

PACWEST BANCORP
Form 10-Q
November 09, 2015

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 September 30, 2015

Commission File No. 00-30747

PACWEST BANCORP

(Exact name of registrant as specified in its charter)

Delaware

(State of Incorporation)

10250 Constellation Blvd., Suite 1640
Los Angeles, CA 90067

(Address of Principal Executive Offices, Including Zip Code)

(310) 286-1144

(Registrant's Telephone Number, Including Area Code)

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

Yes No

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

Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company)

Smaller reporting company

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 October 29, 2015, there were 120,201,464 shares of the registrant's common stock outstanding, excluding 963,522 shares of unvested restricted stock.

PACWEST BANCORP
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PACWEST BANCORP AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2015 (Unaudited) (Dollars in thousands)	December 31, 2014
ASSETS:		
Cash and due from banks	\$154,652	\$164,757
Interest-earning deposits in financial institutions	81,642	148,469
Total cash and cash equivalents	236,294	313,226
Securities available-for-sale, at fair value	1,809,364	1,567,177
Federal Home Loan Bank stock, at cost	17,250	40,609
Total investment securities	1,826,614	1,607,786
Gross loans and leases	12,493,397	11,904,684
Deferred fees and costs	(41,192)	(22,252)
Allowance for loan and lease losses	(103,271)	(84,455)
Total loans and leases, net	12,348,934	11,797,977
Equipment leased to others under operating leases	161,508	122,506
Premises and equipment, net	36,475	36,551
Foreclosed assets, net	33,216	43,721
Goodwill	1,728,380	1,720,479
Core deposit and customer relationship intangibles, net	12,704	17,204
Deferred tax asset, net	169,760	284,411
Other assets	260,220	290,744
Total assets	\$16,814,105	\$16,234,605
LIABILITIES:		
Noninterest-bearing deposits	\$3,508,682	\$2,931,352
Interest-bearing deposits	8,607,081	8,823,776
Total deposits	12,115,763	11,755,128
Borrowings	552,497	383,402
Subordinated debentures	435,417	433,583
Accrued interest payable and other liabilities	128,724	156,262
Total liabilities	13,232,401	12,728,375
Commitments and contingencies (Note 10)	—	—
STOCKHOLDERS' EQUITY:		
Preferred stock (\$0.01 par value; 5,000,000 shares authorized; none issued and outstanding)	—	—
Common stock (\$0.01 par value, 200,000,000 shares authorized at September 30, 2015 and December 31, 2014; 104,431,508 and 104,219,197 shares issued, respectively, including 988,825 and 1,108,505 shares of unvested restricted stock, respectively)	1,044	1,042
Additional paid-in capital	3,665,173	3,807,167
Accumulated deficit	(57,934)	(285,712)
	(51,038)	(42,647)

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Treasury stock, at cost (1,377,814 and 1,197,180 shares at September 30, 2015 and December 31, 2014)

Accumulated other comprehensive income, net	24,459	26,380
Total stockholders' equity	3,581,704	3,506,230
Total liabilities and stockholders' equity	\$ 16,814,105	\$ 16,234,605

See Notes to Condensed Consolidated Financial Statements.

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PACWEST BANCORP AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

