

PACWEST BANCORP  
Form 10-Q  
May 10, 2018

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended March 31, 2018

Commission File No. 001-36408

PACWEST BANCORP

(Exact name of registrant as specified in its charter)

Delaware 33-0885320

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

9701 Wilshire Blvd., Suite 700

Beverly Hills, CA 90212

(Address of Principal Executive Offices, Including Zip Code)

(310) 887-8500

(Registrant's Telephone Number, Including Area Code)

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

Yes  No

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

Yes  No

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

Large accelerated filer

Accelerated filer

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

Emerging growth company

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

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

Yes  No

As of May 7, 2018, there were 125,133,358 shares of the registrant's common stock outstanding, excluding 1,381,135 shares of unvested restricted stock.

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PACWEST BANCORP  
MARCH 31, 2018 QUARTERLY REPORT ON FORM 10-Q  
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PART I

Glossary of Acronyms, Abbreviations, and Terms

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

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

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divided by net revenues (the sum of tax equivalent net interest income plus noninterest income, less gain/loss on sale of securities and gain/loss on sales of assets other than loans and leases)

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

## ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

PACWEST BANCORP AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

|  | March 31,<br>2018<br>(Unaudited)                    | December<br>31,<br>2017<br>(Unaudited) |
|--|---|--|
|  | (Dollars in thousands,<br>except par value amounts) |  |
| <b>ASSETS:</b>   |   |  |
| Cash and due from banks  | \$235,061   | \$233,215                              |
| Interest-earning deposits in financial institutions  | 312,735   | 165,222                                |
| Total cash, cash equivalents, and restricted cash  | 547,796   | 398,437                                |
| Securities available-for-sale, at fair value   | 3,801,986   | 3,774,431                              |
| Federal Home Loan Bank stock, at cost  | 17,250  | 20,790                                 |
| Total investment securities  | 3,819,236   | 3,795,221                              |
| Loans held for sale, at lower of cost or fair value  | —   | 481,100                                |
| Gross loans and leases held for investment   | 16,516,627  | 17,032,221                             |
| Deferred fees, net   | (61,342)  | (59,478)                               |
| Allowance for loan and lease losses  | (134,275)   | (139,456)                              |
| Total loans and leases held for investment, net  | 16,321,010  | 16,833,287                             |
| Equipment leased to others under operating leases  | 280,648   | 284,631                                |
| Premises and equipment, net  | 33,686  | 31,852                                 |
| Foreclosed assets, net   | 1,236   | 1,329                                  |
| Deferred tax asset, net  | 12,584  | —                                      |
| Goodwill   | 2,548,670   | 2,548,670                              |
| Core deposit and customer relationship intangibles, net  | 73,280  | 79,626                                 |
| Other assets   | 511,184   | 540,723                                |
| Total assets   | \$24,149,330  | \$24,994,876                           |
| <b>LIABILITIES:</b>  |   |  |
| Noninterest-bearing deposits   | \$8,232,140   | \$8,508,044                            |
| Interest-bearing deposits  | 9,846,648   | 10,357,492                             |
| Total deposits   | 18,078,788  | 18,865,536                             |
| Borrowings   | 575,284   | 467,342                                |
| Subordinated debentures  | 452,223   | 462,437                                |
| Accrued interest payable and other liabilities   | 175,545   | 221,963                                |
| Total liabilities  | 19,281,840  | 20,017,278                             |
| Commitments and contingencies  |   |  |
| <b>STOCKHOLDERS' EQUITY:</b>   |   |  |
| Preferred stock (\$0.01 par value; 5,000,000 shares authorized; none issued and outstanding)   | —   | —                                      |
| Common stock (\$0.01 par value, 200,000,000 shares authorized at March 31, 2018 and December 31, 2017, 126,537,871 and 130,491,108 shares issued, respectively, including 1,383,914 and 1,436,120 shares of unvested restricted stock, respectively) | 1,283   | 1,305                                  |
| Additional paid-in capital   | 4,111,226   | 4,287,487                              |

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

See Notes to Condensed Consolidated Financial Statements.

PACWEST BANCORP AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

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



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

See Notes to Condensed Consolidated Financial Statements.

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PACWEST BANCORP AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

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

See Notes to Condensed Consolidated Financial Statements.

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

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

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

See Notes to Condensed Consolidated Financial Statements.

PACWEST BANCORP AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

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

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

See Notes to Condensed Consolidated Financial Statements.

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PACWEST BANCORP AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

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

Supplemental disclosures of cash flow information:

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

See Notes to Condensed Consolidated Financial Statements.

