding	120,318	120,206	101,970	120,262	101,942
Diluted earnings per share	$0.68	$0.74	$0.83	$1.42	$1.54

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

Note 11. Stock-Based Compensation
The Company’s 2003 Stock Incentive Plan, or the 2003 Plan, permits stock-based compensation awards to officers, directors, key employees and consultants. As of June 30, 2016, the 2003 Plan authorized grants of stock based compensation instruments to purchase or issue up to 19,686,565 shares of Company common stock, subject to adjustments provided by the 2003 Plan. As of June 30, 2016, there were 12,452,447 shares available for grant under the 2003 Plan.
Restricted stock amortization totaled $6.0 million, $5.0 million, and $4.4 million for the three months ended June 30, 2016, March 31, 2016 and June 30, 2015 and, $11.0 million and $7.5 million for the six months ended June 30, 2016 and 2015. Such amounts are included in "Compensation expense" on the condensed consolidated statements of earnings. The amount of unrecognized compensation expense related to unvested time-based restricted stock awards ("TRSAs") and performance-based restricted stock units ("PRSUs") as of June 30, 2016 totaled $51.5 million.
Time-Based Restricted Stock Awards
At June 30, 2016, there were 1,407,486 shares of unvested TRSAs outstanding. The TRSAs generally vest over a service period of three or four years from the date of the grant or immediately upon the death of an employee. Compensation expense related to TRSAs is based on the fair value of the underlying stock on the award date and is recognized over the vesting period using the straight line method.

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

Performance-Based Restricted Stock Units

At June 30, 2016, there were 153,715 shares of unvested PRSUs outstanding. The PRSUs will vest only if performance goals with respect to certain financial metrics are met over a three-year performance period. Compensation expense related to PRSUs is based on the fair value of the underlying stock on the award date and is amortized over the vesting period using the straight-line method unless it is determined that: (1) attainment of the financial metrics is less than probable, in which case a portion of the amortization is suspended, or (2) attainment of the financial metrics is improbable, in which case a portion of the previously recognized amortization is reversed and also suspended.

Note 12. Recently Issued Accounting Standards

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, "Revenue Recognition (Topic 606): Revenue from Contracts with Customers." ASU 2014-09 requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU 2014-09 will replace most existing revenue recognition guidance in GAAP when it becomes effective. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU 2014-09 will have on its financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting. In August 2015, the FASB issued ASU 2015-14, "Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date," which deferred the effective date of ASU 2014-09 to annual and interim periods beginning after December 15, 2017. Earlier application is permitted only for annual and interim periods beginning after December 31, 2016.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities," which will significantly change the income statement impact of equity investments and the recognition of changes in fair value of financial liabilities when the fair value option is elected. For equity investments with readily determinable fair values, entities must measure these investments at fair value and recognize changes in fair value in net income. For equity investments without readily determinable fair values, entities have the option to either measure these investments at fair value or at cost, adjusted for changes in observable prices, minus impairment. Changes in measurement under either alternative must be recognized in net income. ASU 2016-01 will be effective for annual and interim periods beginning after December 15, 2017. The Company is evaluating the effect that ASU 2016-01 will have on its financial statements and related disclosures.

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

In March 2016, the FASB issued ASU 2016-07, Simplifying the Transition to the Equity Method of Accounting, which eliminates the requirement for an investor to retroactively apply the equity method when its increase in ownership interest (or degree of influence) in an investee triggers equity method accounting. ASU 2016-07 is effective for interim and annual periods in fiscal years beginning after December 15, 2016. The amendments should be applied prospectively upon their effective date to increases in the level of ownership interest or degree of influence that result in the adoption of the equity method. Earlier application is permitted. ASU 2016-07 does not require additional disclosures at transition. The Company does not expect the effect of ASU 2016-06 to have a material impact on its financial statements and related disclosures.

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

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting, which is intended to improve the accounting for share-based payment transactions as part of the FASB's simplification initiative. ASU 2016-09 changes 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. ASU 2016-09 is effective for fiscal years beginning after December 15, 2016, and interim periods within those years. Early adoption is permitted in any interim or annual period provided that the entire ASU is adopted. If an entity early adopts the amendments after the first interim period, the adoption date is as of the beginning of the year for the issues adopted by the cumulative-effect and prospective methods and any adjustments to previously reported interim periods of that fiscal year should be included in the year-to-date results. If those previously reported interim results appear in any future filings, they are reported on the revised basis. The Company does not expect the effect of ASU 2016-09 to have a material impact on its financial statements and related disclosures in the period of adoption. In subsequent periods, 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 June 2016, the FASB issued ASU 2016-13, Measurement of Credit Losses on Financial Instruments, which significantly changes the way entities recognize impairment of many financial assets by requiring immediate recognition of estimated credit losses expected to occur over their remaining life. ASU 2016-13 is effective for interim and annual periods in fiscal years beginning after December 15, 2019. The Company is evaluating the effect that ASU 2016-13 will have on its financial statements and related disclosures.

Note 13. Subsequent Events

Common Stock Dividends

On August 1, 2016, the Company announced that the Board of Directors had declared a quarterly cash dividend of $0.50 per common share. The cash dividend is payable on August 31, 2016 to stockholders of record at the close of business on August 15, 2016.

We have evaluated events that have occurred subsequent to June 30, 2016 and have concluded there are no other subsequent events that would require recognition in the accompanying consolidated financial statements.

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

Forward-Looking Information

This Form 10-Q contains certain “forward-looking statements” about the Company and its subsidiaries within the meaning of the Private Securities Litigation Reform Act of 1995, including certain plans, strategies, goals, and projections and including statements about our expectations regarding our acquisition of Square 1, intentions to expand the Bank’s lending business; net interest income, net interest margin, allowance for loan and lease losses, deposit growth, loan and lease portfolio growth and production, liquidity, profitability, goodwill, interest rate risk management, realization of deferred tax assets, and effective tax rates. All statements contained in this Form 10-Q that are not clearly historical in nature are forward-looking, and the words “anticipate,” “assume,” “intend,” “believe,” “forecast,” “expect,” “estimate,” “plan,” “continue,” “will,” “should,” “look forward” and similar expressions are generally intended to ide forward-looking statements. All forward-looking statements (including statements regarding future financial and operating results and future transactions and their results) involve risks, uncertainties and contingencies, many of which are beyond our control, which may cause actual results, performance, or achievements to differ materially from anticipated results, performance or achievements. Actual results could differ materially from those contained or implied by such forward-looking statements for a variety of factors, including without limitation:

