PACWEST BANCORP
Form 10-Q
November 07, 2016

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2016
Commission File No. 001-36408
PACWEST BANCORP
(Exact name of registrant as specified in its charter)

Delaware	33-0885320
(State of Incorporation)	(I.R.S. Employer Identification No.)

9701 Wilshire Blvd., Suite 700
Beverly Hills, CA 90212
(Address of Principal Executive Offices, Including Zip Code)
(310) 887-8500
(Registrant's Telephone Number, Including Area Code)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes þ No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes þ No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No þ
As of October 26, 2016, there were 120,279,633 shares of the registrant's common stock outstanding, excluding 1,393,373 shares of unvested restricted stock.

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PACWEST BANCORP AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2016	December 31, 2015
	(Unaudited)	
	(Dollars in thousands, except par value amounts)	
ASSETS:		
Cash and due from banks	$286,371	$161,020
Interest-earning deposits in financial institutions	253,994	235,466
Total cash and cash equivalents	540,365	396,486
Securities available-for-sale, at fair value	3,341,335	3,559,437
Federal Home Loan Bank stock, at cost	19,386	19,710
Total investment securities	3,360,721	3,579,147
Gross loans and leases	14,806,427	14,528,165
Deferred fees, net	(63,581)	(49,911)
Allowance for loan and lease losses	(147,976)	(115,111)
Total loans and leases, net	14,594,870	14,363,143
Equipment leased to others under operating leases	198,931	197,452
Premises and equipment, net	38,977	39,197
Foreclosed assets, net	15,113	22,120
Goodwill	2,173,949	2,176,291
Core deposit and customer relationship intangibles, net	39,542	53,220
Deferred tax asset, net	27,073	126,389
Other assets	325,750	335,045
Total assets	$21,315,291	$21,288,490
LIABILITIES:		
Noninterest-bearing deposits	$6,521,946	$6,171,455
Interest-bearing deposits	9,123,722	9,494,727
Total deposits	15,645,668	15,666,182
Borrowings	541,011	621,914
Subordinated debentures	441,112	436,000
Accrued interest payable and other liabilities	144,905	166,703
Total liabilities	16,772,696	16,890,799
Commitments and contingencies (Note 8)		
STOCKHOLDERS' EQUITY:		
Preferred stock ($0.01 par value; 5,000,000 shares authorized; none issued and outstanding)	—	—
Common stock ($0.01 par value, 200,000,000 shares authorized at September 30, 2016 and December 31, 2015, 123,320,121 and 122,791,729 shares issued, respectively, including 1,397,715 and 1,211,951 shares of unvested restricted stock, respectively)	1,233	1,228
Additional paid-in capital	4,244,521	4,405,775

Retained earnings	280,426	13,907
Treasury stock, at cost (1,502,597 and 1,378,002 shares at September 30, 2016 and December 31, 2015)	(55,658)	(51,047)
Accumulated other comprehensive income, net	72,073	27,828
Total stockholders' equity	4,542,595	4,397,691
Total liabilities and stockholders' equity	$21,315,291	$21,288,490

See Notes to Condensed Consolidated Financial Statements.

PACWEST BANCORP AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

	Three Months Ended			Nine Months Ended	
	September 30,	June 30,	September 30,	September 30,	
	2016	2016	2015	2016	2015
	(Unaudited)				
	(Dollars in thousands, except per share amounts)				
Interest income:					
Loans and leases	$225,370	$224,326	$193,539	$686,071	$599,417
Investment securities	22,187	22,420	13,955	67,154	40,720
Deposits in financial institutions	298	308	178	914	304
Total interest income	247,855	247,054	207,672	754,139	640,441
Interest expense:					
Deposits	7,247	7,823	10,400	24,143	32,112
Borrowings	695	352	72	1,628	395
Subordinated debentures	5,278	5,122	4,680	15,382	13,787
Total interest expense	13,220	13,297	15,152	41,153	46,294
Net interest income	234,635	233,757	192,520	712,986	594,147
Provision for credit losses	8,471	13,903	8,746	42,514	31,709
Net interest income after provision for credit losses	226,164	219,854	183,774	670,472	562,438
Noninterest income:					
Service charges on deposit accounts	3,488	3,633	2,601	10,977	7,787
Other commissions and fees	12,528	11,073	6,376	35,090	18,895
Leased equipment income	8,538	8,523	5,475	25,305	16,232
Gain on sale of loans and leases	157	388	27	790	190
Gain on sale of securities	382	478	655	8,970	3,744
FDIC loss sharing expense, net	—	(6,502)	(4,449)	(8,917)	(13,955)
Other income	1,827	4,528	5,073	11,365	23,359
Total noninterest income	26,920	22,121	15,758	83,580	56,252
Noninterest expense:					
Compensation	62,661	62,174	48,152	185,900	144,922
Occupancy	12,010	12,193	10,762	36,835	31,950
Data processing	6,234	5,644	4,322	17,782	13,032
Other professional services	4,625	3,401	3,396	11,598	9,949
Insurance and assessments	4,324	4,951	3,805	14,240	11,546
Intangible asset amortization	4,224	4,371	1,497	13,341	4,500
Leased equipment depreciation	5,298	5,286	3,162	15,608	9,368
Foreclosed assets (income) expense, net	(248)	(3)	4,521	(812)	2,517
Acquisition, integration and reorganization costs	—	—	747	200	3,647
Other expense	11,582	12,064	9,775	36,787	28,344
Total noninterest expense	110,710	110,081	90,139	331,479	259,775
Earnings before income taxes	142,374	131,894	109,393	422,573	358,915
Income tax expense	(48,479)	(49,726)	(39,777)	(156,054)	(131,137)
Net earnings	$93,895	$82,168	$69,616	$266,519	$227,778
Earnings per share:					
Basic	$0.77	$0.68	$0.68	$2.19	$2.21
Diluted	$0.77	$0.68	$0.68	$2.19	$2.21

Dividends declared per share	$0.50	$0.50	$0.50	$1.50	$1.50

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,	June 30,	September 30,	September 30,	
	2016	2016	2015	2016	2015
	(Unaudited)				
	(In thousands)				
Net earnings	$93,895	$82,168	$69,616	$266,519	$227,778
Other comprehensive income (loss), net of tax:					
Unrealized net holding gains (losses) on securities available-for-sale arising during the period	(15,954)	56,514	14,466	83,653	616
Income tax (expense) benefit related to net unrealized holding gains (losses) arising during the period	6,509	(22,965)	(5,873)	(34,111)	(364)
Unrealized net holding gains (losses) on securities available-for-sale, net of tax	(9,445)	33,549	8,593	49,542	252
Reclassification adjustment for net (gains) losses included in net earnings [1]	(382)	(478)	(655)	(8,970)	(3,744)
Income tax expense (benefit) related to reclassification adjustment	156	194	266	3,673	1,571
Reclassification adjustment for net (gains) losses included in net earnings, net of tax	(226)	(284)	(389)	(5,297)	(2,173)
Other comprehensive income (loss), net of tax	(9,671)	33,265	8,204	44,245	(1,921)
Comprehensive income	$84,224	$115,433	$77,820	$310,764	$225,857

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

See Notes to Condensed Consolidated Financial Statements.

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

	Nine Months Ended September 30, 2016						
	Common Stock						
	Shares	Par Value	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income	Total
	(Unaudited)						
	(Dollars in thousands)						
Balance, December 31, 2015	121,413,727	$1,228	$4,405,775	$13,907	$(51,047)	$ 27,828	$4,397,691
Net earnings	—	—	—	266,519	—	—	266,519
Other comprehensive income - net unrealized gain on securities available-for-sale, net of tax	—	—	—	—	—	44,245	44,245
Restricted stock awarded and earned stock compensation, net of shares forfeited	528,392	5	17,270	—	—	—	17,275
Restricted stock surrendered	(124,595)	—	—	—	(4,611)	—	(4,611)
Tax effect from vesting of restricted stock	—	—	4,226	—	—	—	4,226
Cash dividends paid	—	—	(182,750)	—	—	—	(182,750)
Balance, September 30, 2016	121,817,524	$1,233	$4,244,521	$280,426	$(55,658)	$ 72,073	$4,542,595

See Notes to Condensed Consolidated Financial Statements.

PACWEST BANCORP AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30, 2016		2015	
	(Unaudited) (In thousands)			
Cash flows from operating activities:				
Net earnings	$ 266,519		$ 227,778	
Adjustments to reconcile net earnings to net cash provided by operating activities:				
Depreciation and amortization	66,114		33,239	
Provision for credit losses	42,514		31,709	
(Gain) loss on sale of foreclosed assets	(837	)	42	
Provision for losses on foreclosed assets	—		5,163	
Gain on sale of loans and leases	(790	)	(190	)
Gain on sale of premises and equipment	(23	)	(54	)
Gain on sale of securities	(8,970	)	(3,744	)
Unrealized gain on derivatives and foreign currencies, net	(374	)	(909	)
Earned stock compensation	17,275		11,836	
Loss on sale of leasing unit	720		—	
Tax effect included in stockholders' equity of restricted stock vesting	(4,226	)	(596	)
Decrease in accrued and deferred income taxes, net	74,946		108,553	
Decrease in other assets	2,070		15,786	
Decrease in accrued interest payable and other liabilities	(23,600	)	(25,336	)
Net cash provided by operating activities	431,338		403,277	
Cash flows from investing activities:				
Net increase in loans and leases	(514,224	)	(612,008	)
Proceeds from sales of loans and leases	106,109		10,557	
Securities available-for-sale:				
	184,644		93,389	

Proceeds from maturities and paydowns				
Proceeds from sales	392,841		212,169	
Purchases	(303,742	)	(557,769	)
Net redemptions of Federal Home Loan Bank stock	324		23,359	
Proceeds from sales of foreclosed assets	7,973		18,772	
Purchases of premises and equipment, net	(6,185	)	(5,872	)
Proceeds from sales of premises and equipment	24		108	
Proceeds from sale of leasing unit	138,955		—	
Proceeds from BOLI death benefit	1,853		—	
Net increase of equipment leased to others under operating leases	(15,802	)	(26,174	)
Net cash used in investing activities	(7,230	)	(843,469	)
Cash flows from financing activities:				
Net increase (decrease) in deposits:				
Noninterest-bearing	352,784		573,101	
Interest-bearing	(371,005	)	(216,717	)
Net (decrease) increase in borrowings	(78,873	)	169,095	
Common stock repurchased	(4,611	)	(8,391	)
Tax effect included in stockholders' equity of restricted stock vesting	4,226		596	
Cash dividends paid	(182,750	)	(154,424	)
Net cash (used in) provided by financing activities	(280,229	)	363,260	
Net increase (decrease) in cash and cash equivalents	143,879		(76,932	)
Cash and cash equivalents, beginning of period	396,486		313,226	
Cash and cash equivalents, end of period	$ 540,365		$ 236,294	
Supplemental disclosures of cash flow information:				
Cash paid for interest	$ 41,392		$ 51,218	
Cash paid for income taxes	82,721		13,760	
Loans transferred to foreclosed assets	129		13,472	
	—		20,833	

Partnership interest transferred to equipment leased to others under operating leases

See Notes to Condensed Consolidated Financial Statements.

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

Note 1. Organization
PacWest Bancorp is a bank holding company registered under the Bank Holding Company Act of 1956, as amended. Our principal business is to serve as the holding company for our wholly-owned banking subsidiary, Pacific Western Bank. References to "Pacific Western" or the "Bank" refer to Pacific Western Bank together with its wholly-owned subsidiaries. References to “we,” "us," “our,” or the “Company,” refer to PacWest Bancorp together with its subsidiaries on a consolidated basis. When we refer to “PacWest” or to the holding company, we are referring to PacWest Bancorp, the parent company, on a stand alone basis. As of September 30, 2016, the Company had total assets of $21.3 billion, gross loans and leases of $14.8 billion, total deposits of $15.6 billion and total stockholders' equity of $4.5 billion.
We are focused on relationship-based business banking to small, middle-market and venture-backed businesses nationwide. The Bank offers a broad range of loan and lease and deposit products and services through 79 full-service branches located throughout the State of California, one branch located in Durham, North Carolina, and several loan production offices located in cities across the country. The Bank provides commercial banking services, including real estate, construction, and commercial loans and leases, and comprehensive deposit and treasury management services to small and middle-market businesses. Pacific Western offers additional products and services through its CapitalSource and Square 1 Bank divisions. CapitalSource provides cash flow, asset-based, equipment and real estate loans and treasury management services to established middle-market businesses on a national basis. Square 1 Bank offers a comprehensive suite of financial services focused on entrepreneurial businesses and their venture capital and private equity investors, with offices located in key innovation hubs across the United States. In addition, we provide investment advisory and asset management services to select clients through Square 1 Asset Management, Inc., a wholly-owned subsidiary of the Bank and a SEC-registered investment adviser. When we refer to "CapitalSource Inc." we are referring to the company acquired on April 7, 2014 and when we refer to the "CapitalSource Division" we are referring to a division of Pacific Western.
We generate our revenue primarily from interest received on loans and leases and, to a lesser extent, from interest received on investment securities, and fees received in connection with deposit services, extending credit and other services offered, including foreign exchange services. Our major operating expenses are compensation, occupancy, general operating expenses, and the interest paid by the Bank on deposits and borrowings.
We have completed 28 acquisitions from May 1, 2000 through September 30, 2016, including the acquisition of Square 1 Financial, Inc. ("Square 1") on October 6, 2015. Our acquisitions have been accounted for using the acquisition method of accounting and, accordingly, the operating results of the acquired entities have been included in the consolidated financial statements from their respective acquisition dates. See Note 2. Acquisitions, for more information about the Square 1 acquisition.
On March 31, 2016, we sold our Pacific Western Equipment Finance ("PWEF") leasing unit in Midvale, Utah, including approximately $139 million of outstanding lease balances.
Significant Accounting Policies
Except as discussed below, our accounting policies are described in Note 1. Nature of Operations and Summary of Significant Accounting Policies, of our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2015 as filed with the Securities and Exchange Commission ("Form 10-K").
Basis of Presentation
Our interim consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Article 10 of Regulation S-X of the Securities Exchange Act of 1934. Accordingly, certain disclosures accompanying annual consolidated financial statements are omitted. In the opinion of management, all significant intercompany accounts and transactions have been eliminated and adjustments, consisting solely of normal recurring accruals and considered necessary for the fair presentation of financial statements for the interim periods, have been included. The current period's results of operations are not necessarily indicative of the results that ultimately may be

achieved for the year. The interim consolidated financial statements and notes thereto should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Form 10-K.