	Three Months Ended			Nine Months Ended	
	September 30, 2015 (Unaudited)	June 30, 2015	September 30, 2014	September 30, 2015	2014
	(Dollars in thousands, except per share data)				
Interest income:					
Loans and leases	\$193,539	\$203,781	\$189,961	\$599,417	\$459,625
Investment securities	13,955	14,570	12,331	40,720	35,140
Deposits in financial institutions	178	104	64	304	314
Total interest income	207,672	218,455	202,356	640,441	495,079
Interest expense:					
Deposits	10,400	11,233	8,822	32,112	17,360
Borrowings	72	88	74	395	352
Subordinated debentures	4,680	4,582	4,614	13,787	9,973
Total interest expense	15,152	15,903	13,510	46,294	27,685
Net interest income	192,520	202,552	188,846	594,147	467,394
Provision for credit losses	8,746	6,529	5,050	31,709	9,436
Net interest income after provision for credit losses	183,774	196,023	183,796	562,438	457,958
Noninterest income:					
Service charges on deposit accounts	2,601	2,612	2,725	7,787	8,446
Other commissions and fees	6,376	7,123	6,371	18,895	14,046
Leased equipment income	5,475	5,375	5,615	16,232	11,287
Gain on sale of loans and leases	27	163	973	190	594
Gain (loss) on sale of securities	655	(186)	—	3,744	4,841
FDIC loss sharing expense, net	(4,449)	(5,107)	(7,415)	(13,955)	(27,370)
Other income	5,073	9,643	8,045	23,359	17,640
Total noninterest income	15,758	19,623	16,314	56,252	29,484
Noninterest expense:					
Compensation	48,152	49,033	45,861	144,922	119,569
Occupancy	10,762	10,588	11,188	31,950	29,861
Data processing	4,322	4,402	3,929	13,032	10,568
Other professional services	3,396	3,332	3,687	9,949	8,053
Insurance and assessments	3,805	4,716	3,020	11,546	7,792
Intangible asset amortization	1,497	1,502	1,608	4,500	4,649
Leased equipment depreciation	3,162	3,103	2,961	9,368	6,056
Foreclosed assets expense (income), net	4,521	(2,340)	4,827	2,517	3,463
Acquisition, integration and reorganization costs	747	900	5,193	3,647	93,635
Other expense	9,775	10,040	12,649	28,344	30,641
Total noninterest expense	90,139	85,276	94,923	259,775	314,287
Earnings from continuing operations before taxes	109,393	130,370	105,187	358,915	173,155
Income tax expense	(39,777)	(45,287)	(42,911)	(131,137)	(73,744)
Net earnings from continuing operations	69,616	85,083	62,276	227,778	99,411
Loss from discontinued operations before taxes	—	—	(8)	—	(2,572)

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Income tax benefit	—	—	3	—	1,067
Net loss from discontinued operations	—	—	(5) —	(1,505
Net earnings	\$69,616	\$85,083	\$62,271	\$227,778	\$97,906
Basic earnings per share:					
Net earnings from continuing operations	\$0.68	\$0.83	\$0.60	\$2.21	\$1.20
Net earnings	\$0.68	\$0.83	\$0.60	\$2.21	\$1.18
Diluted earnings per share:					
Net earnings from continuing operations	\$0.68	\$0.83	\$0.60	\$2.21	\$1.20
Net earnings	\$0.68	\$0.83	\$0.60	\$2.21	\$1.18
Dividends declared per share	\$0.50	\$0.50	\$0.25	\$1.50	\$0.75

See Notes to Condensed Consolidated Financial Statements.

PACWEST BANCORP AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended			Nine Months Ended	
	September 30, 2015 (Unaudited) (In thousands)	June 30, 2015	September 30, 2014	September 30, 2015	2014
Net earnings	\$69,616	\$85,083	\$62,271	\$227,778	\$97,906
Other comprehensive income (loss), net of tax:					
Unrealized holding gains (losses) on securities available-for-sale arising during the period	14,466	(21,213)	93	616	45,395
Income tax (expense) benefit related to unrealized holding gains (losses) arising during the period	(5,873)	8,614	607	(364)	(18,342)
Unrealized holding gains (losses) on securities available-for-sale, net of tax	8,593	(12,599)	700	252	27,053
Reclassification adjustment for (gains) losses included in net earnings ⁽¹⁾	(655)	186	—	(3,744)	(4,841)
Income tax expense (benefit) related to reclassification adjustment	266	(76)	—	1,571	1,956
Reclassification adjustment for (gains) losses included in net earnings, net of tax	(389)	110	—	(2,173)	(2,885)
Other comprehensive income (loss), net of tax	8,204	(12,489)	700	(1,921)	24,168
Comprehensive income	\$77,820	\$72,594	\$62,971	\$225,857	\$122,074

(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

	Nine Months Ended September 30, 2015					Accumulated Other Comprehensive Income	Total
	Common Stock	Par Value	Additional Paid-in Capital	Accumulated Deficit	Treasury Stock		
Shares (Unaudited)							
(Dollars in thousands, except share data)							
Balance, December 31, 2014	103,022,017	\$ 1,042	\$ 3,807,167	\$(285,712)	\$(42,647)	\$ 26,380	\$ 3,506,230
Net earnings	—	—	—	227,778	—	—	227,778
Other comprehensive loss - net unrealized loss on securities available-for-sale, net of tax	—	—	—	—	—	(1,921)	(1,921)
Restricted stock awarded and earned stock compensation, net of shares forfeited	211,011	2	11,834	—	—	—	11,836
Restricted stock surrendered	(180,634)	—	—	—	(8,391)	—	(8,391)
Tax effect from vesting of restricted stock	—	—	596	—	—	—	596
Cash dividends paid	—	—	(154,482)	—	—	—	(154,482)
Dividend reinvestment	1,300	—	58	—	—	—	58
Balance, September 30, 2015	103,053,694	\$ 1,044	\$ 3,665,173	\$(57,934)	\$(51,038)	\$ 24,459	\$ 3,581,704

See Notes to Condensed Consolidated Financial Statements.