- the Company’s ability to complete future acquisitions and to successfully integrate such acquired entities or achieve expected benefits, synergies and/or operating efficiencies within expected time frames;
- business disruption following the Square 1 acquisition;
- changes in the Company’s stock price;
- the reaction to the Square 1 acquisition of the companies’ customers, employees and counterparties;
- change in interest rates and lending spreads;
- unfavorable changes in asset mix;
- compression of the net interest margin due to changes in our loan products or spreads on newly originated loans and leases;
- a change in the interest rate environment reduces net interest margins;
- credit quality deterioration or pronounced and sustained reduction in market values or other economic factors which adversely affect our borrowers’ ability to repay loans and leases;
- changes in economic or competitive market conditions could negatively impact investment or lending opportunities or product pricing and services;
- reduced demand for our services due to strategic or regulatory reasons;
- our inability to grow deposits and access wholesale funding sources;
- legislative or regulatory requirements or changes could negatively impact our business, including an increase to capital requirements;
- loan repayments higher than expected;
- higher than anticipated delinquencies, charge-offs, and loan and lease losses;
- the impact of asset/liability repricing risk and liquidity risk on net interest margin and the value of investments;
- increased costs to manage and sell foreclosed assets;
- higher than anticipated increases in operating expenses;
- lower than expected dividends paid from the Bank to the holding company;
- a deterioration in the overall macroeconomic conditions or the state of the banking industry that could warrant further analysis of the carrying value of goodwill and could result in an adjustment to its carrying value resulting in a noncash charge to net income;
- the success and timing of other business strategies and asset sales;
- changes in the relationship between yields on investment securities and loans repaid and yields on assets reinvested;
- changes in the forward yield curve;
- changes in tax laws or regulations affecting our business;
- our inability to generate sufficient earnings;
- tax planning or disallowance of tax benefits by tax authorities; and

- other risk factors described in our audited consolidated financial statements, and other risk factors described in this Form 10-Q and documents filed by PacWest with the U.S. Securities and Exchange Commission ("SEC").

All forward-looking statements included in this Form 10-Q are based on information available at the time the statement is made. We are under no obligation to (and expressly disclaim any such obligation to) update or alter our forward-looking statements, whether as a result of new information, future events or otherwise except as required by law.

Overview

PacWest Bancorp is a bank holding company registered under the Bank Holding Company Act of 1956, as amended. Our principal business is to serve as the holding company for our Los Angeles based wholly-owned banking subsidiary, Pacific Western Bank. References to "Pacific Western" or the "Bank" refer to Pacific Western Bank together with its wholly-owned subsidiaries. References to "we," "us," "our," 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 79 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. The Bank provides commercial banking services, including real estate, construction, and commercial loans and leases, and comprehensive deposit and treasury management services to small and middle-market businesses. Pacific Western offers additional products and services through its CapitalSource and Square 1 Bank divisions. CapitalSource provides cash flow, asset-based, equipment and real estate loans and treasury management services to established middle-market businesses on a national basis. Square 1 Bank offers a comprehensive suite of financial services focused on entrepreneurial businesses and their venture capital and private equity investors, with offices located in key innovation hubs across the United States. In addition, we provide investment advisory and asset management services to select clients through Square 1 Asset Management, Inc., a wholly-owned subsidiary of the Bank and a SEC-registered investment adviser.

In managing the top line of our business, we focus on loan growth, loan yield, deposit cost, and net interest margin. Net interest income, on a year-to-date basis in 2016, accounted for 89.4% of our net revenues (net interest income plus noninterest income).

At June 30, 2016, we had total assets of $21.1 billion, including loans and leases, net of deferred fees, of $14.6 billion compared to $21.3 billion of total assets and $14.5 billion of loans and leases, net of deferred fees, at December 31, 2015. Total assets decreased $141.4 million during the six months ended June 30, 2016 due primarily to a decrease of $211.9 million in securities available-for-sale due to sales from ongoing portfolio management activities and a decrease of $102.0 million in the deferred tax asset, offset partially by an increase of $163.2 million in loans and leases, net of deferred fees, due mainly to new production.

At June 30, 2016, we had total liabilities of $16.6 billion, including total deposits of $15.1 billion and borrowings of $918.2 million compared to $16.9 billion of total liabilities, including $15.7 billion of total deposits and $621.9 million of borrowings at December 31, 2015. The $257.0 million decrease in total liabilities since year-end is due to a $1.4 billion decrease in higher-cost time deposits, offset partially by an $840.4 million increase in lower-cost core deposits and a $296.3 million increase in borrowings, primarily overnight FHLB advances. At June 30, 2016, core deposits totaled $11.4 billion or 75% of total deposits and time deposits totaled $2.8 billion or 18% of total deposits.

On March 31, 2016, we sold our Pacific Western Equipment Finance leasing unit in Midvale, Utah, including approximately $139 million of outstanding lease balances.

Square 1 Financial, Inc. Acquisition

PacWest acquired Square 1 Financial, Inc. ("Square 1") on October 6, 2015. As part of the acquisition, Square 1 Bank, a wholly-owned subsidiary of Square 1, merged with and into Pacific Western. At closing, we formed the Square 1 Bank Division of the Bank which focuses on providing a comprehensive suite of financial services to entrepreneurial businesses and their venture capital and private equity investors nationwide. We completed this acquisition to increase our core deposits, expand our lending products across the nation, and increase our presence in the technology and life-sciences credit markets. We recorded the assets and liabilities, both tangible and intangible, at their estimated fair values as of the acquisition date and increased total assets by approximately $4.6 billion. The application of the acquisition method of accounting resulted in goodwill of $447.9 million. For further information, see Note 2. Acquisitions, in the Notes to Condensed Consolidated Financial Statements (Unaudited) contained in "Item 1.

Condensed Consolidated Financial Statements (Unaudited)."

Key Performance Indicators

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

The Level of Net Interest Income

Net interest income is the excess of interest earned on our interest earning assets over the interest paid on our interest bearing liabilities. Net interest margin is net interest income (annualized) expressed as a percentage of average interest earning assets. Tax equivalent net interest income is net interest income increased by an adjustment for tax-exempt income on certain municipal securities for which we have utilized a 35% federal statutory tax rate. Tax equivalent net interest margin is calculated as tax equivalent net interest income divided by average interest-earning assets. A sustained low interest rate environment combined with low loan growth and high levels of marketplace liquidity may reduce both our net interest income and net interest margin going forward.

Our primary interest earning assets are loans and investment securities, and our primary interest bearing liabilities are deposits. Contributing to our high net interest margin is our high yield on loans and leases and competitive cost of deposits. While our deposit balances will fluctuate depending on deposit holders' perceptions of alternative yields available in the market, we seek to minimize the impact of these variances by attracting a high percentage of noninterest bearing deposits. As a result of the CapitalSource Inc. merger, $5.3 billion of time deposits were assumed. Our goal is to continue replacing these higher-costing time deposits with core deposits. The acquisition of Square 1 accelerated this shift in deposit mix as nearly all of the $3.8 billion of acquired deposits were core deposits. The Square 1 acquisition increased our on-balance sheet liquidity and enables us to maintain adequate liquidity as we manage down the level of higher-cost time deposits.

Loan and Lease Growth

We actively seek new lending opportunities under an array of commercial real estate loans and commercial and industrial ("C&I") lending products. Our targeted collateral for our real estate loan offerings includes healthcare properties, office properties, industrial properties, multifamily properties, hospitality properties, and retail properties. Our C&I loan products include equipment-secured loans and leases, asset-secured loans, loans to finance companies, and cash flow loans (which are loans secured by borrower future cash flows and borrower enterprise value) and venture capital-backed loans to entrepreneurial companies to support early-stage operations. Our loan origination process emphasizes credit quality. We foster lender relationships with borrowers that have proven loan repayment performance. Our commitment sizes vary by loan product and can range up to $100 million for certain asset-based lending arrangements and multi-property real estate loans. We price loans to preserve our interest spread and maintain our net interest margin. Achieving net loan growth is subject to many factors, including maintaining strict credit standards, competition from other lenders, and successful borrowers that opt to prepay loans.