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

Use of Estimates
We have made a number of estimates and assumptions related to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenue and expenses during the reporting period to prepare these condensed consolidated financial statements in conformity with U.S. GAAP. Material estimates subject to change in the near term include, among other items, the allowance for credit losses, the carrying value and useful lives of intangible assets, the realization of deferred tax assets, and the fair value estimates of assets acquired and liabilities assumed in acquisitions. These estimates may be adjusted as more current information becomes available, and any adjustment may be significant.
As described in Note 2. Acquisitions, the acquired assets and liabilities of Square 1 were measured at their estimated fair values. We made significant estimates and exercised significant judgment in estimating fair values and accounting for such acquired assets and assumed liabilities.
Reclassifications
Certain prior period amounts have been reclassified to conform to the current period's presentation format. The operating segments previously reported have been aggregated into one segment to conform to the current period's presentation format.
Note 2. Acquisitions
Square 1 Financial, Inc. Acquisition
We acquired Square 1 on October 6, 2015. As part of the acquisition, Square 1 Bank, a wholly-owned subsidiary of Square 1, merged with and into Pacific Western. At closing, we formed the Square 1 Bank Division of Pacific Western to focus on providing a comprehensive suite of financial services to entrepreneurial businesses and their venture capital and private equity investors nationwide. When we refer to "Square 1", we are referring to the company acquired on October 6, 2015, and when we refer to the "Square 1 Bank Division", we are referring to a division of Pacific Western.
We completed this acquisition to increase our core deposits, expand our nationwide lending platform, and increase our presence in the technology and life-sciences credit markets. The Square 1 acquisition has been accounted for under the acquisition method of accounting. We acquired $4.6 billion of assets and assumed $3.8 billion of liabilities upon closing of the acquisition. The assets and liabilities, both tangible and intangible, were recorded at their estimated fair values as of the acquisition date. We made significant estimates and exercised significant judgment in estimating fair values and accounting for such acquired assets and liabilities. The application of the acquisition method of accounting resulted in goodwill of $446.1 million. All of the recognized goodwill is expected to be non-deductible for tax purposes.

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

Note 3. Goodwill and Other Intangible Assets
Goodwill arises from the acquisition method of accounting for business combinations and represents the excess of the purchase price over the fair value of the net assets and other identifiable intangible assets acquired. Our intangible assets with definite lives are core deposit intangibles ("CDI") and customer relationship intangibles ("CRI"). Goodwill and other intangible assets deemed to have indefinite lives generated from business combinations are not subject to amortization and are instead tested for impairment no less than annually. Impairment exists when the carrying value of goodwill exceeds its implied fair value. An impairment loss would be recognized in an amount equal to that excess and would be included in "Noninterest expense" in the condensed consolidated statements of earnings. CDI and CRI are amortized over their respective estimated useful lives and reviewed for impairment at least quarterly. The amortization expense represents the estimated decline in the value of the underlying deposits or loan and lease customers acquired. The weighted average amortization period remaining for all of our CDI and CRI as of September 30, 2016 is 5.6 years. The aggregate CDI and CRI amortization expense is expected to be $16.5 million for 2016. The estimated aggregate amortization expense related to these intangible assets for each of the next five years is $11.5 million for 2017, $8.8 million for 2018, $6.7 million for 2019, $4.7 million for 2020, and $3.0 million for 2021.
The following table presents the changes in the carrying amount of goodwill for the period indicated:

	Goodwill (In thousands)
Balance, December 31, 2015	$ 2,176,291
Adjustment to acquired Square 1 tax assets	(1,842)
Reduction due to sale of PWEF leasing unit	(500)
Balance, September 30, 2016	$ 2,173,949

Goodwill adjustments include the finalization of the acquired Square 1 net tax assets and the reduction of goodwill in connection with the sale of the PWEF leasing unit. The finalization of the day 1 fair value of the acquired tax assets is due to completion of the 2015 tax returns. Through the sale of the PWEF leasing unit on March 31, 2016, $0.5 million of goodwill was allocated to this business group; such goodwill reduction is included in the $0.7 million loss on sale of the PWEF leasing unit and included in "Other income" in the condensed consolidated statements of earnings.
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, 2016	June 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
	(In thousands)				
Gross Amount of CDI and CRI:					
Balance, beginning of period	$ 76,513	$ 93,824	$ 53,090	$ 95,524	$ 53,090
Fully amortized portion	(2,811)	(17,311)	—	(20,122)	—
Reduction due to sale of PWEF leasing unit	—	—	—	(1,700)	—
Balance, end of period	73,702	76,513	53,090	73,702	53,090
Accumulated Amortization:					
Balance, beginning of period	(32,747)	(45,687)	(38,889)	(42,304)	(35,886)
Amortization	(4,224)	(4,371)	(1,497)	(13,341)	(4,500)
Fully amortized portion	2,811	17,311	—	20,122	—
Reduction due to sale of PWEF leasing unit	—	—	—	1,363	—
Balance, end of period	(34,160)	(32,747)	(40,386)	(34,160)	(40,386)

Net CDI and CRI, end of period	$39,542	$43,766	$12,704	$39,542	$12,704

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

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

	September 30, 2016				December 31, 2015			
Security Type:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)							
Residential mortgage-backed securities ("MBS") and collateralized mortgage obligations ("CMOs"):								
Agency MBS	$518,996	$10,639	$(694)	$528,941	$660,069	$11,517	$(3,746)	$667,840
Agency CMOs	154,216	3,196	(181)	157,231	193,148	2,633	(1,026)	194,755
Private label CMOs	133,917	5,377	(669)	138,625	140,065	5,837	(1,106)	144,796
Municipal securities	1,437,952	84,571	(29)	1,522,494	1,508,968	39,435	(1,072)	1,547,331
Agency commercial MBS	517,163	15,299	(1,189)	531,273	392,729	1,509	(2,797)	391,441
Corporate debt securities	47,155	1,856	—	49,011	49,047	327	(950)	48,424
Collateralized loan obligations	155,373	1,511	(237)	156,647	133,192	128	(1,131)	132,189
SBA securities	185,639	1,909	(248)	187,300	211,946	41	(830)	211,157
US Treasury securities	—	—	—	—	70,196	—	(816)	69,380
Agency debt securities	—	—	—	—	36,302	611	—	36,913
Asset-backed and other securities	69,189	722	(98)	69,813	116,723	119	(1,631)	115,211
Total	$3,219,600	$125,080	$(3,345)	$3,341,335	$3,512,385	$62,157	$(15,105)	$3,559,437

As of September 30, 2016, securities available-for-sale with a carrying value of $342.2 million were pledged as collateral for borrowings, public deposits and other purposes as required by various statutes and agreements.
During the three months ended September 30, 2016, we sold $39.1 million of securities available-for-sale for a gross realized gain of $1.0 million and a gross realized loss of $0.6 million. During the three months ended September 30, 2015, we sold $52.0 million of securities available-for-sale for a gross realized gain of $0.7 million.
During the nine months ended September 30, 2016, we sold $383.9 million of securities available-for-sale for a gross realized gain of $10.5 million and a gross realized loss of $1.6 million. During the nine months ended September 30, 2015, we sold $208.4 million of securities available-for-sale for a gross realized gain of $4.4 million and a gross realized loss of $0.7 million.

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

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

	September 30, 2016					
	Less Than 12 Months		12 Months or More		Total	
Security Type:	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(In thousands)					
Residential MBS and CMOs:						
Agency MBS	$33,817	$ (100)	$130,786	$ (594)	$164,603	$ (694)
Agency CMOs	18,893	(95)	26,476	(86)	45,369	(181)
Private label CMOs	14,552	(98)	29,058	(571)	43,610	(669)
Municipal securities	5,338	(29)	—	—	5,338	(29)
Agency commercial MBS	77,706	(1,189)	—	—	77,706	(1,189)
Collateralized loan obligations	2,506	(5)	39,197	(232)	41,703	(237)
SBA securities	2,956	(9)	39,842	(239)	42,798	(248)
Asset-backed and other securities	5	(2)	14,974	(96)	14,979	(98)
Total	$155,773	$ (1,527)	$280,333	$ (1,818)	$436,106	$ (3,345)

	December 31, 2015					
	Less Than 12 Months		12 Months or More		Total	
Security Type:	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(In thousands)					
Residential MBS and CMOs:						
Agency MBS	$352,042	$(3,480)	$9,342	$ (266)	$361,384	$(3,746)
Agency CMOs	117,786	(1,026)	—	—	117,786	(1,026)
Private label CMOs	93,533	(1,000)	1,638	(106)	95,171	(1,106)
Municipal securities	126,892	(1,061)	531	(11)	127,423	(1,072)
Agency commercial MBS	236,098	(2,156)	14,230	(641)	250,328	(2,797)
US Treasury securities	69,380	(816)	—	—	69,380	(816)
Corporate debt securities	29,379	(950)	—	—	29,379	(950)
Collateralized loan obligations	100,993	(1,131)	—	—	100,993	(1,131)
SBA securities	179,942	(830)	—	—	179,942	(830)
Asset-backed and other securities	71,619	(1,182)	16,091	(449)	87,710	(1,631)
Total	$1,377,664	$(13,632)	$41,832	$ (1,473)	$1,419,496	$(15,105)

We reviewed the securities that were in a loss position at September 30, 2016, and concluded their unrealized losses were not a result of downgraded credit ratings or other indicators of deterioration of the underlying issuers' ability to repay. Such unrealized losses were a result of the level of market interest rates and pricing changes caused by shifting supply and demand dynamics relative to the types of securities. Accordingly, we determined the securities were temporarily impaired and we did not recognize such impairment in the condensed consolidated statements of earnings. Although we occasionally sell securities for portfolio management purposes, we do not foresee having to sell any temporarily impaired securities strictly for liquidity needs and believe that it is more likely than not we would not be required to sell any temporarily impaired securities before recovery of their amortized cost.

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:

	September 30, 2016	
Maturity:	Amortized Cost	Fair Value
	(In thousands)	
Due in one year or less	$8,352	$8,562
Due after one year through five years	252,427	259,096
Due after five years through ten years	714,467	738,034
Due after ten years	2,244,354	2,335,643
Total securities available-for-sale	$3,219,600	$3,341,335

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			Nine Months Ended	
	September 30,	June 30,	September 30,	September 30,	
	2016	2016	2015	2016	2015
	(In thousands)				
Taxable interest	$11,446	$11,406	$ 7,323	$34,248	$22,373
Non-taxable interest	10,333	10,503	6,058	31,562	14,760
Dividend income	408	511	574	1,344	3,587
Total interest income on investment securities	$22,187	$22,420	$ 13,955	$67,154	$40,720

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

Note 5. Loans and Leases

The Company’s loan and lease portfolio includes originated and purchased loans and leases. Originated and purchased loans and leases for which there was no evidence of credit deterioration at their acquisition date and for which it was probable that all contractually required payments would be collected, are referred to collectively as non-purchased credit impaired loans, or "Non-PCI loans." Purchased loans for which there was, at the acquisition date, evidence of credit deterioration since their origination and for which it was deemed probable that we would be unable to collect all contractually required payments, are referred to as purchased credit impaired loans, or "PCI loans".