PACWEST BANCORP AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30,		
	2015	2014	
	(Unaudited)		
	(Dollars in thousands)		
Cash flows from operating activities:			
Net earnings	\$227,778	\$97,906	
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	33,239	28,434	
Provision for credit losses	31,709	9,436	
Loss (gain) on sale of foreclosed assets	42	(2,746)
Provision for losses on foreclosed assets	5,163	5,065	
Gain on sale of loans and leases	(190	)	(594)
Gain on sale of premises and equipment	(54	)	(1,523)
Gain on sale of securities	(3,744	)	(4,841)
Unrealized gain on derivatives and foreign currencies, net	(909	)	(2,393)
Earned stock compensation	11,836	33,641	
Write-off of goodwill relating to the asset financing segment reorganization	—	6,645	
Tax effect included in stockholders' equity of restricted stock vesting	(596	)	(4,402)
Decrease in accrued and deferred income taxes, net	108,553	47,938	
Decrease in other assets	15,786	14,341	
Decrease in accrued interest payable and other liabilities	(25,336	)	(79,644)
Net cash provided by operating activities	403,277	147,263	
Cash flows from investing activities:			
Cash acquired in acquisitions, net of cash consideration	—	346,047	
Net increase in loan and leases	(612,008	)	(433,525)
Proceeds from sales of loans and leases	10,557	35,696	
Securities available-for-sale:			
Proceeds from maturities and paydowns	93,389	95,039	
Proceeds from sales	212,169	465,608	
Purchases	(557,769	)	(186,969)
Collections of securities sales proceeds receivable	—	484,084	
Net redemptions of Federal Home Loan Bank stock	23,359	28,397	
Proceeds from sales of foreclosed assets	18,772	20,097	
Purchases of premises and equipment, net	(5,872	)	(2,283)
Proceeds from sales of premises and equipment	108	3,759	
Net (increase) decrease of equipment leased to others under operating leases	(26,174	)	30,502)
Net cash (used in) provided by investing activities	(843,469	)	886,452)
Cash flows from financing activities:			
Net increase (decrease) in deposits:			
Noninterest-bearing	573,101	420,478	
Interest-bearing	(216,717	)	(518,012)
Net increase (decrease) in borrowings	169,095	(742,109)
Restricted stock surrendered	(8,391)	(22,307)

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Tax effect included in stockholders' equity of restricted vesting stock	596	4,402	
Cash dividends paid	(154,424	) (62,727)
Net cash provided by (used in) financing activities	363,260	(920,275)
Net (decrease) increase in cash and cash equivalents	(76,932	) 113,440	
Cash and cash equivalents at beginning of period	313,226	147,422	
Cash and cash equivalents at end of period	\$236,294	\$260,862	
Supplemental disclosures of cash flow information:			
Cash paid for interest	\$51,218	\$23,959	
Cash paid (received) for income taxes	13,760	(3,829)
Loans transferred to foreclosed assets	13,472	667	
Partnership interest transferred to equipment leased to others under operating leases	20,833	—	
Common stock issued in acquisitions	—	2,594,070	

See Notes to Condensed Consolidated Financial Statements.

PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

Note 1. Organization

PacWest Bancorp is a bank holding company registered under the Bank Holding Company Act of 1956, as amended. Our principal business is to serve as the holding company for our Los Angeles based wholly owned banking subsidiary, Pacific Western Bank, which we refer to as "Pacific Western" or the "Bank." When we say "we," "our," or the "Company," we mean PacWest Bancorp together with its subsidiaries on a consolidated basis. When we refer to "PacWest" or to the holding company, we are referring to PacWest Bancorp, the parent company, on a stand alone basis. As of September 30, 2015, the Company had total assets of \$16.8 billion, gross loans and leases of \$12.5 billion, total deposits of \$12.1 billion and total stockholders' equity of \$3.6 billion.