The Magnitude of Credit Losses

We emphasize credit quality in originating and monitoring our loans and leases, and we measure our success by the levels of our classified and nonperforming assets and net charge offs. We maintain an allowance for credit losses on loans and leases, which is the sum of our allowance for loan and lease losses and our reserve for unfunded loan commitments. Provisions for credit losses are charged to operations as and when needed for both on and off balance sheet credit exposure. Loans and leases which are deemed uncollectable are charged off and deducted from the allowance for loan and lease losses. Recoveries on loans and leases previously charged off are added to the allowance for loan and lease losses. The provision for credit losses on the loan and lease portfolio is based on our allowance methodology which considers various credit performance measures such as historical and current net charge offs, the levels and trends of nonaccrual and classified loans and leases, the migration of loans and leases into various risk classifications, and the overall level of outstanding loans and leases. For originated and acquired non impaired loans, a provision for credit losses may be recorded to reflect credit deterioration after the origination date or after the acquisition date, respectively. For purchased credit impaired ("PCI") loans, a provision for credit losses may be recorded to reflect decreases in expected cash flows on such loans compared to those previously estimated.

We regularly review our loans and leases to determine whether there has been any deterioration in credit quality stemming from borrower operations or changes in collateral value or other factors which may affect collectability of our loans and leases. Changes in economic conditions, such as the rate of economic growth, the rate of inflation, the unemployment rate, increases in the general level of interest rates, declines in real estate values, changes in commodity prices (such as crude oil), and adverse conditions in borrowers' businesses, could negatively impact our borrowers and cause us to adversely classify loans and leases. An increase in classified loans and leases generally results in increased provisions for credit losses and an increased allowance for credit losses. Any deterioration in the commercial real estate market may lead to increased provisions for credit losses because of our concentration in commercial real estate loans.

The Level of Noninterest Expense

Our noninterest expense includes fixed and controllable overhead, the major components of which are compensation, occupancy, data processing, and other professional services. It also includes costs that tend to vary based on the volume of activity, such as loan and lease production and the number and complexity of foreclosed assets. We measure success in controlling both fixed and variable costs through monitoring of the efficiency ratio. We calculate the efficiency ratio by dividing noninterest expense (less intangible asset amortization, net foreclosed assets expense (income), and acquisition, integration and reorganization costs) by net revenues (the sum of tax equivalent net interest income plus noninterest income, less gain (loss) on sale of securities).

The following table presents the calculation of our efficiency ratio for the periods indicated:

Efficiency Ratio:	Three Months Ended June 30, 2016	March 31, 2016	June 30, 2015	Six Months Ended June 30, 2016	2015
	(Dollars in thousands)				
Noninterest expense	$110,081	$110,688	$85,276	$220,769	$169,636
Less: Intangible asset amortization	4,371	4,746	1,502	9,117	3,003
Foreclosed assets income, net	(3)	(561)	(2,340)	(564)	(2,004)
Acquisition, integration, and reorganization costs	—	200	900	200	2,900
Noninterest expense used for efficiency ratio	$105,713	$106,303	$85,214	$212,016	$165,737
Net interest income (tax equivalent)	$238,667	$249,540	$204,721	$488,207	$405,581
Noninterest income	22,121	34,539	19,623	56,660	40,494
Net revenues	260,788	284,079	224,344	544,867	446,075
Less: Gain (loss) on sale of securities	478	8,110	(186)	8,588	3,089
Net revenues used for efficiency ratio	$260,310	$275,969	$224,530	$536,279	$442,986
Efficiency ratio	40.6 %	38.5 %	38.0 %	39.5 %	37.4 %

Critical Accounting Policies

The Company's accounting policies are fundamental to understanding management's discussion and analysis of results of operations and financial condition. The Company has identified several policies as being critical because they require management to make particularly difficult, subjective and/or complex judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts would be reported under different conditions or using different assumptions. These policies relate to the allowance for credit losses, the fair value estimates of assets acquired and liabilities assumed in acquisitions, the carrying values of intangible assets, and the realization of deferred income tax assets. For further information, refer to our Annual Report on Form 10 K for the year ended December 31, 2015.

Non-GAAP Measurements

The Company uses certain non GAAP financial measures to provide meaningful supplemental information regarding the Company's operational performance and to enhance investors' overall understanding of such financial performance. The non-GAAP measures used in this Form 10-Q include the following:

- Return on average tangible equity, tangible common equity amounts and ratios, and tangible book value per share: Given that the use of these measures is prevalent among banking regulators, investors and analysts, we disclose them in addition to return on average assets, return on average equity, equity-to-assets ratio, and book value per share, respectively.
- Core NIM and core loan and lease yield: The NIM and loan and lease yield are impacted by volatility in accelerated accretion of acquisition discounts due to the prepayment of acquired loans and leases. We disclose the core NIM and loan and lease yield to provide an indication of what these measures would be without the effects of accelerated accretion as this indicates a "normalized" measure and a more accurate indicator of future performance. See "- Results of Operations - Net Interest Income" for a reconciliation of these non-GAAP measurements to the GAAP measurements for the periods presented.
- Adjusted allowance for credit losses to loans and leases: As the allowance for credit losses takes into consideration credit deterioration on acquired loans and leases only after the purchase date and an estimate of credit losses is included in their initial fair values, we disclose two adjusted allowance for credit losses to loans and leases ratios in addition to the allowance for credit losses to loans and leases. The first adjusted allowance for credit losses to loans and leases excludes the allowance related to acquired loans and leases from the numerator and the acquired loans and leases from the denominator. The second ratio excludes the remaining unamortized purchase discount from both the numerator and the denominator. See "- Balance Sheet Analysis - Allowance for Credit Losses on Non-PCI Loans and Leases" for a reconciliation of these non-GAAP measurements to the GAAP measurement as of the dates presented.

The methodology for determining return on average tangible equity, tangible common equity amounts and ratios, tangible book value per share, core NIM, core loan and lease yield, and adjusted allowance for credit losses to loans and leases may differ among companies.