## PACWEST BANCORP AND SUBSIDIARIES

### Notes to Condensed Consolidated Financial Statements (Unaudited)

#### NOTE 1. ORGANIZATION

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

We are focused on relationship-based business banking to small, middle-market and venture-backed businesses nationwide. At March 31, 2018, the Bank offers a broad range of loan and lease and deposit products and services through 75 full-service branches located throughout the State of California, one branch located in Durham, North Carolina, and several loan production offices located in cities across the country. We provide commercial banking services, including real estate, construction, and commercial loans, and comprehensive deposit and treasury management services to small and middle-market businesses. We offer additional products and services through our CapitalSource and Square 1 Bank Divisions. Our CapitalSource Division provides asset-based, equipment, real estate, security cash flow loans and treasury management services to established middle-market businesses on a national basis. Our Square 1 Bank Division offers a comprehensive suite of financial services focused on entrepreneurial businesses and their venture capital and private equity investors, with offices located in key innovation hubs across the United States. In addition, we provide investment advisory and asset management services to select clients through Square 1 Asset Management, Inc., a wholly-owned subsidiary of the Bank and a SEC-registered investment adviser. We generate our revenue primarily from interest received on loans and leases and, to a lesser extent, from interest received on investment securities, and fees received in connection with deposit services, extending credit and other services offered, including foreign exchange services. Our major operating expenses are compensation, occupancy, general operating expenses, and the interest paid by the Bank on deposits and borrowings.

We have completed 29 acquisitions from May 1, 2000 through March 31, 2018. Our acquisitions have been accounted for using the acquisition method of accounting and, accordingly, the operating results of the acquired entities have been included in the consolidated financial statements from their respective acquisition dates. See Note 3.

Acquisitions, for more information about the CUB acquisition.

#### Significant Accounting Policies

Our accounting policies are described in Note 1. Nature of Operations and Summary of Significant Accounting Policies, of our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2017 as filed with the Securities and Exchange Commission ("Form 10-K"). Updates to our significant accounting policies described below reflect the impact of the adoption of ASU 2016-01, "Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities" and ASU 2018-03, "Technical Corrections and Improvements to Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities."

#### Investment Securities

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

## PACWEST BANCORP AND SUBSIDIARIES

### Notes to Condensed Consolidated Financial Statements (Unaudited)

#### Equity Investments

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

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

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

#### Comprehensive Income

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

#### Accounting Standards Adopted in 2018

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

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



PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

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

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

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

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

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

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

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

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

PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

Basis of Presentation

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

Use of Estimates

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

Reclassifications

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

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

NOTE 2. RESTRICTED CASH BALANCES

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

## PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

## NOTE 3. ACQUISITIONS

## CUB Acquisition

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

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

## NOTE 4. GOODWILL AND OTHER INTANGIBLE ASSETS

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

Our other intangible assets with definite lives include CDI and CRI. CDI and CRI are amortized over their respective estimated useful lives and reviewed for impairment at least quarterly. The amortization expense represents the estimated decline in the value of the underlying deposits or loan and lease customers acquired. The aggregate amortization expense is expected to be \$22.5 million for 2018. The estimated aggregate amortization expense related to these intangible assets for each of the next five years is \$18.7 million for 2019, \$14.6 million for 2020, \$10.8 million for 2021, \$7.5 million for 2022, and \$1.4 million for 2023.

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

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



## PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

## NOTE 5. INVESTMENT SECURITIES

## Securities Available-for-Sale

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

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

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

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

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

## PACWEST BANCORP AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements (Unaudited)

## Unrealized Losses on Securities Available-for-Sale

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

| Security Type             | March 31, 2018      |                         |                   |                         |             |                         |
|---------------------------|---------------------|-------------------------|-------------------|-------------------------|-------------|-------------------------|
|                           | Less Than 12 Months |                         | 12 Months or More |                         | Total       |                         |
|                           | Fair Value          | Gross Unrealized Losses | Fair Value        | Gross Unrealized Losses | Fair Value  | Gross Unrealized Losses |
|                           | (In thousands)      |                         |                   |                         |             |                         |
| Residential MBS and CMOs: |                     |                         |                   |                         |             |                         |
| Agency MBS                | \$104,277           | \$(1,649)               | \$24,518          | \$(908)                 | \$128,795   | \$(2,557)               |
| Agency CMOs               | 251,805             | (5,359)                 | 18,377            | (557)                   | 270,182     | (5,916)                 |
| Private label CMOs        | 92,396              | (1,105)                 | 4,446             | (107)                   | 96,842      | (1,212)                 |
| Municipal securities      | 364,270             | (6,320)                 | 30,973            | (1,744)                 | 395,243     | (8,064)                 |
| Agency commercial MBS     | 1,006,897           | (21,302)                | 67,387            | (3,755)                 | 1,074,284   | (25,057)                |
| SBA securities            | 87,303              | (1,229)                 | —                 | —                       | 87,303      | (1,229)                 |
| Asset-backed securities   | 64,382              | (1,199)                 | 7,630             | (100)                   | 72,012      | (1,299)                 |
| Total                     | \$1,971,330         | \$(38,163)              | \$153,331         | \$(7,171)               | \$2,124,661 | \$(45,334)              |