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

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

The following table summarizes the composition of our loan and lease portfolio as of the dates indicated:

	September 30, 2016			December 31, 2015		
	Non-PCI Loans and Leases	PCI Loans	Total	Non-PCI Loans and Leases	PCI Loans	Total
	(In thousands)					
Real estate mortgage	$5,481,922	$104,896	$5,586,818	$5,706,903	$168,725	$5,875,628
Real estate construction and land	843,097	2,423	845,520	534,307	2,656	536,963
Commercial	8,104,711	12,649	8,117,360	7,977,067	17,415	7,994,482
Consumer	256,476	253	256,729	120,793	299	121,092
Total gross loans and leases	14,686,206	120,221	14,806,427	14,339,070	189,095	14,528,165
Deferred fees, net	(63,559)	(22)	(63,581)	(49,861)	(50)	(49,911)
Total loans and leases, net of deferred fees	14,622,647	120,199	14,742,846	14,289,209	189,045	14,478,254
Allowance for loan and lease losses	(136,747)	(11,229)	(147,976)	(105,534)	(9,577)	(115,111)
Total net loans and leases	$14,485,900	$108,970	$14,594,870	$14,183,675	$179,468	$14,363,143

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

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

	September 30, 2016				
	30 - 89 Days Past Due	90 or More Days Past Due	Total Past Due	Current	Total
	(In thousands)				
Real estate mortgage:					
Commercial	$10,489	$5,772	$16,261	$4,262,571	$4,278,832
Residential	266	2,520	2,786	1,183,323	1,186,109
Total real estate mortgage	10,755	8,292	19,047	5,445,894	5,464,941
Real estate construction and land:					
Commercial	1,245	—	1,245	507,166	508,411
Residential	—	—	—	323,104	323,104
Total real estate construction and land	1,245	—	1,245	830,270	831,515
Commercial:					
Cash flow	66	2,128	2,194	3,063,297	3,065,491
Asset-based	6,644	15	6,659	2,565,142	2,571,801
Venture capital	—	1,095	1,095	1,760,517	1,761,612
Equipment finance	3,304	350	3,654	667,129	670,783
Total commercial	10,014	3,588	13,602	8,056,085	8,069,687
Consumer	—	4	4	256,500	256,504
Total Non-PCI loans and leases	$22,014	$11,884	$33,898	$14,588,749	$14,622,647

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

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

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

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

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

	September 30, 2016			December 31, 2015		
	Nonaccrual	Performing	Total	Nonaccrual	Performing	Total
	(In thousands)					
Real estate mortgage:						
Commercial	$74,606	$4,204,226	$4,278,832	$52,363	$4,499,595	$4,551,958
Residential	5,089	1,181,020	1,186,109	4,914	1,131,191	1,136,105
Total real estate mortgage	79,695	5,385,246	5,464,941	57,277	5,630,786	5,688,063
Real estate construction and land:						
Commercial	1,245	507,166	508,411	—	343,360	343,360
Residential	366	322,738	323,104	372	183,988	184,360
Total real estate construction and land	1,611	829,904	831,515	372	527,348	527,720
Commercial:						
Cash flow	27,831	3,037,660	3,065,491	15,800	3,046,468	3,062,268
Asset-based	4,044	2,567,757	2,571,801	2,505	2,545,028	2,547,533
Venture capital	10,782	1,750,830	1,761,612	124	1,452,303	1,452,427
Equipment finance	46,916	623,867	670,783	51,410	838,939	890,349
Total commercial	89,573	7,980,114	8,069,687	69,839	7,882,738	7,952,577
Consumer	206	256,298	256,504	1,531	119,318	120,849
Total Non-PCI loans and leases	$171,085	$14,451,562	$14,622,647	$129,019	$14,160,190	$14,289,209

At September 30, 2016, nonaccrual loans and leases totaled $171.1 million and included $11.9 million of loans and leases 90 or more days past due, $13.2 million of loans and leases 30 to 89 days past due, and $146.0 million of loans and leases current with respect to contractual payments that were placed on nonaccrual status based on management’s judgment regarding their collectability. Nonaccrual loans and leases totaled $129.0 million at December 31, 2015, including $16.8 million of the loans and leases 90 or more days past due, $3.6 million of loans and leases 30 to 89 days past due, and $108.6 million of current loans and leases that were placed on nonaccrual status based on management’s judgment regarding their collectability.

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

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

	September 30, 2016			December 31, 2015		
	Classified	Nonclassified	Total	Classified	Nonclassified	Total
	(In thousands)					
Real estate mortgage:						
Commercial	$104,914	$4,173,918	$4,278,832	$98,436	$4,453,522	$4,551,958
Residential	15,876	1,170,233	1,186,109	12,627	1,123,478	1,136,105
Total real estate mortgage	120,790	5,344,151	5,464,941	111,063	5,577,000	5,688,063
Real estate construction and land:						
Commercial	1,839	506,572	508,411	571	342,789	343,360
Residential	366	322,738	323,104	1,395	182,965	184,360
Total real estate construction and land	2,205	829,310	831,515	1,966	525,754	527,720
Commercial:						
Cash flow	174,490	2,891,001	3,065,491	183,726	2,878,542	3,062,268
Asset-based	34,791	2,537,010	2,571,801	19,340	2,528,193	2,547,533
Venture capital	37,986	1,723,626	1,761,612	19,105	1,433,322	1,452,427
Equipment finance	46,916	623,867	670,783	54,054	836,295	890,349
Total commercial	294,183	7,775,504	8,069,687	276,225	7,676,352	7,952,577
Consumer	363	256,141	256,504	2,500	118,349	120,849
Total Non-PCI loans and leases	$417,541	$14,205,106	$14,622,647	$391,754	$13,897,455	$14,289,209

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

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

	September 30, 2016			December 31, 2015		
	Nonaccrual Loans and Leases	Performing Troubled Debt Restructured Loans	Total Impaired Loans and Leases	Nonaccrual Loans and Leases	Performing Troubled Debt Restructured Loans	Total Impaired Loans and Leases
	(In thousands)					
Real estate mortgage	$79,695	$ 59,793	$139,488	$57,277	$ 27,133	$84,410
Real estate construction and land	1,611	7,089	8,700	372	7,631	8,003
Commercial	89,573	3,250	92,823	69,839	5,221	75,060
Consumer	206	216	422	1,531	197	1,728
Total	$171,085	$ 70,348	$241,433	$129,019	$ 40,182	$169,201

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

	September 30, 2016			December 31, 2015		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
	(In thousands)					
With An Allowance Recorded:						
Real estate mortgage:						
Commercial	$67,821	$68,852	$ 7,055	$17,967	$19,219	$ 777
Residential	2,517	2,573	244	2,278	2,435	681
Real estate construction and land:						
Residential	736	736	11	747	747	26
Commercial:						
Cash flow	25,936	26,971	4,686	14,072	20,312	7,079
Asset-based	4,136	4,584	2,899	3,901	4,423	2,511
Venture capital	10,781	10,856	3,331	—	—	—
Equipment finance	46,916	52,908	12,715	11,193	11,894	8,032
Consumer	346	355	179	365	372	157
With No Related Allowance Recorded:						
Real estate mortgage:						
Commercial	$59,090	$68,390		$58,678	$68,333	
Residential	10,060	15,309		5,487	11,406	
Real estate construction and land:						
Commercial	7,964	7,964		7,256	7,256	
Commercial:						
Cash flow	2,519	4,783		2,825	5,121	
Asset-based	2,535	2,575		2,729	2,726	
Venture capital	—	—		124	125	
Equipment finance	—	11,709		40,216	44,194	
Consumer	76	146		1,363	1,945	
Total Non-PCI Loans and Leases With and Without an Allowance Recorded:						
Real estate mortgage	$139,488	$155,124	$ 7,299	$84,410	$101,393	$ 1,458
Real estate construction and land	8,700	8,700	11	8,003	8,003	26
Commercial	92,823	114,386	23,631	75,060	88,795	17,622
Consumer	422	501	179	1,728	2,317	157
Total	$241,433	$278,711	$ 31,120	$169,201	$200,508	$ 19,263

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

	Three Months Ended September 30,			
	2016		2015	
	Weighted Average Balance[1]	Interest Income Recognized	Weighted Average Balance[1]	Interest Income Recognized
	(In thousands)			
With An Allowance Recorded:				
Real estate mortgage:				
Commercial	$ 18,580	$ 262	$ 13,230	$ 152
Residential	2,505	15	2,478	9
Real estate construction and land:				
Residential	736	4	751	4
Commercial:				
Cash flow	25,933	9	13,653	13
Asset-based	2,730	5	4,906	48
Venture capital	6,878	—	—	—
Equipment finance	42,913	—	9,654	—
Consumer	346	3	394	4
With No Related Allowance Recorded:				
Real estate mortgage:				
Commercial	$ 59,090	$ 518	$ 36,534	$ 243
Residential	9,573	70	6,061	14
Real estate construction and land:				
Commercial	7,870	57	7,193	62
Commercial:				
Cash flow	2,330	1	2,942	1
Asset-based	2,535	37	1,487	21
Equipment finance	—	—	43,406	—
Consumer	76	—	3,208	—
Total Non-PCI Loans and Leases With and Without an				

Allowance Recorded:				
Real estate mortgage	$ 89,748	$ 865	$ 58,303	$ 418
Real estate construction and land	8,606	61	7,944	66
Commercial	83,319	52	76,048	83
Consumer	422	3	3,602	4
Total	$ 182,095	$ 981	$ 145,897	$ 571

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

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

	Nine Months Ended September 30,			
	2016		2015	
	Weighted Average Balance[1]	Interest Income Recognized	Weighted Average Balance[1]	Interest Income Recognized
	(In thousands)			
With An Allowance Recorded:				
Real estate mortgage:				
Commercial	$18,220	$ 781	$13,155	$ 449
Residential	2,325	42	2,334	24
Real estate construction and land:				
Residential	736	11	751	12
Commercial:				
Cash flow	20,417	26	13,225	35
Asset-based	2,278	14	3,906	67
Venture capital	2,542	—	—	—
Equipment finance	41,587	—	6,905	—
Consumer	330	8	375	11
With No Related Allowance Recorded:				
Real estate mortgage:				
Commercial	$54,747	$ 1,209	$33,263	$ 674
Residential	6,990	130	5,046	26
Real estate construction and land:				
Commercial	7,106	169	7,021	176
Commercial:				
Cash flow	2,232	1	2,917	86
Asset-based	1,828	77	1,238	51
Equipment finance	—	—	29,088	—
Consumer	74	1	3,208	—
Total Non-PCI Loans and Leases With and Without an Allowance Recorded:				
Real estate mortgage	$82,282	$ 2,162	$53,798	$ 1,173
Real estate construction and land	7,842	180	7,772	188
Commercial	70,884	118	57,279	239
Consumer	404	9	3,583	11
Total	$161,412	$ 2,469	$122,432	$ 1,611

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

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

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

	Three Months Ended September 30,					
	2016			2015		
Troubled Debt Restructurings:	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
	(Dollars in thousands)					
Real estate mortgage:						
Commercial	2	$ 1,147	$ 1,147	3	$ 574	$ 574
Residential	1	93	93	2	382	382
Real estate construction and land:						
Commercial	1	1,245	1,245	3	7,333	7,333
Commercial:						
Cash flow	2	25	25	9	883	883
Asset-based	1	25	25	1	3,431	3,431
Equipment finance	1	39,912	39,912	—	—	—
Consumer	1	21	21	1	106	106
Total	9	$ 42,468	$ 42,468	19	$ 12,709	$ 12,709

	Nine Months Ended September 30,					
	2016			2015		
Troubled Debt Restructurings:	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
	(Dollars in thousands)					
Real estate mortgage:						
Commercial	7	$ 5,287	$ 5,287	15	$ 7,080	$ 7,031
Residential	7	5,136	5,136	14	2,426	2,260
Real estate construction and land:						
Commercial	1	1,245	1,245	6	16,947	16,947
Commercial:						
Cash flow	12	30,582	30,582	17	1,756	1,577
Asset-based	5	2,158	2,158	13	8,139	8,139
Equipment finance	7	44,196	42,572	9	53,338	53,338
Consumer	4	819	111	2	197	197
Total	43	$ 89,423	$ 87,091	76	$ 89,883	$ 89,489

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

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

Troubled Debt Restructurings That Subsequently Defaulted:	Three Months Ended September 30, 2016 Number of Loans	2016 Recorded Investment(1)		2015 Number of Loans	2015 Recorded Investment(1)	
	(Dollars in thousands)					
Real estate mortgage:						
Commercial	—	$ —		1	$ 1,761	
Residential	—	—		2	276	
Real estate construction:						
Commercial	1	1,245		—	—	
Commercial:						
Asset-based	1	2		—	—	
Total	2	$ 1,247	(2)	3	$ 2,037	(3)

(1) The population of defaulted restructured loans for the period indicated includes only those loans restructured during the preceding 12-month period. The table excludes defaulted troubled restructurings in those classes for which the recorded investment was zero at the end of the period.
(2) Represents the balance at September 30, 2016, and there were no charge-offs.
(3) Represents the balance at September 30, 2015, and there were no charge-offs.

Troubled Debt Restructurings That Subsequently Defaulted:	Nine Months Ended September 30, 2016 Number of Loans	2016 Recorded Investment(1)		2015 Number of Loans	2015 Recorded Investment(1)	
	(Dollars in thousands)					
Real estate mortgage:						
Commercial	—	$ —		2	$ 2,710	
Residential	—	—		3	530	
Real estate construction and land:						
Commercial	1	1,245		—	—	
Commercial:						
Asset-based	1	2		—	—	
Equipment finance	1	39,912	(4)	—	—	
Total	3	$ 41,159	(2)	5	$ 3,240	(3)

(1) The population of defaulted restructured loans for the period indicated includes only those loans restructured during the preceding 12-month period. The table excludes defaulted troubled restructurings in those classes for which the recorded investment was zero at the end of the period.
(2) Represents the balance at September 30, 2016, and there were no charge-offs.
(3) Represents the balance at September 30, 2015, and there were no charge-offs.
(4) The term of the modification for this loan expired in the second quarter of 2016 and was not renewed until the third quarter of 2016. Thus, the loan was in payment default under the loan's original terms at June 30, 2016.