The following tables present performance amounts and ratios in accordance with GAAP and a reconciliation of the GAAP financial measurements to the non-GAAP financial measurements as of and for the periods indicated:

	Three Months Ended			Six Months Ended	
	June 30,	March 31,	June 30,	June 30,	
Return on Average Tangible Equity	2016	2016	2015	2016	2015
	(Dollars in thousands)				
Net earnings	$82,168	$90,456	$85,083	$172,624	$158,162
Average stockholders' equity	$4,483,593	$4,438,602	$3,548,748	$4,461,097	$3,541,088
Less: Average intangible assets	2,222,007	2,227,520	1,743,340	2,224,764	1,740,407
Average tangible common equity	$2,261,586	$2,211,082	$1,805,408	$2,236,333	$1,800,681
Return on average equity (1)	7.37 %	8.20 %	9.62 %	7.78 %	9.01 %
Return on average tangible equity (2)	14.61 %	16.45 %	18.90 %	15.52 %	17.71 %

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

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

Tangible Common Equity:	June 30, 2016		December 31, 2015	
	(Dollars in thousands, except per share data)			
PacWest Bancorp Consolidated:				
Stockholders’ equity	$4,513,304		$4,397,691	
Less: Intangible assets	2,219,557		2,229,511	
Tangible common equity	$2,293,747		$2,168,180	
Total assets	$21,147,139		$21,288,490	
Less: Intangible assets	2,219,557		2,229,511	
Tangible assets	$18,927,582		$19,058,979	
Equity to assets ratio	21.34	%	20.66	%
Tangible common equity ratio[1]	12.12	%	11.38	%
Book value per share	$37.05		$36.22	
Tangible book value per share	$18.83		$17.86	
Shares outstanding	121,819,849		121,413,727	
Pacific Western Bank:				
Stockholder's equity	$4,390,928		$4,276,279	
Less: Intangible assets	2,219,557		2,229,511	
Tangible common equity	$2,171,371		$2,046,768	
Total assets	$21,084,950		$21,180,689	
Less: Intangible assets	2,219,557		2,229,511	
Tangible assets	$18,865,393		$18,951,178	
Equity to assets ratio	20.82	%	20.19	%
Tangible common equity ratio[1]	11.51	%	10.80	%

(1) Tangible common equity divided by tangible assets.

Results of Operations

Acquisitions Impact Earnings Performance

The comparability of financial information is affected by our acquisitions. We completed the Square 1 Financial, Inc. acquisition on October 6, 2015, adding assets of $4.6 billion. This transaction has been accounted for using the acquisition method of accounting and, accordingly, the related operating results have been included in the consolidated financial statements from the acquisition date.

Earnings Performance

The following table presents profitability metrics for the periods indicated:

	Three Months Ended			Six Months Ended	
	June 30,	March 31,	June 30,	June 30,	
	2016	2016	2015	2016	2015
Profitability Measures:					
Diluted earnings per share	$0.68	$0.74	$0.83	$1.42	$1.54
Annualized return on:					
Average assets	1.57 %	1.72 %	2.07 %	1.65 %	1.95 %
Average tangible equity (1)(2)	14.61 %	16.45 %	18.90 %	15.52 %	17.71 %
Net interest margin (tax equivalent)	5.33 %	5.53 %	5.89 %	5.43 %	5.92 %
Core net interest margin (tax equivalent) (2)(3)	5.11 %	5.10 %	5.33 %	5.10 %	5.38 %
Efficiency ratio	40.6 %	38.5 %	38.0 %	39.5 %	37.4 %

(1) Calculation reduces average equity by average intangible assets.
(2) See "Non-GAAP Measurements."
(3) Excludes accelerated accretion of acquisition discounts from early payoffs of acquired loans.

Second Quarter of 2016 Compared to First Quarter of 2016

Net earnings were $82.2 million, or $0.68 per diluted share for the second quarter of 2016, compared to $90.5 million, or $0.74 per diluted share, for the first quarter of 2016. The quarter over quarter decrease of $8.3 million in net earnings was due to lower net interest income of $10.8 million and lower noninterest income of $12.4 million, offset by a lower provision for credit losses of $6.2 million and lower noninterest expense of $0.6 million. The decrease in net interest income was attributable to lower accretion on acquired loans, offset by lower interest expense. The decrease in noninterest income was due to lower gain on sales of securities of $7.6 million and higher FDIC loss sharing expense of $4.1 million due mainly to a $6.0 million charge incurred on the early termination of all of our loss sharing agreements with the FDIC in the second quarter of 2016.

Second Quarter of 2016 Compared to Second Quarter of 2015

Net earnings for the second quarter of 2016 were $82.2 million, or $0.68 per diluted share, compared to net earnings for the second quarter of 2015 of $85.1 million, or $0.83 per diluted share. The $2.9 million decrease in net earnings was due to higher noninterest expense of $24.8 million and a higher provision for credit losses of $7.4 million, offset by higher net interest income of $31.2 million and higher noninterest income of $2.5 million. The increase in noninterest expense was due primarily to including the operations of Square 1 subsequent to the October 6, 2015 acquisition date and lower foreclosed assets income of $2.3 million. The increase in net interest income was attributable to higher average interest-earning asset balances and lower interest expense. The increase in noninterest income was due mainly to higher other commissions and fees, higher leased equipment income, and higher foreign currency translation net gains, offset by lower dividends and realized gains on equity investments.

Six Months Ended June 30, 2016 Compared to Six Months Ended June 30, 2015

Net earnings for the six months ended June 30, 2016 were $172.6 million, or $1.42 per diluted share, compared to net earnings for the six months ended June 30, 2015 of $158.2 million, or $1.54 per diluted share. The $14.5 million increase in net earnings was due to higher net interest income of $76.7 million and higher noninterest income of $16.2 million, offset by higher noninterest expense of $51.1 million and a higher provision for credit losses of $11.1 million. The increase in net interest income was attributable to higher average interest-earning asset balances and lower interest expense. The increase in noninterest income was due mainly to higher other commissions and fees, higher leased equipment income, higher gain on sale of securities, higher service charges on deposit accounts, and higher other income, offset by lower dividends and realized gains on equity investments. The increase in noninterest expense was due primarily to including the operations of Square 1 subsequent to the October 6, 2015 acquisition date, higher loan expense, and higher foreclosed assets expense, offset by lower acquisition, integration and reorganization costs of $2.7 million.

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Net Interest Income

Net interest income, which is our principal source of revenue, represents the difference between interest earned on interest earning assets and interest paid on interest bearing liabilities. Net interest margin is net interest income (annualized) expressed as a percentage of average interest earning assets. Net interest income is affected by changes in both interest rates and the volume of average interest earning assets and interest bearing liabilities.

The following table presents, for the periods indicated, the distribution of average assets, liabilities and stockholders' equity, as well as interest income and yields earned on average interest earning assets and interest expense and rates paid on average interest bearing liabilities presented on a tax equivalent basis:

	Three Months Ended								
	June 30, 2016			March 31, 2016			June 30, 2015		
	Average Balance	Interest Income/ Expense	Yields and Rates	Average Balance	Interest Income/ Expense	Yields and Rates	Average Balance	Interest Income/ Expense	Yields and Rates
	(Dollars in thousands)								
ASSETS:									
PCI loans	$147,270	$8,484	23.17%	$167,626	$20,072	48.16%	$228,217	$7,894	13.87%
Non-PCI loans and leases	14,321,320	215,842	6.06 %	14,303,539	216,303	6.08 %	11,879,799	195,887	6.61 %
Total loans and leases (1)	14,468,590	224,326	6.24 %	14,471,165	236,375	6.57 %	12,108,016	203,781	6.75 %
Investment securities (2)	3,288,819	27,330	3.34 %	3,460,293	27,493	3.20 %	1,672,590	16,739	4.01 %
Deposits in financial institutions	245,666	308	0.50 %	230,293	308	0.54 %	161,683	104	0.26 %
Total interest earning assets (2)	18,003,075	251,964	5.63 %	18,161,751	264,176	5.85 %	13,942,289	220,624	6.35 %
Other assets	2,996,867			3,036,843			2,521,022		
Total assets	$20,999,942			$21,198,594			$16,463,311		
LIABILITIES AND STOCKHOLDERS' EQUITY:									
Interest checking deposits	$1,024,763	501	0.20 %	$926,256	383	0.17 %	$741,966	202	0.11 %
Money market deposits	4,321,533	2,886	0.27 %	3,848,753	2,415	0.25 %	2,065,190	1,088	0.21 %
Savings deposits	766,309	412	0.22 %	753,371	444	0.24 %	740,878	555	0.30 %
Time deposits	3,086,492	4,024	0.52 %	3,860,272	5,831	0.61 %	5,559,903	9,388	0.68 %
Total interest bearing deposits	9,199,097	7,823	0.34 %	9,388,652	9,073	0.39 %	9,107,937	11,233	0.49 %
Borrowings	300,428	352	0.47 %	494,725	581	0.47 %	81,164	88	0.43 %
Subordinated debentures	439,081	5,122	4.69 %	436,535	4,982	4.59 %	432,656	4,582	4.25 %
Total interest bearing liabilities	9,938,606	13,297	0.54 %	10,319,912	14,636	0.57 %	9,621,757	15,903	0.66 %
Noninterest bearing demand deposits	6,437,720			6,273,249			3,157,129		
Other liabilities	140,023			166,831			135,677		
Total liabilities	16,516,349			16,759,992			12,914,563		
Stockholders' equity	4,483,593			4,438,602			3,548,748		
Total liabilities and stockholders' equity	$20,999,942			$21,198,594			$16,463,311		

Net interest income (tax equivalent) [2]		$238,667				$249,540				$204,721		
Net interest rate spread			5.09	%			5.28	%			5.69	%
Net interest margin			5.33	%			5.53	%			5.89	%
Total deposits [3]	$15,636,817	$7,823	0.20	%	$15,661,901	$9,073	0.23	%	$12,265,066	$11,233	0.37	%
Funding sources [4]	$16,376,326	$13,297	0.33	%	$16,593,161	$14,636	0.35	%	$12,778,886	$15,903	0.50	%

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

(2) Includes tax-equivalent adjustments of $4.9 million, $4.9 million, and $2.2 million for the three months ended June 30, 2016, March 31, 2016, and June 30, 2015, respectively, related to tax-exempt income on municipal securities. The federal statutory tax rate utilized was 35% for the periods.

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

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

	Six Months Ended June 30, 2016			2015		
	Average Balance	Interest Income/ Expense	Yields and Rates	Average Balance	Interest Income/ Expense	Yields and Rates
	(Dollars in thousands)					
ASSETS:						
PCI loans	$157,448	$28,556	36.47%	$244,343	$18,059	14.90%
Non-PCI loans and leases	14,312,429	432,145	6.07 %	11,837,651	387,819	6.61 %
Total loans and leases [1]	14,469,877	460,701	6.40 %	12,081,994	405,878	6.77 %
Investment securities [2]	3,374,556	54,823	3.27 %	1,643,169	30,719	3.77 %
Deposits in financial institutions	237,980	616	0.52 %	97,578	126	0.26 %
Total interest earning assets [2]	18,082,413	516,140	5.74 %	13,822,741	436,723	6.37 %
Other assets	3,016,855			2,557,695		
Total assets	$21,099,268			$16,380,436		
LIABILITIES AND STOCKHOLDERS' EQUITY:						
Interest checking deposits	$975,509	885	0.18 %	$734,399	396	0.11 %
Money market deposits	4,085,143	5,301	0.26 %	1,951,275	2,033	0.21 %
Savings deposits	759,840	857	0.23 %	748,685	1,126	0.30 %
Time deposits	3,473,382	9,853	0.57 %	5,521,110	18,157	0.66 %
Total interest bearing deposits	9,293,874	16,896	0.37 %	8,955,469	21,712	0.49 %
Borrowings	397,576	933	0.47 %	251,665	323	0.26 %
Subordinated debentures	437,808	10,104	4.64 %	432,630	9,107	4.24 %
Total interest bearing liabilities	10,129,258	27,933	0.55 %	9,639,764	31,142	0.65 %
Noninterest bearing demand deposits	6,355,484			3,053,997		
Other liabilities	153,429			145,587		
Total liabilities	16,638,171			12,839,348		
Stockholders' equity	4,461,097			3,541,088		
Total liabilities and stockholders' equity	$21,099,268			$16,380,436		
Net interest income (tax equivalent) [2]		$488,207			$405,581	
Net interest rate spread			5.19 %			5.72 %
Net interest margin			5.43 %			5.92 %
Total deposits [3]	$15,649,358	$16,896	0.22 %	$12,009,466	$21,712	0.36 %
Funding sources [4]	$16,484,742	$27,933	0.34 %	$12,693,761	$31,142	0.49 %

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

(2) Includes tax-equivalent adjustments of $9.9 million and $4.0 million for the six months ended June 30, 2016, and June 30, 2015, respectively, related to tax-exempt income on municipal securities. The federal statutory tax rate utilized was 35% for the periods.

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

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

The tax equivalent net interest margin ("NIM") and loan and lease yields are impacted by accelerated accretion of acquisition discounts resulting from early payoffs of acquired loans, which causes volatility from period to period. The effects of this item on the NIM and loan and lease yield are shown in the following table for the periods indicated:

	Three Months Ended			Six Months Ended	
	June 30, 2016	March 31, 2016	June 30, 2015	June 30, 2016	2015
NIM:					
Reported	5.33 %	5.53 %	5.89 %	5.43 %	5.92 %
Less: Accelerated accretion of acquisition discounts from early payoffs of acquired loans	(0.22)%	(0.43)%	(0.56)%	(0.33)%	(0.54)%
Core	5.11 %	5.10 %	5.33 %	5.10 %	5.38 %
Loan and Lease Yield:					
Reported	6.24 %	6.57 %	6.75 %	6.40 %	6.77 %
Less: Accelerated accretion of acquisition discounts from early payoffs of acquired loans	(0.27)%	(0.54)%	(0.64)%	(0.41)%	(0.61)%
Core	5.97 %	6.03 %	6.11 %	5.99 %	6.16 %

The following table presents the impact on tax equivalent net interest income and NIM from all purchase accounting items as indicated in the table below for the periods indicated:

	Three Months Ended				
	June 30, 2016	March 31, 2016	December 31, 2015	September 30, 2015	June 30, 2015
	(Dollars in thousands)				
Impact on Net Interest Income:					
Net interest income (tax equivalent)	$238,667	$249,540	$233,959	$195,274	$204,721
Less:					
Accelerated accretion of acquisition discounts from early payoffs of acquired loans	(9,780)	(19,465)	(5,511)	(9,659)	(19,447)
Remaining accretion of Non-PCI loan acquisition discounts	(6,407)	(8,403)	(10,553)	(7,485)	(8,575)
Total accretion of loan acquisition discounts	(16,187)	(27,868)	(16,064)	(17,144)	(28,022)
Amortization of TruPS discount	1,393	1,395	1,397	1,399	1,400
Accretion of time deposits premium	(172)	(270)	(384)	(576)	(799)
Total purchase accounting adjustments	(14,966)	(26,743)	(15,051)	(16,321)	(27,421)
Net interest income - excluding purchase accounting	$223,701	$222,797	$218,908	$178,953	$177,300
Impact on Net Interest Margin:					
Net interest margin (tax equivalent)	5.33 %	5.53 %	5.22 %	5.46 %	5.89 %
Less:					
Accelerated accretion of acquisition discounts from early payoffs of acquired loans	(0.22)%	(0.43)%	(0.12)%	(0.27)%	(0.56)%
Remaining accretion of Non-PCI loan acquisition discounts	(0.14)%	(0.19)%	(0.24)%	(0.21)%	(0.25)%
Total accretion of loan acquisition discounts	(0.36)%	(0.62)%	(0.36)%	(0.48)%	(0.81)%
Amortization of TruPS discount	0.03 %	0.03 %	0.03 %	0.04 %	0.04 %
Accretion of time deposits premium	— %	(0.01)%	(0.01)%	(0.02)%	(0.02)%
Total purchase accounting adjustments	(0.33)%	(0.60)%	(0.34)%	(0.46)%	(0.79)%