| Security Type             | December 31, 2017   |                         |                   |                         |             |                         |
|---------------------------|---------------------|-------------------------|-------------------|-------------------------|-------------|-------------------------|
|                           | Less Than 12 Months |                         | 12 Months or More |                         | Total       |                         |
|                           | Fair Value          | Gross Unrealized Losses | Fair Value        | Gross Unrealized Losses | Fair Value  | Gross Unrealized Losses |
|                           | (In thousands)      |                         |                   |                         |             |                         |
| Residential MBS and CMOs: |                     |                         |                   |                         |             |                         |
| Agency MBS                | \$44,795            | \$(311)                 | \$26,010          | \$(533)                 | \$70,805    | \$(844)                 |
| Agency CMOs               | 163,014             | (2,452)                 | 20,928            | (445)                   | 183,942     | (2,897)                 |
| Private label CMOs        | 50,521              | (500)                   | 5,035             | (142)                   | 55,556      | (642)                   |
| Municipal securities      | 67,936              | (365)                   | 32,326            | (974)                   | 100,262     | (1,339)                 |
| Agency commercial MBS     | 579,373             | (3,777)                 | 129,060           | (4,981)                 | 708,433     | (8,758)                 |
| SBA securities            | 74,904              | (575)                   | —                 | —                       | 74,904      | (575)                   |
| Asset-backed securities   | 45,198              | (818)                   | 10,473            | (56)                    | 55,671      | (874)                   |
| Equity investments        | 1,039               | (130)                   | —                 | —                       | 1,039       | (130)                   |
| Total                     | \$1,026,780         | \$(8,928)               | \$223,832         | \$(7,131)               | \$1,250,612 | \$(16,059)              |

We reviewed the securities that were in an unrealized loss position at March 31, 2018, and concluded their unrealized losses were a result of the level of market interest rates relative to the types of securities and pricing changes caused by shifting supply and demand dynamics and not a result of downgraded credit ratings or other indicators of deterioration of the underlying issuers' ability to repay. Accordingly, we determined the securities were temporarily impaired and we did not recognize such impairment in the condensed consolidated statements of earnings. Although we periodically sell securities for portfolio management purposes, we do not foresee having to sell any temporarily impaired securities strictly for liquidity needs and believe that it is more likely than not we would not be required to sell any temporarily impaired securities before recovery of their amortized cost.





## PACWEST BANCORP AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements (Unaudited)

## Contractual Maturities of Securities Available-for-Sale

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

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

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

## Interest Income on Investment Securities

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

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

## PACWEST BANCORP AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements (Unaudited)

## NOTE 6. LOANS AND LEASES

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

Prior to January 1, 2018, our loan and lease portfolio consisted of Non-PCI loans and leases and PCI loans. Non-PCI loans and leases were those we originated or those we acquired that were not credit impaired at the dates of acquisition. PCI loans were purchased loans for which there was, at the acquisition date, evidence of credit deterioration since their origination and for which it was probable that collection of all contractually required payments was unlikely. As our gross PCI loan portfolio represented less than 0.4% of total loans as of the end of 2017, beginning in 2018 the PCI loans were accounted for as Non-PCI loans. Accordingly, in the credit quality tables below under "Loans and leases held for investment," amounts related to the 2018 period are for total loans and leases, and amounts related to the 2017 period are for Non-PCI loans and leases.

## Loans Held for Sale

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

## Loans and Leases Held for Investment

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

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

## PACWEST BANCORP AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements (Unaudited)

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

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

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

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

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

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## PACWEST BANCORP AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements (Unaudited)

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

The following table presents our nonaccrual and performing loans and leases held for investment, net of deferred fees, by portfolio segment and class as of the dates indicated:

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

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

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

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

## PACWEST BANCORP AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements (Unaudited)

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

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

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

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



## PACWEST BANCORP AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements (Unaudited)

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

Nonaccrual loans and leases and performing troubled debt restructured loans are considered impaired for reporting purposes. Troubled debt restructurings are a result of rate reductions, term extensions, fee concessions, and debt forgiveness, or a combination thereof.

The following table presents the composition of our impaired loans and leases held for investment, net of deferred fees, by portfolio segment as of the dates indicated:

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

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



## PACWEST BANCORP AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements (Unaudited)

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

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

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



## PACWEST BANCORP AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements (Unaudited)

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

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



PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

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

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