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Allowance for Loan and Lease Losses
The following tables present a summary of the activity in the allowance for loan and lease losses on Non PCI loans and leases by portfolio segment and PCI loans for the periods indicated:

	Three Months Ended September 30, 2016						
	Real Estate Mortgage	Real Estate Construction and Land	Commercial	Consumer	Total Non-PCI	Total PCI	Total
	(In thousands)						
Allowance for Loan and Lease Losses:							
Balance, beginning of period	$29,331	$ 7,853	$ 93,404	$ 1,412	$132,000	$11,289	$143,289
Charge-offs	(302)	—	(9,606)	(16)	(9,924)	(531)	(10,455)
Recoveries	2,414	27	3,553	56	6,050	—	6,050
Provision	5,498	803	2,240	80	8,621	471	9,092
Balance, end of period	$36,941	$ 8,683	$ 89,591	$ 1,532	$136,747	$11,229	$147,976

	Nine Months Ended September 30, 2016						
	Real Estate Mortgage	Real Estate Construction and Land	Commercial	Consumer	Total Non-PCI	Total PCI	Total
	(In thousands)						
Allowance for Loan and Lease Losses:							
Balance, beginning of period	$36,654	$ 7,137	$61,082	$661	$105,534	$9,577	$115,111
Charge-offs	(1,905)	—	(14,306)	(798)	(17,009)	(862)	(17,871)
Recoveries	4,352	185	4,179	95	8,811	—	8,811
Provision (negative provision)	(2,160)	1,361	38,636	1,574	39,411	2,514	41,925
Balance, end of period	$36,941	$ 8,683	$89,591	$1,532	$136,747	$11,229	$147,976
Amount of the allowance applicable to loans and leases:							
Individually evaluated for impairment	$7,299	$ 11	$23,631	$179	$31,120		
Collectively evaluated for impairment	$29,642	$ 8,672	$65,960	$1,353	$105,627		
Acquired loans with deteriorated credit quality						$11,229	
The ending balance of the loan and lease portfolio is							

composed of loans and leases:							
Individually evaluated for impairment	$139,059	$ 8,700	$92,637	$376	$240,772		
Collectively evaluated for impairment	$5,325,882	$ 822,815	$7,977,050	$256,128	$14,381,875		
Acquired loans with deteriorated credit quality						$120,199	
Ending balance of loans and leases	$5,464,941	$ 831,515	$8,069,687	$256,504	$14,622,647	$120,199	$14,742,846

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	Three Months Ended September 30, 2015						
	Real Estate Mortgage	Real Estate Construction and Land	Commercial	Consumer	Total Non-PCI	Total PCI	Total
	(In thousands)						
Allowance for Loan and Lease Losses:							
Balance, beginning of period	$29,908	$ 3,908	$ 50,531	$ 700	$85,047	$14,328	$99,375
Charge-offs	(252)	—	(4,035)	(25)	(4,312)	(1,119)	(5,431)
Recoveries	288	390	239	164	1,081	—	1,081
Provision (negative provision)	4,355	93	6,137	(85)	10,500	(2,254)	8,246
Balance, end of period	$34,299	$ 4,391	$ 52,872	$ 754	$92,316	$10,955	$103,271

	Nine Months Ended September 30, 2015						
	Real Estate Mortgage	Real Estate Construction and Land	Commercial	Consumer	Total Non-PCI	Total PCI	Total
	(In thousands)						
Allowance for Loan and Lease Losses:							
Balance, beginning of period	$25,097	$4,248	$39,858	$1,253	$70,456	$13,999	$84,455
Charge-offs	(1,767)	—	(12,964)	(115)	(14,846)	(1,698)	(16,544)
Recoveries	1,783	1,034	2,393	392	5,602	112	5,714
Provision (negative provision)	9,186	(891)	23,585	(776)	31,104	(1,458)	29,646
Balance, end of period	$34,299	$4,391	$52,872	$754	$92,316	$10,955	$103,271
Amount of the allowance applicable to loans and leases:							
Individually evaluated for impairment	$1,443	$31	$10,343	$158	$11,975		
Collectively evaluated for impairment	$32,856	$4,360	$42,529	$596	$80,341		
Acquired loans with deteriorated credit quality						$10,955	
The ending balance of the loan and lease portfolio is composed of loans and leases:							

Individually evaluated for impairment	$58,393	$ 8,047	$76,088	$3,540	$146,068		
Collectively evaluated for impairment	$5,446,694	$ 364,433	$6,175,440	$126,281	$12,112,848		
Acquired loans with deteriorated credit quality						$193,289	
Ending balance of loans and leases	$5,505,087	$ 372,480	$6,251,528	$129,821	$12,258,916	$193,289	$12,452,205

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

Property Type:	September 30, 2016	December 31, 2015
	(In thousands)	
Commercial real estate	$—	$ 487
Construction and land development	13,800	13,801
Single family residence	—	952
Total other real estate owned, net	13,800	15,240
Other foreclosed assets	1,313	6,880
Total foreclosed assets, net	$15,113	$ 22,120

The following table presents the changes in foreclosed assets, net of the valuation allowance, for the period indicated:

	Foreclosed Assets
	(In thousands)
Balance, December 31, 2015	$ 22,120
Foreclosures	129
Reductions related to sales	(7,136)
Balance, September 30, 2016	$ 15,113

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

	September 30, 2016		December 31, 2015	
	Amount	Rate	Amount	Rate
	(Dollars in thousands)			
Non recourse debt	$1,011	6.31%	$3,914	5.49%
FHLB secured advances	410,000	0.37%	618,000	0.27%
FHLB unsecured overnight advance	90,000	0.35%	—	— %
American Financial Exchange overnight borrowing	40,000	0.55%	—	— %
Total borrowings	$541,011		$621,914	

The non recourse debt represents the payment stream of certain equipment leases sold to third parties. The debt is secured by the leased equipment and all interest rates are fixed. As of September 30, 2016, this debt had a weighted average remaining maturity of 2.0 years.

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

FHLB Secured Lines of Credit. The borrowing arrangement with the FHLB is based on an FHLB program collateralized by a blanket lien on certain qualifying loans that are not pledged to the FRBSF. As of September 30, 2016, the borrowing capacity under the FHLB secured borrowing lines was $2.0 billion. As of September 30, 2016, the balance outstanding was $410.0 million, which consisted of a $210.0 million overnight advance and a $200.0 million one-month advance with an October 31, 2016 maturity date. As of December 31, 2015, the entire outstanding balance of $618.0 million was an overnight advance.

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FRBSF Secured Line of Credit. The Bank has a secured line of credit with the FRBSF. As of September 30, 2016, the Bank had secured borrowing capacity of $2.4 billion collateralized by liens covering $3.3 billion of certain qualifying loans. As of September 30, 2016 and December 31, 2015, there were no balances outstanding.
Federal Funds Arrangements with Commercial Banks. As of September 30, 2016, the Bank had uncommitted unsecured lines of credit of $80.0 million with correspondent banks for the purchase of overnight funds, subject to availability of funds. These lines are renewable annually and have no unused commitment fees. As of September 30, 2016 and December 31, 2015, there were no balances outstanding. In March 2016, the Bank became a member of the American Financial Exchange, through which it may either borrow or lend funds on an overnight basis with a group of pre-approved commercial banks. The availability of funds changes daily. As of September 30, 2016, the balance outstanding was $40.0 million.
FHLB Unsecured Line of Credit. The Bank has a $99.0 million unsecured line of credit with the FHLB for the purchase of overnight funds of which $90.0 million was outstanding at September 30, 2016. There was no balance outstanding at December 31, 2015.
Subordinated Debentures
The following table summarizes the terms of each issuance of subordinated debentures outstanding as of the dates indicated:

	September 30, 2016		December 31, 2015		Date	Maturity	Rate Index
Series:	Amount	Rate	Amount	Rate	Issued	Date	(Quarterly Reset)
	(Dollars in thousands)						
Trust V	$10,310	3.96%	$10,310	3.63%	8/15/2003	9/17/2033	3 month LIBOR + 3.10
Trust VI	10,310	3.90%	10,310	3.39%	9/3/2003	9/15/2033	3 month LIBOR + 3.05
Trust CII	5,155	3.81%	5,155	3.35%	9/17/2003	9/17/2033	3 month LIBOR + 2.95
Trust VII	61,856	3.51%	61,856	3.07%	2/5/2004	4/23/2034	3 month LIBOR + 2.75
Trust CIII	20,619	2.54%	20,619	2.20%	8/15/2005	9/15/2035	3 month LIBOR + 1.69
Trust FCCI	16,495	2.45%	16,495	2.11%	1/25/2007	3/15/2037	3 month LIBOR + 1.60
Trust FCBI	10,310	2.40%	10,310	2.06%	9/30/2005	12/15/2035	3 month LIBOR + 1.55
Trust CS 2005-1	82,475	2.80%	82,475	2.46%	11/21/2005	12/15/2035	3 month LIBOR + 1.95
Trust CS 2005-2	128,866	2.71%	128,866	2.27%	12/14/2005	1/30/2036	3 month LIBOR + 1.95
Trust CS 2006-1	51,545	2.71%	51,545	2.27%	2/22/2006	4/30/2036	3 month LIBOR + 1.95
Trust CS 2006-2	51,550	2.71%	51,550	2.27%	9/27/2006	10/30/2036	3 month LIBOR + 1.95
Trust CS 2006-3 (1)	28,940	1.75%	28,007	1.98%	9/29/2006	10/30/2036	3 month EURIBOR + 2.05
Trust CS 2006-4	16,470	2.71%	16,470	2.27%	12/5/2006	1/30/2037	3 month LIBOR + 1.95
Trust CS 2006-5	6,650	2.71%	6,650	2.27%	12/19/2006	1/30/2037	3 month LIBOR + 1.95
Trust CS 2007-2	39,177	2.71%	39,177	2.27%	6/13/2007	7/30/2037	3 month LIBOR + 1.95
Gross subordinated debentures	540,728		539,795				
Unamortized discount (2)	(99,616)		(103,795)				
Net subordinated debentures	$441,112		$436,000				

(1) Denomination is in Euros with a value of €25.8 million.
(2) Amount represents the fair value adjustment on subordinated debentures assumed in acquisitions.
Interest payments made by the Company on subordinated debentures are considered dividend payments under the Board of Governors of the Federal Reserve System ("FRB") regulations. Bank holding companies, such as PacWest, are required to notify the FRB prior to declaring and paying a dividend during any period in which quarterly and/or

cumulative twelve month net earnings are insufficient to fund the dividend amount, among other requirements.

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Note 8. Commitments and Contingencies
Lending Commitments
The Company is a party to financial instruments with off balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit, and commitments to purchase equipment being acquired for lease to others. Those instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the condensed consolidated balance sheets. The contract or notional amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments.
The following table presents a summary of the financial instruments described above as of the dates indicated:

	September 30, 2016	December 31, 2015
	(In thousands)	
Loan commitments to extend credit	$4,156,147	$3,580,655
Standby letters of credit	204,616	210,292
Commitments to purchase equipment being acquired for lease to others	—	6,663
	$4,360,763	$3,797,610

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.
Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. We provide standby letters of credit in conjunction with several of our lending arrangements and property lease obligations. Most guarantees expire within one year from the date of issuance. If a borrower defaults on its commitments subject to any letter of credit issued under these arrangements, we would be required to meet the borrower's financial obligation but would seek repayment of that financial obligation from the borrower. In some cases, borrowers have pledged cash and investment securities as collateral with us under these arrangements.
In addition, we invest in low income housing project partnerships, which provide income tax credits, and in small business investment companies that call for capital contributions up to an amount specified in the partnership agreements. As of September 30, 2016 and December 31, 2015, we had commitments to contribute capital to these entities totaling $25.6 million and $19.2 million. We also had commitments to contribute up to an additional $3.0 million and $2.8 million to private equity funds at September 30, 2016 and December 31, 2015. In addition, at September 30, 2016 we had commitments to purchase approximately $105 million of loans, which commitments terminate in June 2017. The amount purchased will be based, in part, on the amount of portfolio paydowns which occur during the commitment period.
Legal Matters
In the ordinary course of our business, the Company is party to various legal actions, which we believe are incidental to the operation of our business. The outcome of such legal actions and the timing of ultimate resolution are inherently difficult to predict. In the opinion of management, based upon currently available information, any resulting liability, in addition to amounts already accrued, and taking into consideration insurance which may be applicable, would not have a material adverse effect on the Company’s financial statements or operations.
Kinde Durkee Investigation
The United States Attorney's Office for the Eastern District of California is conducting an investigation relating to the handling by First California Bank ("FCB") of its banking relationship with Kinde Durkee. Ms. Durkee, who had maintained certain of her accounts with FCB, was convicted in 2012 of embezzling funds from certain California politicians, among others. FCB was acquired by PacWest Bancorp and merged into Pacific Western Bank in May

2013. We understand that the investigation is focused on whether any civil or criminal laws were violated by FCB or its employees. Pacific Western is cooperating with the investigation.