Pacific Western is a full-service commercial bank offering a broad range of banking products and services including accepting demand, money market, and time deposits and originating loans and leases, including an array of commercial real estate loans and commercial lending products. The Bank serves the financial needs of its customers through 80 full-service branches located primarily in Southern California extending from San Diego County to California's Central Coast. The Bank also operates three banking offices in the San Francisco Bay area and four banking offices in the Central Valley. The Bank competes actively for relationship-based loans and deposits through its branch network, and emphasizes solicitation of noninterest-bearing deposits.

The CapitalSource Division lends throughout the United States, providing middle-market businesses asset-secured loans, equipment-secured loans and leases, cash flow loans, and real estate loans secured by various property types. The collateral for real estate loans includes healthcare properties, office properties, industrial properties, multi-family properties, hospitality properties, and retail properties. Our leasing operation, Pacific Western Equipment Finance, and our group specializing in asset-based lending, CapitalSource Business Finance Group, are part of the CapitalSource Division. Our commercial loan products include equipment loans and leases, asset based loans, loans to finance companies, and loans secured by borrower future cash flows, as well as other business-oriented products. Our loan and lease origination efforts are conducted through offices located in Chevy Chase, Maryland; Los Angeles and San Jose, California; St. Louis, Missouri; Denver, Colorado; Chicago, Illinois; New York, New York; and Midvale, Utah. When we refer to "CapitalSource Inc.," we are referring to the company acquired on April 7, 2014, and when we refer to the "CapitalSource Division," we are referring to a division of the Bank that specializes in middle-market lending on a nationwide basis.

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 include interest paid by the Bank on deposits and borrowings, compensation and general operating expenses.

We have completed 27 acquisitions from May 2000 through September 30, 2015. Since 2000, 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 CapitalSource Inc. merger, and Note 16, Subsequent Events, for information regarding the completion of the Square 1 Financial, Inc. acquisition on October 6, 2015.

Significant Accounting Policies

Except as discussed below, our accounting policies are described in Note 1, Nature of Operations and Summary of Significant Accounting Policies, of our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2014 as filed with the Securities and Exchange Commission ("Form 10-K").

PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

Accounting Standard Adopted in 2015

Effective January 1, 2015, the Company adopted Accounting Standards Update 2014-01, new accounting guidance for investments in affordable housing projects that qualify for the low-income housing tax credit. As a result of the adoption of this new guidance, the Company made an accounting policy election to amortize the initial cost of its qualifying investments in proportion to the tax credits and other benefits received and to present the amortization as a component of income tax expense, referred to as the proportional amortization method. Previously, investments in low-income housing tax credits were accounted for under the equity method and such amortization was presented in other expense. The guidance was required to be applied retrospectively and accordingly, prior period amounts for other expense and tax expense have been revised to conform to the current period presentation. The revised amortization amounts for prior periods were not material.

The retrospective application of the adoption of the new accounting guidance for the proportional amortization method resulted in a cumulative effect on retained earnings of a reduction of \$195,000.

Basis of Presentation

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

The accompanying financial statements reflect our consolidated accounts. All significant intercompany accounts and transactions have been eliminated.

Use of Estimates

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

As described in Note 3, Acquisitions, the acquired assets and liabilities of CapitalSource Inc. were measured at their estimated fair values. We made significant estimates and exercised significant judgment in estimating fair values and accounting for such acquired assets and assumed liabilities.

Reclassifications

Certain prior period amounts have been reclassified to conform to the current period's presentation format. On the condensed consolidated balance sheets, the "Other assets" category includes "FDIC loss sharing asset," which was previously reported as a separate category.

PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

Note 2. Discontinued Operations

Discontinued operations include the income and expense related to Electronic Payment Services ("EPS"), a discontinued division of the Bank acquired in connection with the First California Financial Group, Inc. ("FCAL") acquisition. Liabilities of the EPS division were \$16.9 million and \$21.3 million at September 30, 2015 and December 31, 2014, which consisted primarily of noninterest bearing deposits, and are included in the condensed consolidated balance sheets under the caption "Accrued interest payable and other liabilities." For segment reporting purposes, the EPS division is included in our Community Banking segment.