Net interest margin - excluding purchase accounting	5.00	%	4.93	%	4.88	%	5.00	%	5.10	%

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Second Quarter of 2016 Compared to First Quarter of 2016

Net interest income decreased by $10.8 million to $233.8 million for the second quarter of 2016 compared to $244.6 million for the first quarter of 2016 due to lower accretion on acquired loans. The decrease in accretion was related mostly to lower accelerated accretion from the payoff of one PCI loan in the first quarter. The loan and lease yield for the second quarter of 2016 was 6.24% compared to 6.57% for the first quarter of 2016. The decrease in the loan and lease yield was due to the lower accretion on acquired loans and the lower yield on new production compared to the current portfolio yield. Total accretion on acquired loans was $16.2 million in the second quarter of 2016 (45 basis points on the loan and lease yield) compared to $27.9 million in the first quarter of 2016 (77 basis points on the loan and lease yield). Excluding accelerated accretion, the core loan and lease yield was 5.97% in the second quarter compared to 6.03% in the first quarter.

The tax equivalent NIM for the second quarter of 2016 was 5.33% compared to 5.53% for the first quarter of 2016. The decrease in the tax equivalent NIM was due to lower accretion on acquired loans. Total accretion on acquired loans contributed 36 basis points to the NIM in the second quarter of 2016 and 62 basis points in the first quarter of 2016. Excluding accelerated accretion, the core NIM was 5.11% for the second quarter and 5.10% for the first quarter. Tax-exempt interest income contributed 11 points to the tax equivalent NIM for the second quarter of 2016 and 11 basis points for the first quarter of 2016.

The cost of total deposits decreased to 0.20% in the second quarter of 2016 from 0.23% in the first quarter of 2016 due to the increased average balance of noninterest-bearing deposits combined with a lower average cost and balance of time deposits.

Second Quarter of 2016 Compared to Second Quarter of 2015

Net interest income increased by $31.2 million to $233.8 million for the second quarter of 2016 compared to $202.6 million for the second quarter of 2015 due mainly to higher average interest-earning asset balances attributable to the Square 1 acquisition, offset partially by lower yields on average loans and leases and investment securities. The loan and lease yield for the second quarter of 2016 was 6.24% compared to 6.75% for the same quarter of 2015. The decrease in the loan and lease yield was due mainly to yields on newly originated loans being lower than the average portfolio yield and the higher-yielding PCI loan portfolio being a smaller percentage of the entire loan portfolio, offset by the PCI loan yield being higher in the current period. Total accretion on acquired loans was $16.2 million in the second quarter of 2016 (45 basis points on the loan and lease yield) compared to $28.0 million in the second quarter of 2015 (92 basis points on the loan and lease yield).

The tax equivalent NIM for the second quarter of 2016 was 5.33% compared to 5.89% for the same quarter last year. The decrease in the tax equivalent NIM was due mostly to lower yields on new production compared to the average portfolio yield, the lower yield on average investment securities, and the higher-yielding PCI loan portfolio being a smaller percentage of the entire loan portfolio, offset by the PCI loan yield being higher in the current period. Total accretion on acquired loans contributed 36 basis points to the NIM for the second quarter of 2016 compared to 81 basis points for the second quarter of 2015. Tax-exempt interest income contributed 11 basis points to the tax equivalent NIM for the second quarter of 2016 and 6 basis points for the second quarter of 2015.

The cost of total deposits decreased to 0.20% for the second quarter of 2016 from 0.37% for the second quarter of 2015 due mainly to the $3.8 billion of lower-cost core deposits added in the Square 1 acquisition, a lower level of higher-cost time deposits, and a lower average cost of interest-bearing deposits.

Six Months Ended June 30, 2016 Compared to Six Months Ended June 30, 2015

Net interest income increased by $76.7 million to $478.4 million for the six months ended June 30, 2016 compared to $401.6 million for the six months ended June 30, 2015 due mainly to higher average interest-earning asset balances attributable to the Square 1 acquisition, offset partially by lower yields on average loans and leases and investment securities. The loan and lease yield for the first six months of 2016 was 6.40% compared to 6.77% for the same period in 2015. The decrease in the loan and lease yield was due mainly to yields on new production being lower than the average portfolio yield and the higher-yielding PCI loan portfolio being a smaller percentage of the entire loan portfolio, offset by the PCI loan yield being higher in the current period. Total accretion on acquired loans was $44.1 million during the six months ended June 30, 2016 (62 basis points on the loan and lease yield) compared to $56.5 million during the six months ended June 30, 2015 (94 basis points on the loan and lease yield).

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The tax equivalent NIM for the first six months of 2016 was 5.43% compared to 5.92% for the same period last year. The decrease in the tax equivalent NIM was due mostly to lower yields on new production compared to the average portfolio yield, the lower yield on average investment securities, and the higher-yielding PCI loan portfolio being a smaller percentage of the entire loan portfolio, offset by the PCI loan yield being higher in the current period. Total accretion on acquired loans contributed 49 basis points to the NIM for the six months ended June 30, 2016 compared to 83 basis points for the six months ended June 30, 2015. Tax-exempt interest income contributed 11 basis points to the tax equivalent NIM for the first six months of 2016 and 6 basis points for the same period last year.

The cost of total deposits decreased to 0.22% for the six months ended June 30, 2016 from 0.36% for the six months ended June 30, 2015 due mainly to the $3.8 billion of lower-cost core deposits added in the Square 1 acquisition, a lower level of higher-cost time deposits, and a lower average cost of interest-bearing deposits.