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Note 9. Fair Value Measurements
ASC Topic 820, "Fair Value Measurement," defines fair value, establishes a framework for measuring fair value including a three level valuation hierarchy, and expands disclosures about fair value measurements. Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date reflecting assumptions that a market participant would use when pricing an asset or liability. The hierarchy uses three levels of inputs to measure the fair value of assets and liabilities as follows:

- Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2: Observable inputs other than Level 1, including quoted prices for similar assets and liabilities in active markets, quoted prices in less active markets, or other observable inputs that can be corroborated by observable market data, either directly or indirectly, for substantially the full term of the financial instrument. This category generally includes municipal securities, agency residential and commercial MBS, collateralized loan obligations, registered publicly rated private label CMOs and asset-backed securitizations.
- Level 3: Inputs to a valuation methodology that are unobservable, supported by little or no market activity, and significant to the fair value measurement. These valuation methodologies generally include pricing models, discounted cash flow models, or a determination of fair value that requires significant management judgment or estimation. This category also includes observable inputs from a pricing service not corroborated by observable market data, and includes our non-rated private label CMOs, non-rated private label asset-backed securities, and equity warrants.

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

	Fair Value Measurements as of September 30, 2016			
Measured on a Recurring Basis:	Total	Level 1	Level 2	Level 3
	(In thousands)			
Securities available for sale:				
Residential MBS and CMOs:				
Agency MBS	$528,941	$—	$528,941	$—
Agency CMOs	157,231	—	157,231	—
Private label CMOs	138,625	—	75,804	62,821
Municipal securities	1,522,494	—	1,522,494	—
Agency commercial MBS	531,273	—	531,273	—
Corporate debt securities	49,011	—	49,011	—
Collateralized loan obligations	156,647	—	156,647	—
SBA securities	187,300	—	187,300	—
Asset-backed and other securities	69,813	2,177	52,612	15,024
Total securities available-for-sale	3,341,335	2,177	3,261,313	77,845
Derivative assets	1,261	—	1,261	—
Equity warrants	5,108	—	—	5,108
Total recurring assets	$3,347,704	$2,177	$3,262,574	$82,953

Derivative liabilities	$1,829	$—	$1,829	$—

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

There were no transfers of assets either between Level 1 and Level 2 nor in or out of Level 3 of the fair value hierarchy for assets measured on a recurring basis during the nine months ended September 30, 2016.
The following table presents information about quantitative inputs and assumptions used to determine the fair values provided by our third party pricing service for our Level 3 private label CMOs and asset-backed securities available-for-sale measured at fair value on a recurring basis as of September 30, 2016:

	Private Label CMOs		Asset-Backed Securities	
Unobservable Inputs:	Range of Inputs	Weighted Average Input	Range of Inputs	Weighted Average Input
Voluntary annual prepayment speeds	0.0% - 27.6%	11.5%	5% - 40%	14.7%
Annual default rates	0.0% - 15.0%	2.1%	1% - 8%	3.7%
Loss severity rates	0.0% - 94.5%	33.1%	10% - 91%	54.3%
Discount rates	0.9% - 15.0%	3.6%	2.1% - 7.2%	2.9%

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The following table presents information about quantitative inputs and assumptions used in the modified Black-Scholes option pricing model to determine the fair value for our Level 3 equity warrants measured at fair value on a recurring basis as of September 30, 2016:

Unobservable Inputs:	Equity Warrants Weighted Average Input
Volatility	19.3%
Risk-free interest rate	1.0%
Remaining life assumption (in years)	3.8

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

	Private Label CMOs	Asset-Backed Securities	Equity Warrants
	(In thousands)		
Balance, December 31, 2015	$81,241	$ 18,200	$4,914
Total included in earnings	1,252	47	301
Total included in other comprehensive income	(1,399)	(5)	—
Sales	—	—	(1,597)
Issuances	—	—	1,490
Net settlements	(18,273)	(3,218)	—
Balance, September 30, 2016	$62,821	$ 15,024	$5,108

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

Measured on a Non Recurring Basis:	Fair Value Measurement as of September 30, 2016 Total	Level 1	Level 2	Level 3
	(In thousands)			
Impaired Non PCI loans	$131,149	$ —	$ 817	$130,332

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

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

Losses on Assets Measured on a Non Recurring Basis:	Three Months Ended September 30, 2016	2015	Nine Months Ended September 30, 2016	2015
	(In thousands)			
Impaired Non PCI loans	$12,935	$873	$27,301	$7,623
Other real estate owned	—	4,758	—	4,882
Total losses	$12,935	$5,631	$27,301	$12,505

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

Asset:	Fair Value	Valuation Technique	Unobservable Inputs	Range	Weighted Average
	(In thousands)				
Impaired Non-PCI loans	$ 45,571	Discounted cash flows	Discount rates	0% - 8.00%	6.12%
	73,775	Third party appraisals	Discounts	9.00% - 22.00%	17.17%
	10,986	Third party appraisals	No discounts		
Total non-recurring Level 3	$ 130,332				

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

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

	September 30, 2016 Carrying or Contract Amount	Estimated Fair Value Total	Level 1	Level 2	Level 3
	(In thousands)				
Financial Assets:					
Cash and due from banks	$286,371	$286,371	$286,371	$ —	$ —
Interest earning deposits in financial institutions	253,994	253,994	253,994	—	—
Securities available for sale	3,341,335	3,341,335	2,177	3,261,313	77,845
Investment in FHLB stock	19,386	19,386	—	19,386	—
Investments carried at cost	1,700	4,408	—	—	4,408
Loans and leases, net	14,594,870	14,707,667	—	817	14,706,850
Derivative assets	1,261	1,261	—	1,261	—
Equity warrants	5,108	5,108	—	—	5,108
Financial Liabilities:					
Deposits:					
Demand, money market, interest checking, and savings deposits	13,092,753	13,092,753	—	13,092,753	—
Time deposits	2,552,915	2,549,662	—	2,549,662	—
Borrowings	541,011	541,067	340,000	201,067	—

Subordinated debentures	441,112	424,874	—	424,874	—
Derivative liabilities	1,829	1,829	—	1,829	—

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

For information regarding the valuation methodologies used to measure our assets recorded at fair value (under ASC Topic 820), and for estimating fair value for financial instruments not recorded at fair value (under ASC Topic 825), see Note 1. Nature of Operations and Summary of Significant Accounting Policies, and Note 13. Fair Value Measurements, to the Consolidated Financial Statements of the Company's 2015 Annual Report on Form 10-K.

Limitations

Fair value estimates are made at a specific point in time and are based on relevant market information and information about the financial instrument. These estimates do not reflect income taxes or any premium or discount that could result from offering for sale at one time the Company’s entire holdings of a particular financial instrument. Because no market exists for a portion of the Company’s financial instruments, fair value estimates are based on what management believes to be reasonable judgments regarding expected future cash flows, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimated fair values are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates. Since the fair values have been estimated as of September 30, 2016, the amounts that will actually be realized or paid at settlement or maturity of the instruments could be significantly different.

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

Note 10. Earnings Per Share
The following table presents the computations of basic and diluted net earnings per share for the periods indicated:

	Three Months Ended			Nine Months Ended	
	September 30,	June 30,	September 30,	September 30,	
	2016	2016	2015	2016	2015
	(Dollars in thousands, except per share data)				
Basic Earnings Per Share:					
Net earnings	$93,895	$82,168	$69,616	$266,519	$227,778
Less: Earnings allocated to unvested restricted stock (1)	(1,048)	(863)	(649)	(2,983)	(2,213)
Net earnings allocated to common shares	$92,847	$81,305	$68,967	$263,536	$225,565
Weighted-average basic shares and unvested restricted stock outstanding	121,818	121,799	103,048	121,739	103,038
Less: Weighted-average unvested restricted stock outstanding	(1,401)	(1,481)	(985)	(1,425)	(1,055)
Weighted-average basic shares outstanding	120,417	120,318	102,063	120,314	101,983
Basic earnings per share	$0.77	$0.68	$0.68	$2.19	$2.21
Diluted Earnings Per Share:					
Net earnings allocated to common shares	$92,847	$81,305	$68,967	$263,536	$225,565
Weighted-average basic shares outstanding	120,417	120,318	102,063	120,314	101,983
Diluted earnings per share	$0.77	$0.68	$0.68	$2.19	$2.21

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

Note 11. Stock-Based Compensation
The Company’s 2003 Stock Incentive Plan, or the 2003 Plan, permits stock-based compensation awards to officers, directors, key employees and consultants. As of September 30, 2016, the 2003 Plan authorized grants of stock based compensation instruments to purchase or issue up to 19,686,565 shares of Company common stock, subject to adjustments provided by the 2003 Plan. As of September 30, 2016, there were 12,450,068 shares available for grant under the 2003 Plan.
Restricted stock amortization totaled $5.6 million, $6.0 million, and $3.8 million for the three months ended September 30, 2016, June 30, 2016 and September 30, 2015 and, $16.6 million and $11.2 million for the nine months ended September 30, 2016 and 2015. Such amounts are included in "Compensation expense" on the condensed consolidated statements of earnings. The amount of unrecognized compensation expense related to unvested time-based restricted stock awards ("TRSAs") and performance-based restricted stock units ("PRSUs") as of September 30, 2016 totaled $45.7 million.
Time-Based Restricted Stock Awards
At September 30, 2016, there were 1,397,715 shares of unvested TRSAs outstanding. The TRSAs generally vest over a service period of three or four years from the date of the grant or immediately upon the death of an employee. Compensation expense related to TRSAs is based on the fair value of the underlying stock on the award date and is recognized over the vesting period using the straight line method.

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

Performance-Based Restricted Stock Units
At September 30, 2016, there were 153,715 units of unvested PRSUs outstanding. The PRSUs will vest only if performance goals with respect to certain financial metrics are met over a three-year performance period. Compensation expense related to PRSUs is based on the fair value of the underlying stock on the award date and is amortized over the vesting period using the straight-line method unless it is determined that: (1) attainment of the financial metrics is less than probable, in which case a portion of the amortization is suspended, or (2) attainment of the financial metrics is improbable, in which case a portion of the previously recognized amortization is reversed and also suspended. In the case where the performance target for the PRSU’s is based on a market condition (such as total shareholder return), the amortization is neither reversed nor suspended if it is subsequently determined that the attainment of the performance target is less than probable or improbable.
Note 12. Recently Issued Accounting Standards
In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, "Revenue Recognition (Topic 606): Revenue from Contracts with Customers." ASU 2014-09 requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU 2014-09 will replace most existing revenue recognition guidance in GAAP when it becomes effective. The standard permits the use of either the retrospective or cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14, "Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date," which deferred the effective date of ASU 2014-09 to annual and interim periods beginning after December 15, 2017, while earlier application is permitted only for annual and interim periods beginning after December 31, 2016. The Company has not yet selected a transition method and does not expect the provisions of ASU 2014-09 to have a material impact on its consolidated financial position or results of operations. The Company will adopt this standard effective January 1, 2018.
In January 2016, the FASB issued ASU 2016-01, "Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities," which will significantly change the income statement impact of equity investments and the recognition of changes in fair value of financial liabilities when the fair value option is elected. For equity investments with readily determinable fair values, entities must measure these investments at fair value and recognize changes in fair value in net income. For equity investments without readily determinable fair values, entities have the option to either measure these investments at fair value or at cost, adjusted for changes in observable prices, minus impairment. Changes in measurement under either alternative must be recognized in net income. ASU 2016-01 will be effective for annual and interim periods beginning after December 15, 2017. The Company is evaluating the effect that ASU 2016-01 will have on its financial statements and related disclosures.
In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)," which, among other things, requires lessees to recognize most leases on-balance sheet, which will result in an increase in their reported assets and liabilities. Lessor accounting remains substantially similar to current U.S. GAAP. ASU 2016-02 supersedes Topic 840, Leases. ASU 2016-02 is effective for annual and interim periods in fiscal years beginning after December 15, 2018. ASU 2016-02 mandates a modified retrospective transition method for all entities. The Company is evaluating the effect that ASU 2016-02 will have on its financial statements and related disclosures.
In March 2016, the FASB issued ASU 2016-07, Simplifying the Transition to the Equity Method of Accounting, which eliminates the requirement for an investor to retroactively apply the equity method when its increase in ownership interest (or degree of influence) in an investee triggers equity method accounting. ASU 2016-07 is effective for interim and annual periods in fiscal years beginning after December 15, 2016. The amendments should be applied prospectively upon their effective date to increases in the level of ownership interest or degree of influence that result in the adoption of the equity method. Earlier application is permitted. ASU 2016-07 does not require additional disclosures at transition. The Company does not expect the effect of ASU 2016-06 to have a material impact on its financial statements and related disclosures.