Note 3. Acquisitions

The following assets acquired and liabilities assumed of CapitalSource Inc. are presented at their estimated fair values as of its April 7, 2014 acquisition date:

	CapitalSource Inc. (In thousands)
Assets Acquired:	
Cash and due from banks	\$768,553
Interest earning deposits in financial institutions	60,612
Investment securities available for sale	382,797
FHLB stock	46,060
Loans and leases	6,877,427
Equipment leased to others under operating leases	160,015
Premises and equipment	12,663
Foreclosed assets	6,382
Income tax assets	304,856
Goodwill	1,526,282
Core deposit and customer relationship intangibles	6,720
Other assets	582,985
Total assets acquired	\$10,735,352
Liabilities Assumed:	
Noninterest bearing deposits	\$4,631
Interest bearing deposits	6,236,419
Other borrowings	992,109
Subordinated debentures	300,918
Accrued interest payable and other liabilities	124,087
Total liabilities assumed	\$7,658,164
Total consideration paid	\$3,077,188
Summary of consideration:	
Cash paid	\$483,118
PacWest common stock issued	2,594,070
Total	\$3,077,188

PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

CapitalSource Inc. Merger

We acquired CapitalSource Inc. on April 7, 2014. As part of the merger, CapitalSource Bank (“CSB”), a wholly owned subsidiary of CapitalSource Inc., merged with and into Pacific Western Bank. We completed the merger in order to augment our loan and lease generation capabilities and to diversify our loan portfolio. At closing, we formed the CapitalSource Division within the Bank. The Bank provides a full spectrum of financing solutions across numerous industries and property types to middle market businesses nationwide marketed under the CapitalSource Division brand.

The CapitalSource Inc. merger has been accounted for under the acquisition method of accounting. The assets and liabilities, both tangible and intangible, were recorded at their estimated fair values as of the merger date. We made significant estimates and exercised significant judgment in estimating such fair values and accounting for the acquired assets and liabilities. The application of the acquisition method of accounting resulted in goodwill of \$1.5 billion. All of the recognized goodwill was non deductible for tax purposes.

Acquisition-Related Charges

The costs shown for the 2014 periods relate to the CapitalSource merger completed on April 7, 2014. The costs shown for the 2015 periods relate to the Square 1 acquisition completed on October 6, 2015. The following table presents the components of acquisition, integration and reorganization costs for the periods indicated.

	Three Months Ended			Nine Months Ended	
	September 30, 2015	June 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
	(In thousands)				
Acquisition, Integration and Reorganization Costs:					
Severance and employee-related	\$—	\$—	\$340	\$—	\$54,601
System conversion and integration	427	—	412	427	1,535
Asset write-downs, lease terminations and other facilities-related	—	—	150	—	5,853
Investment banking deal costs	—	—	—	1,050	16,117
Other (legal, accounting, insurance, consulting)	320	900	4,291	2,170	15,529
Total acquisition, integration and reorganization costs	\$747	\$900	\$5,193	\$3,647	\$93,635

PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

Note 4. Goodwill and Other Intangible Assets

Goodwill arises from the acquisition method of accounting for business combinations and represents the excess of the purchase price over the fair value of the net assets and other identifiable intangible assets acquired. Our intangible assets with definite lives are core deposit intangibles ("CDI") and customer relationship intangibles ("CRI"). In the first quarter of 2015, we finalized the estimated fair value of the deferred tax assets acquired in the CapitalSource Inc. merger that resulted in a \$7.9 million increase to goodwill.

Goodwill and other intangible assets deemed to have indefinite lives generated from business combinations are not subject to amortization and are instead tested for impairment no less than annually. Impairment exists when the carrying value of goodwill exceeds its implied fair value. An impairment loss would be recognized in an amount equal to that excess and would be included in "Noninterest expense" in the condensed consolidated statements of earnings. No impairment losses were recognized during the nine months ended September 30, 2015 and 2014.

CDI and CRI are amortized over their respective estimated useful lives and reviewed for impairment at least quarterly. The amortization expense represents the estimated decline in the value of the underlying deposits or loan and lease customers acquired. The weighted average amortization period remaining for all of our CDI and CRI as of September 30, 2015 is 3.8 years. The aggregate CDI and CRI amortization expense is expected to be \$6.0 million for 2015. The estimated aggregate amortization expense related to these intangible assets for each of the next five years is \$4.1 million for 2016, \$2.3 million for 2017, \$2.0 million for 2018, \$1.7 million for 2019, and \$953,000 for 2020.