Provision for Credit Losses

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

	Three Months Ended			Six Months Ended	
	June 30, 2016	March 31, 2016	June 30, 2015	June 30, 2016	2015
	(Dollars in thousands)				
Provision For Credit Losses:					
Addition to allowance for Non PCI loans and leases	$11,625	$19,165	$4,000	$30,790	$20,604
Addition to reserve for unfunded loan commitments	375	835	1,000	1,210	1,563
Total provision for Non PCI loans and leases	12,000	20,000	5,000	32,000	22,167
Provision for PCI Loans	1,903	140	1,529	2,043	796
Total provision for credit losses	$13,903	$20,140	$6,529	$34,043	$22,963
Non PCI Credit Quality Metrics:					
Net charge offs (recoveries) on Non-PCI loans and leases	$432	$3,892	$(1,367)	$4,324	$6,013
Annualized net charge offs (recoveries) to average Non-PCI loans and leases	0.01 %	0.11 %	(0.05)%	0.06 %	0.10 %
At period end:					
Allowance for credit losses	149,944	138,376	92,921		
Non PCI nonaccrual loans and leases	127,655	130,418	131,178		
Non PCI classified loans and leases	441,035	384,698	379,988		
Allowance for credit losses to Non PCI loans and leases	1.03 %	0.96 %	0.78 %		
Allowance for credit losses to Non PCI nonaccrual loans and leases	117.5 %	106.1 %	70.8 %		

Provisions for credit losses are charged to earnings for both on and off balance sheet credit exposures. We have a provision for credit losses on our Non PCI loans and leases and a provision for credit losses on our PCI loans. The provision for credit losses on our Non PCI loans and leases is based on our allowance methodology and is an expense, or contra expense, that, in our judgment, is required to maintain an adequate allowance for credit losses. Our allowance methodology uses our actual historical loan and lease charge-off experience on pools of similar loans and leases, considers the current credit risk ratings, giving greater weight to loans with more adverse credit risk ratings, and considers subjective criteria such as current economic trends and forecasts, current commercial real estate values and performance trends, and the loan portfolio credit performance trends. The provision for credit losses on our PCI loans results from decreases or increases in expected cash flows on such loans compared to those previously estimated.

We recorded a provision for credit losses of $13.9 million in the second quarter of 2016 and $20.1 million in the first quarter of 2016 in accordance with our allowance methodology. The provision for the six months ended June 30, 2016 was $34.0 million compared to $23.0 million in the same period last year and increased due to net portfolio growth, portfolio mix and asset quality, including the level of recoveries and specific reserves.

Certain circumstances may lead to increased provisions for credit losses in the future. Examples of such circumstances are net loan and lease and unfunded commitment growth, an increased amount of loan and lease charge-offs, changes in economic conditions, such as the rate of economic growth, the rate of inflation, the unemployment rate, increases in the general level of interest rates, declines in real estate values and adverse conditions in borrowers' businesses. See further discussion in "Balance Sheet Analysis - Allowance for Credit Losses on Non PCI Loans" and "Balance Sheet Analysis - Allowance for Credit Losses on PCI Loans" contained herein.

Noninterest Income

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

	Three Months Ended			Six Months Ended	
	June 30,	March 31,	June 30,	June 30,	
	2016	2016	2015	2016	2015
	(In thousands)				
Noninterest Income:					
Service charges on deposit accounts	$3,633	$3,856	$2,612	$7,489	$5,186
Other commissions and fees	11,073	11,489	7,123	22,562	12,519
Leased equipment income	8,523	8,244	5,375	16,767	10,757
Gain on sale of loans and leases	388	245	163	633	163
Gain (loss) on sale of securities	478	8,110	(186)	8,588	3,089
FDIC loss sharing expense, net	(6,502)	(2,415)	(5,107)	(8,917)	(9,506)
Other income:					
Dividends and realized gains on equity investments	2,185	246	8,169	2,431	11,646
Foreign currency translation net gains (losses)	324	606	(1,377)	930	1,220
Income recognized on early repayment of leases	27	922	1,648	949	2,384
Other	1,992	3,236	1,203	5,228	3,036
Total noninterest income	$22,121	$34,539	$19,623	$56,660	$40,494

Second Quarter of 2016 Compared to First Quarter of 2016

Noninterest income decreased by $12.4 million to $22.1 million for the second quarter of 2016 compared to $34.5 million for the first quarter of 2016 due mostly to a $7.6 million decrease in net gains on sales of securities and a $4.1 million increase in FDIC loss sharing expense. The second quarter of 2016 included minimal sales of securities compared to $335 million of securities sales in the first quarter resulting in the lower net gains. The second quarter included a $6.0 million pre-tax charge related to the early termination of our loss sharing agreements with the FDIC; there is no similar charge in any other quarters presented. In addition, dividends and gains on equity investments increased by $1.9 million and other income decreased by $1.2 million. First quarter other income included a loan syndication fee ($0.9 million), a death benefit received on a BOLI policy ($0.6 million) and a loss on the sale of the Pacific Western Equipment Finance ("PWEF") leasing unit ($0.7 million); there were no similar items in the second quarter.

Second Quarter of 2016 Compared to Second Quarter of 2015

Noninterest income increased by $2.5 million to $22.1 million for the second quarter of 2016 compared to $19.6 million for the second quarter of 2015. The increase was due mostly to higher other commissions and fees of $4.0 million, higher leased equipment income of $3.1 million, higher foreign currency translation net gains of $1.7 million, higher service charges on deposit accounts of $1.0 million, and higher other income of $0.8 million, offset by lower dividends and realized gains on equity investments of $6.0 million, lower income recognized on the early repayment of leases of $1.6 million, and higher FDIC loss sharing expense of $1.4 million. The increase in other commissions and fees included $2.1 million from foreign exchange fees and $0.7 million from credit card fee income. Both revenue streams were gained in the Square 1 acquisition. The increase in service charges on deposits was due primarily to increased deposits as a result of the Square 1 acquisition. The increase in FDIC loss sharing expense was due mainly to the $6.0 million charge related to the early termination of our loss sharing agreements with the FDIC in the second quarter of 2016, offset by lower amortization expense of the FDIC loss sharing asset.

Six Months Ended June 30, 2016 Compared to Six Months Ended June 30, 2015

Noninterest income increased by $16.2 million to $56.7 million for the six months ended June 30, 2016 compared to $40.5 million for the six months ended June 30, 2015. The increase was due mostly to higher other commissions and fees of $10.0 million, higher leased equipment income of $6.0 million, higher gain on sales of securities of $5.5 million, higher service charges on deposit accounts of $2.3 million, and higher other income of $2.2 million, offset by lower dividends and realized gains on equity investments of $9.2 million. The increase in other commissions and fees was comprised mostly of $3.8 million from foreign exchange fees, $1.5 million from credit card fee income, $3.2 million from loan prepayment fees, and $0.8 million from letter of credit fees. The increases in the first two items are due to the Square 1 acquisition. The increase in service charges on deposits was due primarily to increased deposits as a result of the Square 1 acquisition.