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting, which is intended to improve the accounting for share-based payment transactions as part of the FASB's simplification initiative. ASU 2016-09 changes aspects of the accounting for share-based payment award transactions, including: (1) accounting for income taxes; (2) classification of excess tax benefits on the statement of cash flows; (3) forfeitures; (4) minimum statutory tax withholding requirements; and (5) classification of employee taxes paid on the statement of cash flows when an employer withholds shares for tax-withholding purposes. ASU 2016-09 is effective for fiscal years beginning after December 15, 2016, and interim periods within those years. Early adoption is permitted in any interim or annual period provided that the entire ASU is adopted. If an entity early adopts the amendments after the first interim period, the adoption date is as of the beginning of the year for the issues adopted by the cumulative-effect and prospective methods and any adjustments to previously reported interim periods of that fiscal year should be included in the year-to-date results. If those previously reported interim results appear in any future filings, they are reported on the revised basis. The Company does not expect the effect of ASU 2016-09 to have a material impact on its financial statements and related disclosures in the period of adoption. In subsequent periods, we expect the requirements of ASU 2016-09 to result in fluctuations in our effective tax rate from period to period based upon the timing of share-based award vestings.

In June 2016, the FASB issued ASU 2016-13, Measurement of Credit Losses on Financial Instruments, which significantly changes the way entities recognize impairment of many financial assets by requiring immediate recognition of estimated credit losses expected to occur over their remaining life. ASU 2016-13 is effective for interim and annual periods in fiscal years beginning after December 15, 2019. The Company is evaluating the effect that ASU 2016-13 will have on its financial statements and related disclosures.

In August 2016, the FASB issued ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments, which addressed eight issues related to the statement of cash flows, including proceeds from the settlement of bank-owned life insurance ("BOLI") policies. ASU 2016-15 is effective for interim and annual periods in fiscal years beginning after December 15, 2017. Early adoption is permitted, including adoption in an interim period. If an entity early adopts ASU 2016-15 in an interim period, adjustments should be reflected as of the beginning of the fiscal year that includes the interim period. An entity that elects early adoption must adopt all of the amendment in the same period. Entities should apply ASU 2016-15 using a retrospective transition method to each period presented. If it is impracticable for an entity to apply ASU 2016-15 retrospectively for some of the issues, it may apply the amendments for those issues prospectively as of the earliest date practicable. ASU 2016-15 will result in some changes in classification in the consolidated statements of cash flows, which the Company does not expect will be significant, and will not have any impact on its consolidated financial position or results of operations.

Note 13. Subsequent Events

Stock Repurchase Program

On October 17, 2016, PacWest's Board of Directors authorized a new stock repurchase program (the "Stock Repurchase Program"), pursuant to which the Company may, from time to time, purchase shares of its common stock for an aggregate purchase price not to exceed $400 million. The common stock repurchases may be effected through open market purchases or in privately negotiated transactions, and may utilize any derivative or similar instrument to effect share repurchase transactions (including without limitation, accelerated share repurchase contracts, equity forward transactions, equity option transactions, equity swap transactions, cap transactions, collar transactions, floor transactions or other similar transactions or any combination of the foregoing transactions). The Stock Repurchase Program expires on December 31, 2017. The amount and exact timing of any repurchases will depend upon market conditions and other factors. The Stock Repurchase Program may be suspended or discontinued at any time.

Common Stock Dividends

On November 1, 2016, the Company announced that the Board of Directors had declared a quarterly cash dividend of $0.50 per common share. The cash dividend is payable on November 30, 2016 to stockholders of record at the close of business on November 15, 2016.

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

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

Forward-Looking Information

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

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

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

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

Overview

PacWest Bancorp is a bank holding company registered under the Bank Holding Company Act of 1956, as amended. Our principal business is to serve as the holding company for our Los Angeles based wholly-owned banking subsidiary, Pacific Western Bank. References to "Pacific Western" or the "Bank" refer to Pacific Western Bank together with its wholly-owned subsidiaries. References to “we,” “us,” "our," or the “Company” refer to PacWest Bancorp together with its subsidiaries on a consolidated basis. When we refer to “PacWest” or to the “holding company,” we are referring to PacWest Bancorp, the parent company, on a stand-alone basis.

We are focused on relationship-based business banking to small, middle-market and venture-backed businesses nationwide. The Bank offers a broad range of loan and lease and deposit products and services through 79 full-service branches located throughout the state of California, one branch located in Durham, North Carolina, and several loan production offices located in cities across the country. The Bank provides commercial banking services, including real estate, construction, and commercial loans and leases, and comprehensive deposit and treasury management services to small and middle-market businesses. Pacific Western offers additional products and services through its CapitalSource and Square 1 Bank divisions. CapitalSource provides cash flow, asset-based, equipment and real estate loans and treasury management services to established middle-market businesses on a national basis. Square 1 Bank offers a comprehensive suite of financial services focused on entrepreneurial businesses and their venture capital and private equity investors, with offices located in key innovation hubs across the United States. In addition, we provide investment advisory and asset management services to select clients through Square 1 Asset Management, Inc., a wholly-owned subsidiary of the Bank and a SEC-registered investment adviser.

In managing the top line of our business, we focus on loan growth, loan yield, deposit cost, and net interest margin. Net interest income, on a year-to-date basis in 2016, accounted for 89.5% of our net revenues (net interest income plus noninterest income).

At September 30, 2016, we had total assets of $21.3 billion, including $14.7 billion of loans and leases, net of deferred fees, compared to $21.3 billion of total assets, including $14.5 billion of loans and leases, net of deferred fees, at December 31, 2015. Total assets increased $26.8 million during the nine months ended September 30, 2016 due to a $264.6 million increase in loans and leases, net of deferred fees, driven by new production, and an increase of $143.9 million in cash and cash equivalents, offset partially by a $218.1 million decrease in securities available-for-sale due to sales from ongoing portfolio management activities and a $99.3 million decrease in deferred tax assets.

At September 30, 2016, we had total liabilities of $16.8 billion, including total deposits of $15.6 billion and borrowings of $541.0 million compared to $16.9 billion of total liabilities, including $15.7 billion of total deposits and $621.9 million of borrowings at December 31, 2015. The $118.1 million decrease in total liabilities since year-end is due to a $1.6 billion decrease in higher-cost time deposits and an $80.9 million decrease in borrowings, primarily overnight FHLB advances, offset by a $1.4 billion increase in lower-cost core deposits and a $139.9 million increase in brokered non-maturity deposits. At September 30, 2016, core deposits totaled $12.0 billion, or 77% of total deposits, and time deposits totaled $2.6 billion, or 16% of total deposits.

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

Recent Events

Stock Repurchase Program

On October 17, 2016, PacWest's Board of Directors authorized a new stock repurchase program (the "Stock Repurchase Program"), pursuant to which the Company may, from time to time, purchase shares of its common stock for an aggregate purchase price not to exceed $400 million. The common stock repurchases may be effected through open market purchases or in privately negotiated transactions, and may utilize any derivative or similar instrument to effect share repurchase transactions (including without limitation, accelerated share repurchase contracts, equity forward transactions, equity option transactions, equity swap transactions, cap transactions, collar transactions, floor transactions or other similar transactions or any combination of the foregoing transactions).

The Stock Repurchase Program expires on December 31, 2017. The amount and exact timing of any repurchases will depend upon market conditions and other factors. The Stock Repurchase Program may be suspended or discontinued at any time.

Sale of Branches

On September 30, 2016 Pacific Western entered into a definitive agreement to sell two branches to First Foundation Bank (the "Transaction"). The branches are located in Laguna Hills and Seal Beach, California (the "Branches"). As of September 30, 2016, the deposits of the Branches totaled approximately $200 million, principally comprised of time deposits. No loans are being sold in connection with the Transaction. The Transaction is expected to be completed during the fourth quarter of 2016 subject to regulatory approval and customary closing conditions.

Square 1 Financial, Inc. Acquisition

PacWest acquired Square 1 Financial, Inc. ("Square 1") on October 6, 2015. As part of the acquisition, Square 1 Bank, a wholly-owned subsidiary of Square 1, merged with and into Pacific Western. At closing, we formed the Square 1 Bank Division of the Pacific Western which focuses on providing a comprehensive suite of financial services to entrepreneurial businesses and their venture capital and private equity investors nationwide. We completed this acquisition to increase our core deposits, expand our lending products across the nation, and increase our presence in the technology and life-sciences credit markets. We recorded the assets and liabilities, both tangible and intangible, at their estimated fair values as of the acquisition date and increased total assets by approximately $4.6 billion. The application of the acquisition method of accounting resulted in goodwill of $446.1 million. For further information, see Note 2. Acquisitions, in the Notes to Condensed Consolidated Financial Statements (Unaudited) contained in "Item 1. Condensed Consolidated Financial Statements (Unaudited)."

Key Performance Indicators

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

The Level of Net Interest Income

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

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

Loan and Lease Growth

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

The Magnitude of Credit Losses

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

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

The Level of Noninterest Expense

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

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

	Three Months Ended			Nine Months Ended	
	September 30,	June 30,	September 30,	September 30,	
Efficiency Ratio:	2016	2016	2015	2016	2015
	(Dollars in thousands)				
Noninterest expense	$110,710	$110,081	$90,139	$331,479	$259,775
Less: Intangible asset amortization	4,224	4,371	1,497	13,341	4,500
Foreclosed assets (income) expense, net	(248)	(3)	4,521	(812)	2,517
Acquisition, integration, and reorganization costs	—	—	747	200	3,647
Noninterest expense used for efficiency ratio	$106,734	$105,713	$83,374	$318,750	$249,111
Net interest income (tax equivalent)	$239,473	$238,667	$195,274	$727,680	$600,855
Noninterest income	26,920	22,121	15,758	83,580	56,252
Net revenues	266,393	260,788	211,032	811,260	657,107
Less: Gain on sale of securities	382	478	655	8,970	3,744
Net revenues used for efficiency ratio	$266,011	$260,310	$210,377	$802,290	$653,363
Efficiency ratio	40.1 %	40.6 %	39.6 %	39.7 %	38.1 %

Critical Accounting Policies

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

Non-GAAP Measurements

The Company uses certain non GAAP financial measures to provide meaningful supplemental information regarding the Company’s operational performance and to enhance investors’ overall understanding of such financial performance. The methodology for determining these non-GAAP measures may differ among companies. The non-GAAP measures used in this Form 10-Q include the following:

- Core net interest margin and core loan and lease yield: The tax equivalent net interest margin ("NIM") and loan and lease yield are impacted by volatility in accelerated accretion of acquisition discounts due to the prepayment of acquired loans and leases. We disclose the core NIM and core loan and lease yield to provide an indication of what these measures would be without the effects of accelerated accretion as this indicates a "normalized" measure and a more accurate indicator of future performance. See “-Results of Operations-Net Interest Income” for a reconciliation of these non-GAAP measurements to the GAAP measurements for the periods presented.
- Adjusted allowance for credit losses to loans and leases: As the allowance for credit losses takes into consideration credit deterioration on acquired loans and leases only after the purchase date and an estimate of credit losses is included in their initial fair values, we disclose two adjusted allowance for credit losses to loans and leases ratios in addition to the allowance for credit losses to loans and leases. The first adjusted allowance for credit losses to loans and leases excludes the allowance related to acquired loans and leases from the numerator and the acquired loans and leases from the denominator. The second ratio excludes the remaining unamortized purchase discount from both the numerator and the denominator. We disclose these ratios to more clearly illustrate the amounts established on our balance sheet for credit losses related to acquired loans in addition to the allowance for credit losses. See "-Balance Sheet Analysis-Allowance for Credit Losses on Non-PCI Loans and Leases" for a reconciliation of these non-GAAP measurements to the GAAP measurement as of the dates presented.

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• Return on average tangible equity, tangible common equity ratio, and tangible book value per share: Given that the use of these measures is prevalent among banking regulators, investors and analysts, we disclose them in addition to the related GAAP measures of return on average equity, equity to assets ratio, and book value per share, respectively. The reconciliation of these non-GAAP measurements to the GAAP measurements is presented in the following tables for and as of the periods presented:

	Three Months Ended			Nine Months Ended	
	September 30,	June 30,	September 30,	September 30,	
Return on Average Tangible Equity	2016	2016	2015	2016	2015
	(Dollars in thousands)				
Net earnings	$93,895	$82,168	$69,616	$266,519	$227,778
Average stockholders' equity	$4,530,701	$4,483,593	$3,572,765	$4,484,468	$3,551,763
Less: Average intangible assets	2,217,564	2,222,007	1,741,902	2,222,346	1,740,911
Average tangible common equity	$2,313,137	$2,261,586	$1,830,863	$2,262,122	$1,810,852
Return on average equity (1)	8.24 %	7.37 %	7.73 %	7.94 %	8.57 %
Return on average tangible equity (2)	16.15 %	14.61 %	15.09 %	15.74 %	16.82 %

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

Tangible Common Equity Ratio/ Tangible Book Value Per Share	September 30, 2016	December 31, 2015
	(Dollars in thousands, except per share data)	
PacWest Bancorp Consolidated:		
Stockholders’ equity	$4,542,595	$4,397,691
Less: Intangible assets	2,213,491	2,229,511
Tangible common equity	$2,329,104	$2,168,180
Total assets	$21,315,291	$21,288,490
Less: Intangible assets	2,213,491	2,229,511
Tangible assets	$19,101,800	$19,058,979
Equity to assets ratio	21.31 %	20.66 %
Tangible common equity ratio(1)	12.19 %	11.38 %
Book value per share	$37.29	$36.22
Tangible book value per share	$19.12	$17.86
Shares outstanding	121,817,524	121,413,727
Pacific Western Bank:		
Stockholder's equity	$4,416,623	$4,276,279
Less: Intangible assets	2,213,491	2,229,511
Tangible common equity	$2,203,132	$2,046,768
Total assets	$21,266,705	$21,180,689
Less: Intangible assets	2,213,491	2,229,511
Tangible assets	$19,053,214	$18,951,178

Equity to assets ratio	20.77	%	20.19	%
Tangible common equity ratio[1]	11.56	%	10.80	%

(1) Tangible common equity divided by tangible assets.