The following table presents the changes in the carrying amount of goodwill for the period indicated:

	Goodwill (In thousands)
Balance, December 31, 2014	\$1,720,479
Adjustment to acquired CapitalSource Inc. deferred tax assets	7,901
Balance, September 30, 2015	\$1,728,380

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

	Three Months Ended			Nine Months Ended	
	September 30, 2015	June 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
	(In thousands)				
Gross Amount of CDI and CRI:					
Balance, beginning of period	\$53,090	\$53,090	\$53,090	\$53,090	\$48,963
Additions	—	—	—	—	6,720
Fully amortized portion	—	—	—	—	(1,293)
Write-off due to the asset financing segment reorganization	—	—	—	—	(1,300)
Balance, end of period	53,090	53,090	53,090	53,090	53,090
Accumulated Amortization:					
Balance, beginning of period	(38,889)	(37,387)	(32,659)	(35,886)	(31,715)
Amortization	(1,497)	(1,502)	(1,608)	(4,500)	(4,649)
Fully amortized portion	—	—	—	—	1,293
Write-off due to the asset financing segment reorganization	—	—	—	—	804
Balance, end of period	(40,386)	(38,889)	(34,267)	(40,386)	(34,267)
Net CDI and CRI, end of period	\$12,704	\$14,201	\$18,823	\$12,704	\$18,823

In the second quarter of 2014, we wrote-off \$6.6 million of goodwill and \$0.5 million of CRI related to the reorganization of the Company's asset financing segment, which included the sale of Celtic Capital Corporation. These amounts are included in "Acquisition, integration and reorganization costs" in the condensed consolidated statements of earnings.

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 carrying values of securities available-for-sale as of the dates indicated:

Security Type:	September 30, 2015				December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(In thousands)								
Residential mortgage-backed securities:								
Government agency and government-sponsored enterprise pass-through securities	\$391,904	\$15,890	\$(196)	\$407,598	\$515,902	\$20,142	\$(372)	\$535,672
Government agency and government-sponsored enterprise collateralized mortgage obligations	206,380	5,460	(421)	211,419	275,513	3,513	(1,080)	277,946
Covered private label collateralized mortgage obligations	24,914	6,222	(110)	31,026	26,889	7,153	(95)	33,947
Other private label collateralized mortgage obligations	7,258	44	(40)	7,262	10,961	46	(93)	10,914
Municipal securities	844,782	18,057	(4,002)	858,837	521,499	15,899	(1,282)	536,116
Corporate debt securities	47,380	139	(123)	47,396	110,074	597	(562)	110,109
Collateralized loan obligations	133,159	316	(1,158)	132,317	—	—	—	—
SBA loan pool securities	51,153	395	—	51,548	—	—	—	—
Government-sponsored enterprise debt securities	36,284	1,240	—	37,524	36,232	525	—	36,757
Other securities	24,972	2	(537)	24,437	25,801	33	(118)	25,716
Total	\$1,768,186	\$47,765	\$(6,587)	\$1,809,364	\$1,522,871	\$47,908	\$(3,602)	\$1,567,177

Other securities consist primarily of asset backed securities.

As of September 30, 2015, securities available for sale with a carrying value of \$366.2 million were pledged as collateral for borrowings, public deposits and other purposes as required by various statutes and agreements.

During the nine months ended September 30, 2015 and 2014, we purchased \$557.8 million and \$187.0 million in securities available-for-sale.

During the nine months ended September 30, 2015, we sold \$49.9 million of government agency and government-sponsored enterprise ("GSE") CMOs for a gain of \$609,000, \$30.7 million of municipal securities for a gain of \$744,000, \$67.5 million in corporate debt securities for a loss of \$232,000 and \$60.3 million in GSE pass-through securities for a gain of \$2.6 million. During the nine months ended September 30, 2014, we sold \$137.3

million of GSE pass-through securities for a realized gain of \$4.8 million and \$797,000 in other securities for a realized gain of \$89,000. In addition, we sold \$323.6 million of the \$382.8 million of securities obtained in the CapitalSource Inc. merger for no gain or loss.

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:	September 30, 2015					
	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 mortgage-backed securities:						
Government agency and government-sponsored enterprise pass-through securities	\$17,968	\$(95)	\$9,552	\$(101)	\$27,520	\$(196)
Government agency and government-sponsored enterprise collateralized mortgage obligations	—	—	14,444	(421)	14,444	(421)
Covered private label collateralized mortgage obligations	1,111	(44)	589	(66)	1,700	(110)
Other private label collateralized mortgage obligations	1,296	(2)	1,099	(38)	2,395	(40)
Municipal securities	238,631	(3,988)	529	(14)	239,160	(4,002)
Corporate debt securities	23,013	(105)	2,278	(18)	25,291	(123)
Collateralized loan obligations	103,409	(1,158)	—	—	103,409	(1,158)