Noninterest Expense

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

	Three Months Ended			Six Months Ended	
	June 30, 2016	March 31, 2016	June 30, 2015	June 30, 2016	2015
	(In thousands)				
Noninterest Expense:					
Compensation	$62,174	$61,065	$49,033	$123,239	$96,770
Occupancy	12,193	12,632	10,588	24,825	21,188
Data processing	5,644	5,904	4,402	11,548	8,710
Other professional services	3,223	3,572	3,332	6,795	6,553
Insurance and assessments	4,951	4,965	4,716	9,916	7,741
Intangible asset amortization	4,371	4,746	1,502	9,117	3,003
Leased equipment depreciation	5,286	5,024	3,103	10,310	6,206
Foreclosed assets income, net	(3)	(561)	(2,340)	(564)	(2,004)
Acquisition, integration and reorganization costs	—	200	900	200	2,900
Other expense:					
Loan expense	2,323	2,155	1,486	4,478	1,825
Other	9,919	10,986	8,554	20,905	16,744
Total noninterest expense	$110,081	$110,688	$85,276	$220,769	$169,636

The following table presents the components of foreclosed assets (income) expense, net for the periods indicated:

	Three Months Ended			Six Months Ended	
	June 30, 2016	March 31, 2016	June 30, 2015	June 30, 2016	2015
	(In thousands)				
Foreclosed Assets (Income) Expense:					
Provision for losses	$—	$—	$282	$—	$406
Operating (income) expense	27	(57)	(2,642)	(30)	(2,536)
(Gain) loss on sale	(30)	(504)	20	(534)	126
Total foreclosed assets (income) expense, net	$(3)	$(561)	$(2,340)	$(564)	$(2,004)

Second Quarter of 2016 Compared to First Quarter of 2016

Noninterest expense decreased by $0.6 million to $110.1 million for the second quarter of 2016 compared to $110.7 million for the first quarter of 2016. Noninterest expense decreased in most expense categories in the second quarter due partly to the sale of the PWEF leasing unit at the end of the first quarter. Compensation expense increased $1.1 million due mostly to higher stock-based compensation and incentive expense offset by lower payroll tax expense. Foreclosed assets income is lower by $0.6 million due to lower gains on foreclosed asset sales compared to the prior quarter.

Second Quarter of 2016 Compared to Second Quarter of 2015

Noninterest expense increased by $24.8 million to $110.1 million for the second quarter of 2016 compared to $85.3 million for the second quarter of 2015. The increase was due primarily to including the operations of Square 1 subsequent to its October 6, 2015 acquisition date and lower foreclosed assets income of $2.3 million. Foreclosed assets income decreased in the second quarter of 2016 because we had fewer foreclosed properties generating income than in the prior period.

Six Months Ended June 30, 2016 Compared to Six Months Ended June 30, 2015

Noninterest expense increased by $51.1 million to $220.8 million for the six months ended June 30, 2016 compared to $169.6 million for the six months ended June 30, 2015. The increase was due primarily to including the operations of Square 1 subsequent to its October 6, 2015 acquisition date and higher loan-related expense of $2.7 million, offset by lower acquisition, integration and reorganization costs of $2.7 million. Loan-related expense increased due to lower recoveries of legal costs; the first six months of 2015 included a $1.7 million recovery of legal costs on a single matter.

Income Taxes

The effective tax rate for the second quarter of 2016 was 37.7% compared to 39.0% for the first quarter of 2016 and 34.7% for the second quarter of 2015. The expected effective tax rate for the calendar year 2016 remains around 39%. The Company's blended statutory tax rate for federal and state is 41%.

Balance Sheet Analysis
Investment Portfolio
The following table presents the components, yields, and durations of our securities available-for-sale as of the date indicated:

	June 30, 2016			
Security Type:	Amortized Cost	Fair Value	Yield[(1)(2)]	Duration (in years)
	(Dollars in thousands)			
Residential mortgage-backed securities:				
Government agency and government-sponsored enterprise pass through securities	$509,895	$520,519	2.12%	2.8
Government agency and government-sponsored enterprise collateralized mortgage obligations	161,207	165,211	1.95%	2.1
Private label collateralized mortgage obligations	144,935	149,569	5.72%	2.1
Municipal securities	1,449,194	1,553,286	3.99%	6.4
Government agency and government-sponsored enterprise commercial mortgage-backed securities	449,096	464,399	2.58%	5.1
Corporate debt securities	47,218	46,727	7.56%	5.2
Collateralized loan obligations	155,309	153,887	2.89%	0.1
SBA securities	195,621	197,301	1.21%	1.9
Asset-backed and other securities	96,910	96,647	2.78%	2.4
Total securities available-for-sale	$3,209,385	$3,347,546	3.25%	4.6

(1) Represents the yield for the month of June 30, 2016.
(2) Tax-equivalent basis.

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

	June 30, 2016	
Municipal Securities by State:	Carrying Value	% of Total
	(Dollars in thousands)	
California	$219,486	14 %
New York	190,421	12 %
Washington	174,294	11 %
Texas	119,333	8 %
Ohio	99,288	6 %
District of Columbia	69,415	4 %
Massachusetts	68,739	4 %
Florida	54,450	4 %
Oregon	45,817	3 %
Illinois	40,804	3 %
Total of 10 largest states	1,082,047	69 %
All other states	471,239	31 %
Total municipal securities	$1,553,286	100%

Loans and Leases

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

	June 30, 2016		March 31, 2016		December 31, 2015	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
	(Dollars in thousands)					
Real estate mortgage:						
Healthcare real estate	$1,152,433	8 %	$1,184,380	8 %	$1,230,787	9 %
Hospitality	712,900	5 %	690,097	5 %	656,750	5 %
SBA program	473,465	3 %	468,281	3 %	473,960	3 %
Other commercial real estate	2,180,411	15 %	2,297,618	16 %	2,284,036	16 %
Total commercial real estate	4,519,209	31 %	4,640,376	32 %	4,645,533	33 %
Income producing residential	1,011,651	7 %	982,116	7 %	1,035,164	7 %
Owner-occupied residential	153,133	1 %	167,882	1 %	176,045	1 %
Total residential real estate	1,164,784	8 %	1,149,998	8 %	1,211,209	8 %
Total real estate mortgage	5,683,993	39 %	5,790,374	40 %	5,856,742	41 %
Real estate construction and land:						
Commercial	417,144	3 %	308,191	2 %	345,991	2 %
Residential	281,788	2 %	269,965	2 %	184,382	1 %
Total real estate construction and land	698,932	5 %	578,156	4 %	530,373	3 %
Total real estate loans	6,382,925	44 %	6,368,530	44 %	6,387,115	44 %
Commercial:						
Technology cash flow	1,002,709	7 %	993,110	7 %	978,283	7 %
Security cash flow	430,591	3 %	467,563	3 %	450,544	3 %
Healthcare cash flow	821,698	6 %	931,701	7 %	865,355	6 %
Other cash flow	793,441	5 %	781,094	5 %	779,783	5 %
Total cash flow	3,048,439	21 %	3,173,468	22 %	3,073,965	21 %
Lender finance & timeshare	1,730,870	12 %	1,641,294	11 %	1,587,577	11 %
Healthcare asset-based	214,242	1 %	207,231	1 %	228,445	2 %
Other asset-based	738,801	5 %	741,073	5 %	731,643	5 %
Total asset-based	2,683,913	18 %	2,589,598	17 %	2,547,665	18 %
Equity funds group	270,722	2 %	204,299	1 %	228,863	2 %
Early stage	369,803	3 %	362,421	3 %	347,298	2 %
Expansion stage	725,482	5 %	654,398	5 %	600,541	4 %
Later stage	300,345	2 %	286,670	2 %	281,311	2 %
Venture capital	1,666,352	12 %	1,507,788	11 %	1,458,013	10 %
Equipment finance	646,940	4 %	733,228	5 %	890,349	6 %
Total commercial	8,045,644	55 %	8,004,082	55 %	7,969,992	55 %
Consumer	212,891	1 %	110,905	1 %	121,147	1 %
Total loans and leases, net of deferred fees	$14,641,460	100 %	$14,483,517	100 %	$14,478,254	