Results of Operations

Acquisitions Impact Earnings Performance

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

Earnings Performance

The following table presents performance metrics for the periods indicated:

	Three Months Ended			Nine Months Ended	
	September 30, 2016	June 30, 2016	September 30, 2015	September 30, 2016	2015
Performance Measures:					
Diluted earnings per share	$0.77	$0.68	$ 0.68	$2.19	$2.21
Annualized return on:					
Average assets	1.77 %	1.57 %	1.65 %	1.69 %	1.85 %
Average tangible equity (1)(2)	16.15 %	14.61 %	15.09 %	15.74 %	16.82 %
Net interest margin (tax equivalent)	5.26 %	5.33 %	5.46 %	5.37 %	5.76 %
Core net interest margin (tax equivalent) (2)(3)	5.08 %	5.11 %	5.19 %	5.09 %	5.31 %
Efficiency ratio	40.1 %	40.6 %	39.6 %	39.7 %	38.1 %

(1) Calculation reduces average stockholder's equity by average intangible assets.

(2) See "Non-GAAP Measurements."

(3) Calculation excludes accelerated accretion of acquisition discounts from early payoffs of acquired loans.

Third Quarter of 2016 Compared to Second Quarter of 2016

Net earnings were $93.9 million, or $0.77 per diluted share, for the third quarter of 2016, compared to $82.2 million, or $0.68 per diluted share, for the second quarter of 2016. The quarter over quarter increase of $11.7 million in net earnings was due to a lower provision for credit losses of $5.4 million, higher noninterest income of $4.8 million, and a lower effective tax rate as compared to the second quarter of 2016. The decrease in the provision for credit losses was due in part to a $4.8 million increase in recoveries of previously charged off loans. The increase in noninterest income was due to the elimination of FDIC loss sharing expense. The second quarter expense of $6.5 million included a pre-tax charge attributable to the early termination of all FDIC loss sharing agreements. The effective tax rate for the third quarter was lower due to certain discrete items associated with completion of the 2015 tax returns.

Third Quarter of 2016 Compared to Third Quarter of 2015

Net earnings for the third quarter of 2016 were $93.9 million, or $0.77 per diluted share, compared to net earnings for the third quarter of 2015 of $69.6 million, or $0.68 per diluted share. The $24.3 million increase in net earnings was due to higher net interest income of $42.1 million and higher noninterest income of $11.2 million offset by higher noninterest expense of $20.6 million. These increases were due primarily to including the operations of Square 1 subsequent to the October 6, 2015 acquisition date. The increase in net interest income was attributable to higher average balances for loans and leases and investment securities and lower interest expense, offset by lower discount accretion on acquired loans and lower yields on average loans and leases and investment securities. The increase in noninterest income was due mainly to higher other commissions and fees, higher leased equipment income, and lower FDIC loss sharing expense, offset by lower dividends and realized gains on equity investments.

Nine Months Ended September 30, 2016 Compared to Nine Months Ended September 30, 2015

Net earnings for the nine months ended September 30, 2016 were $266.5 million, or $2.19 per diluted share, compared to net earnings for the nine months ended September 30, 2015 of $227.8 million, or $2.21 per diluted share. The $38.7 million increase in net earnings was due to higher net interest income of $118.8 million and higher noninterest income of $27.3 million, offset by higher noninterest expense of $71.7 million and a higher provision for credit losses of $10.8 million. These increases were due primarily to including the operations of Square 1 subsequent to the October 6, 2015 acquisition date. The increase in net interest income was attributable to higher average interest-earning asset balances and lower interest expense, offset by lower discount accretion on acquired loans and lower yields on average loans and leases and investment securities. The increase in noninterest income was due mainly to higher other commissions and fees, higher leased equipment income, higher gain on sale of securities, lower FDIC loss sharing expense, and higher service charges on deposit accounts, offset by lower dividends and realized gains on equity investments.

Net Interest Income

Net interest income is affected by changes in both interest rates and the volume of average interest earning assets and interest bearing liabilities.

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

	Three Months Ended								
	September 30, 2016			June 30, 2016			September 30, 2015		
	Average Balance	Interest Income/ Expense	Yields and Rates	Average Balance	Interest Income/ Expense	Yields and Rates	Average Balance	Interest Income/ Expense	Yields and Rates
	(Dollars in thousands)								
ASSETS:									
PCI loans	$117,781	$5,868	19.82 %	$147,270	$8,484	23.17 %	$193,094	$7,505	15.42 %
Non-PCI loans and leases	14,417,170	219,502	6.06 %	14,321,320	215,842	6.06 %	11,919,787	186,034	6.19 %
Total loans and leases (1)	14,534,951	225,370	6.17 %	14,468,590	224,326	6.24 %	12,112,881	193,539	6.34 %
Investment securities (2)	3,338,209	27,025	3.22 %	3,288,819	27,330	3.34 %	1,806,628	16,709	3.67 %
Deposits in financial institutions	238,425	298	0.50 %	245,666	308	0.50 %	278,973	178	0.25 %
Total interest earning assets (2)	18,111,585	252,693	5.55 %	18,003,075	251,964	5.63 %	14,198,482	210,426	5.88 %
Other assets	2,960,468			2,996,867			2,491,695		
Total assets	$21,072,053			$20,999,942			$16,690,177		
LIABILITIES AND STOCKHOLDERS' EQUITY:									
Interest checking deposits	$1,161,931	604	0.21 %	$1,024,763	501	0.20 %	$787,271	300	0.15 %
Money market deposits	4,514,525	3,303	0.29 %	4,321,533	2,886	0.27 %	2,417,280	1,218	0.20 %
Savings deposits	764,415	341	0.18 %	766,309	412	0.22 %	746,362	449	0.24 %
Time deposits	2,666,434	2,999	0.45 %	3,086,492	4,024	0.52 %	5,042,768	8,433	0.66 %
Total interest bearing deposits	9,107,305	7,247	0.32 %	9,199,097	7,823	0.34 %	8,993,681	10,400	0.46 %
Borrowings	583,982	695	0.47 %	300,428	352	0.47 %	70,171	72	0.41 %
Subordinated debentures	439,970	5,278	4.77 %	439,081	5,122	4.69 %	434,420	4,680	4.27 %
Total interest bearing liabilities	10,131,257	13,220	0.52 %	9,938,606	13,297	0.54 %	9,498,272	15,152	0.63 %
Noninterest bearing demand deposits	6,274,294			6,437,720			3,486,780		
Other liabilities	135,801			140,023			132,360		
Total liabilities	16,541,352			16,516,349			13,117,412		
Stockholders' equity	4,530,701			4,483,593			3,572,765		
Total liabilities and stockholders' equity	$21,072,053			$20,999,942			$16,690,177		
Net interest income (tax equivalent) (2)		$239,473			$238,667			$195,274	

Net interest rate spread			5.03 %			5.09 %			5.25 %
Net interest margin			5.26 %			5.33 %			5.46 %
Total deposits (3)	$15,381,599	$7,247	0.19 %	$15,636,817	$7,823	0.20 %	$12,480,461	$10,400	0.33 %
Funding sources (4)	$16,405,551	$13,220	0.32 %	$16,376,326	$13,297	0.33 %	$12,985,052	$15,152	0.46 %

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

(2) Includes tax-equivalent adjustments of $4.8 million, $4.9 million, and $2.8 million for the three months ended September 30, 2016, June 30, 2016, and September 30, 2015, respectively, related to tax-exempt income on municipal securities. The federal statutory tax rate utilized was 35% for the periods.

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

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

	Nine Months Ended September 30, 2016			2015		
	Average Balance	Interest Income/ Expense	Yields and Rates	Average Balance	Interest Income/ Expense	Yields and Rates
	(Dollars in thousands)					
ASSETS:						
PCI loans	$144,129	$34,425	31.90%	$227,072	$25,563	15.05%
Non-PCI loans and leases	14,347,598	651,646	6.07 %	11,865,330	573,854	6.47 %
Total loans and leases (1)	14,491,727	686,071	6.32 %	12,092,402	599,417	6.63 %
Investment securities (2)	3,362,352	81,848	3.25 %	1,698,254	47,428	3.73 %
Deposits in financial institutions	238,129	914	0.51 %	158,708	304	0.26 %
Total interest earning assets (2)	18,092,208	768,833	5.68 %	13,949,364	647,149	6.20 %
Other assets	2,997,922			2,535,453		
Total assets	$21,090,130			$16,484,817		
LIABILITIES AND STOCKHOLDERS' EQUITY:						
Interest checking deposits	$1,038,103	1,488	0.19 %	$752,217	696	0.12 %
Money market deposits	4,229,315	8,604	0.27 %	2,108,317	3,251	0.21 %
Savings deposits	761,376	1,197	0.21 %	747,902	1,575	0.28 %
Time deposits	3,202,436	12,854	0.54 %	5,359,911	26,590	0.66 %
Total interest bearing deposits	9,231,230	24,143	0.35 %	8,968,347	32,112	0.48 %
Borrowings	460,165	1,628	0.47 %	190,502	395	0.28 %
Subordinated debentures	438,534	15,382	4.69 %	433,233	13,787	4.25 %
Total interest bearing liabilities	10,129,929	41,153	0.54 %	9,592,082	46,294	0.65 %
Noninterest bearing demand deposits	6,328,223			3,199,843		
Other liabilities	147,510			141,129		
Total liabilities	16,605,662			12,933,054		
Stockholders' equity	4,484,468			3,551,763		
Total liabilities and stockholders' equity	$21,090,130			$16,484,817		
Net interest income (tax equivalent) (2)		$727,680			$600,855	
Net interest rate spread			5.14 %			5.55 %
Net interest margin			5.37 %			5.76 %
Total deposits (3)	$15,559,453	$24,143	0.21 %	$12,168,190	$32,112	0.35 %
Funding sources (4)	$16,458,152	$41,153	0.33 %	$12,791,925	$46,294	0.48 %

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

(2) Includes tax-equivalent adjustments of $14.7 million and $6.7 million for the nine months ended September 30, 2016, and September 30, 2015 related to tax-exempt income on municipal securities. The federal statutory tax rate utilized was 35% for the periods.

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

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

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

	Three Months Ended			Nine Months Ended	
	September 30, 2016	June 30, 2016	September 30, 2015	September 30, 2016	2015
NIM:					
Reported	5.26 %	5.33 %	5.46 %	5.37 %	5.76 %
Less: Accelerated accretion of acquisition discounts from early payoffs of acquired loans	(0.18)%	(0.22)%	(0.27)%	(0.28)%	(0.45)%
Core	5.08 %	5.11 %	5.19 %	5.09 %	5.31 %
Loan and Lease Yield:					
Reported	6.17 %	6.24 %	6.34 %	6.32 %	6.63 %
Less: Accelerated accretion of acquisition discounts from early payoffs of acquired loans	(0.23)%	(0.27)%	(0.32)%	(0.35)%	(0.51)%
Core	5.94 %	5.97 %	6.02 %	5.97 %	6.12 %

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

	Three Months Ended				
	September 30, 2016	June 30, 2016	March 31, 2016	December 31, 2015	September 30, 2015
	(Dollars in thousands)				
Impact on Net Interest Income:					
Net interest income (tax equivalent)	$239,473	$238,667	$249,540	$233,959	$195,274
Less:					
Accelerated accretion of acquisition discounts from early payoffs of acquired loans	(8,226)	(9,780)	(19,465)	(5,511)	(9,659)
Remaining accretion of Non-PCI loan acquisition discounts	(5,997)	(6,407)	(8,403)	(10,553)	(7,485)
Total accretion of loan acquisition discounts	(14,223)	(16,187)	(27,868)	(16,064)	(17,144)
Amortization of TruPS discount	1,391	1,393	1,395	1,397	1,399
Accretion of time deposits premium	(121)	(172)	(270)	(384)	(576)
Total purchase accounting adjustments	(12,953)	(14,966)	(26,743)	(15,051)	(16,321)
Net interest income - excluding purchase accounting	$226,520	$223,701	$222,797	$218,908	$178,953
Impact on Net Interest Margin:					
Net interest margin (tax equivalent)	5.26 %	5.33 %	5.53 %	5.22 %	5.46 %
Less:					
Accelerated accretion of acquisition discounts from early payoffs of acquired loans	(0.18)%	(0.22)%	(0.43)%	(0.12)%	(0.27)%
Remaining accretion of Non-PCI loan acquisition discounts	(0.13)%	(0.14)%	(0.19)%	(0.24)%	(0.21)%
Total accretion of loan acquisition discounts	(0.31)%	(0.36)%	(0.62)%	(0.36)%	(0.48)%
Amortization of TruPS discount	0.03 %	0.03 %	0.03 %	0.03 %	0.04 %
Accretion of time deposits premium	— %	— %	(0.01)%	(0.01)%	(0.02)%
Total purchase accounting adjustments	(0.28)%	(0.33)%	(0.60)%	(0.34)%	(0.46)%

Net interest margin - excluding purchase accounting	4.98	%	5.00	%	4.93	%	4.88	%	5.00	%

Third Quarter of 2016 Compared to Second Quarter of 2016

Net interest income increased by $0.9 million to $234.6 million for the third quarter of 2016 compared to $233.8 million for the second quarter of 2016 due to a higher average loan and lease balance, higher nonaccrual interest recoveries, and one additional day in the period, offset by a lower loan and lease yield. The loan and lease yield for the third quarter of 2016 was 6.17% compared to 6.24% for the second quarter of 2016. The decrease in the loan and lease yield was due to the lower discount accretion on acquired loans and the lower yield on new production compared to the current portfolio yield. Total discount accretion on acquired loans was $14.2 million in the third quarter of 2016 (39 basis points on the loan and lease yield) compared to $16.2 million in the second quarter of 2016 (45 basis points on the loan and lease yield). Excluding accelerated accretion, the core loan and lease yield was 5.94% in the third quarter compared to 5.97% in the second quarter.

The tax equivalent NIM for the third quarter of 2016 was 5.26% compared to 5.33% for the second quarter of 2016. The decrease in the tax equivalent NIM was due to lower discount accretion on acquired loans. Total discount accretion on acquired loans contributed 31 basis points to the NIM in the third quarter of 2016 and 36 basis points in the second quarter of 2016. Excluding accelerated accretion, the core NIM was 5.08% for the third quarter and 5.11% for the second quarter. Tax-exempt interest income contributed 11 points to the tax equivalent NIM for the third and second quarters of 2016.

Included in net interest income for the third quarter of 2016 was $3.0 million of interest resulting from the payoff in full of a nonperforming loan. This recovery contributed seven basis points to the third quarter 2016 NIM and eight basis points of loan and lease yield for the third quarter of 2016.

The cost of total deposits decreased to 0.19% in the third quarter of 2016 from 0.20% in the second quarter of 2016 due to a lower average cost and balance of time deposits.

Third Quarter of 2016 Compared to Third Quarter of 2015

Net interest income increased by $42.1 million to $234.6 million for the third quarter of 2016 compared to $192.5 million for the third quarter of 2015 due mainly to higher average balances for loans and leases and investment securities attributable to the Square 1 acquisition, offset partially by a lower loan and lease yield. The loan and lease yield for the third quarter of 2016 was 6.17% compared to 6.34% for the same quarter of 2015. The decrease in the loan and lease yield was due mainly to the lower discount accretion on acquired loans and yields on newly originated loans being lower than the average portfolio yield. Total discount accretion on acquired loans was $14.2 million in the third quarter of 2016 (39 basis points on the loan and lease yield) compared to $17.1 million in the third quarter of 2015 (57 basis points on the loan and lease yield).

The tax equivalent NIM for the third quarter of 2016 was 5.26% compared to 5.46% for the same quarter last year. The decrease in the tax equivalent NIM was due mostly to the decrease in the loan and lease yield as described above, the lower yield on average investment securities and loans and leases comprising a lower percentage of average interest-earning assets. Total discount accretion on acquired loans contributed 31 basis points to the NIM for the third quarter of 2016 compared to 48 basis points for the third quarter of 2015. Tax-exempt interest income contributed 11 basis points to the tax equivalent NIM for the third quarter of 2016 and eight basis points for the third quarter of 2015.

The cost of total deposits decreased to 0.19% for the third quarter of 2016 from 0.33% for the third quarter of 2015 due mainly to the $3.8 billion of lower-cost core deposits added in the Square 1 acquisition, a lower level of higher-cost time deposits, and a lower average cost of interest-bearing deposits.

Nine Months Ended September 30, 2016 Compared to Nine Months Ended September 30, 2015

Net interest income increased by $118.8 million to $713.0 million for the nine months ended September 30, 2016 compared to $594.1 million for the nine months ended September 30, 2015 due mainly to higher average interest-earning asset balances attributable to the Square 1 acquisition, offset partially by lower discount accretion on acquired loans and lower yields on average loans and leases and investment securities. The loan and lease yield for the first nine months of 2016 was 6.32% compared to 6.63% for the same period in 2015. The decrease in the loan and lease yield was due mainly to the lower discount accretion on acquired loans and yields on new production being lower than the average portfolio yield. Total discount accretion on acquired loans was $58.3 million during the nine months ended September 30, 2016 (54 basis points on the loan and lease yield) compared to $73.6 million during the nine months ended September 30, 2015 (81 basis points on the loan and lease yield). Discount accretion for the 2016 period includes $12.1 million of accelerated accretion from the payoff of a nonaccrual PCI loan, resulting in the higher PCI loan yield.

The tax equivalent NIM for the first nine months of 2016 was 5.37% compared to 5.76% for the same period last year. The decrease in the tax equivalent NIM was due mostly to the decrease in loan and lease yield as described above and loans and leases comprising a lower percentage of average interest-earning assets. Total discount accretion on acquired loans contributed 43 basis points to the NIM for the nine months ended September 30, 2016 compared to 71 basis points for the nine months ended September 30, 2015. Tax-exempt interest income contributed 11 basis points to the tax equivalent NIM for the first six months of 2016 and six basis points for the same period last year.

The cost of total deposits decreased to 0.21% for the nine months ended September 30, 2016 from 0.35% for the nine months ended September 30, 2015 due mainly to the $3.8 billion of lower-cost core deposits added in the Square 1 acquisition, a lower level of higher-cost time deposits, and a lower average cost of interest-bearing deposits.

Provision for Credit Losses

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

	Three Months Ended			Nine Months Ended	
	September 30,	June 30,	September 30,	September 30,	
	2016	2016	2015	2016	2015
	(Dollars in thousands)				
Provision For Credit Losses:					
Addition to allowance for Non PCI loans and leases	$8,621	$11,625	$10,500	$39,411	$31,104
Addition to reserve for unfunded loan commitments	(621)	375	500	589	2,063
Total provision for Non PCI loans and leases	8,000	12,000	11,000	40,000	33,167
Provision for PCI Loans	471	1,903	(2,254)	2,514	(1,458)
Total provision for credit losses	$8,471	$13,903	$8,746	$42,514	$31,709
Non PCI Credit Quality Metrics:					
Net charge offs on Non-PCI loans and leases	$3,874	$432	$3,231	$8,198	$9,244
Annualized net charge offs to average Non-PCI loans and leases	0.11 %	0.01 %	0.11 %	0.08 %	0.10 %
At period end:					
Allowance for credit losses	154,070	149,944	100,690		
Non PCI nonaccrual loans and leases	171,085	127,655	107,190		
Non PCI classified loans and leases	417,541	441,035	328,038		
Allowance for credit losses to Non PCI loans and leases	1.05 %	1.03 %	0.82 %		
Allowance for credit losses to Non PCI nonaccrual loans and leases	90.1 %	117.5 %	93.9 %		

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

We recorded a total provision for credit losses of $8.5 million in the third quarter of 2016, $13.9 million in the second quarter of 2016 and $8.7 million in the third quarter of 2015 in accordance with our allowance methodology. The provision for the nine months ended September 30, 2016 was $42.5 million compared to $31.7 million in the same period last year and increased due to net portfolio growth, portfolio mix and asset quality, including the level of net charge-offs and specific reserves.

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

Noninterest Income

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

	Three Months Ended			Nine Months Ended	
	September 30,	June 30,	September 30,	September 30,	
	2016	2016	2015	2016	2015
	(In thousands)				
Noninterest Income:					
Service charges on deposit accounts	$3,488	$3,633	$2,601	$10,977	$7,787
Other commissions and fees	12,528	11,073	6,376	35,090	18,895
Leased equipment income	8,538	8,523	5,475	25,305	16,232
Gain on sale of loans and leases	157	388	27	790	190
Gain on sale of securities	382	478	655	8,970	3,744
FDIC loss sharing expense, net	—	(6,502)	(4,449)	(8,917)	(13,955)
Other income:					
Dividends and realized gains on equity investments	377	2,185	4,357	2,808	16,003
Foreign currency translation net (losses) gains	(224)	324	(373)	706	847
Other	1,674	2,019	1,089	7,851	6,509
Total noninterest income	$26,920	$22,121	$15,758	$83,580	$56,252

Third Quarter of 2016 Compared to Second Quarter of 2016

Noninterest income increased by $4.8 million to $26.9 million for the third quarter of 2016 compared to $22.1 million for the second quarter of 2016 due mostly to a $6.5 million decrease in FDIC loss sharing expense and a $1.5 million increase in other commissions and fees, offset by a $1.8 million decrease in dividends and realized gains on equity investments and a $0.5 million decrease in foreign currency translation net gains. The elimination of FDIC loss sharing expense was due to the early termination of all FDIC loss sharing agreements for which a $6.0 million pre-tax charge was recognized in the second quarter. Other commissions and fees increased due to higher prepayment and other loan-related fees.

Third Quarter of 2016 Compared to Third Quarter of 2015

Noninterest income increased by $11.2 million to $26.9 million for the third quarter of 2016 compared to $15.8 million for the third quarter of 2015. The increase was due mostly to higher other commissions and fees of $6.2 million, higher leased equipment income of $3.1 million, and lower FDIC loss sharing expense of $4.4 million, offset by lower dividends and realized gains on equity investments of $4.0 million. The increase in other commissions and fees included $3.1 million from loan prepayment penalty fees, $1.7 million from foreign exchange fees, $0.8 million from credit card fees, and $0.5 million from letter of credit fees. The revenue streams from foreign exchange fees and credit card fees were gained in the Square 1 acquisition. The elimination of FDIC loss sharing expense was due to the early termination of our loss sharing agreements with the FDIC in the second quarter of 2016.

Nine Months Ended September 30, 2016 Compared to Nine Months Ended September 30, 2015

Noninterest income increased by $27.3 million to $83.6 million for the nine months ended September 30, 2016 compared to $56.3 million for the nine months ended September 30, 2015. The increase was due mostly to higher other commissions and fees of $16.2 million, higher leased equipment income of $9.1 million, higher gain on sales of securities of $5.2 million, lower FDIC loss sharing expense of $5.0 million, and higher service charges on deposit accounts of $3.2 million, offset by lower dividends and realized gains on equity investments of $13.2 million. The increase in other commissions and fees was comprised mostly of $6.2 million from loan prepayment penalty fees, $5.5 million from foreign exchange fees, $2.3 million from credit card fees, and $1.4 million from letter of credit fees. The increases in foreign exchange fees and credit card fees were due to the Square 1 acquisition. The decrease in FDIC loss sharing expense was due mainly to lower amortization of the FDIC loss sharing asset, offset partially by the $6.0 million pre-tax charge recognized in the second quarter of 2016 to terminate all FDIC loss sharing agreements. The increase in service charges on deposits was due primarily to increased deposits as a result of the Square 1 acquisition.

Noninterest Expense

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

	Three Months Ended			Nine Months Ended	
	September 30, 2016	June 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
	(In thousands)				
Noninterest Expense:					
Compensation	$62,661	$62,174	$ 48,152	$185,900	$144,922
Occupancy	12,010	12,193	10,762	36,835	31,950
Data processing	6,234	5,644	4,322	17,782	13,032
Other professional services	4,625	3,401	3,396	11,598	9,949
Insurance and assessments	4,324	4,951	3,805	14,240	11,546
Intangible asset amortization	4,224	4,371	1,497	13,341	4,500
Leased equipment depreciation	5,298	5,286	3,162	15,608	9,368
Foreclosed assets (income) expense, net	(248)	(3)	4,521	(812)	2,517
Acquisition, integration and reorganization costs	—	—	747	200	3,647
Other expense:					
Loan expense	1,931	2,145	1,494	6,231	3,319
Other	9,651	9,919	8,281	30,556	25,025
Total noninterest expense	$110,710	$110,081	$ 90,139	$331,479	$259,775

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

	Three Months Ended			Nine Months Ended	
	September 30, 2016	June 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
	(In thousands)				
Foreclosed Assets (Income) Expense:					
Provision for losses	$—	$—	$ 4,757	$—	$5,163
Operating (income) expense	55	27	(152)	25	(2,688)
(Gain) loss on sale	(303)	(30)	(84)	(837)	42
Total foreclosed assets (income) expense, net	$(248)	$(3)	$ 4,521	$(812)	$2,517

Third Quarter of 2016 Compared to Second Quarter of 2016

Noninterest expense increased by $0.6 million to $110.7 million for the third quarter of 2016 compared to $110.1 million for the second quarter of 2016. The expense category with the highest increase was other professional services, which increased $1.2 million primarily due to higher litigation expense.

Third Quarter of 2016 Compared to Third Quarter of 2015

Noninterest expense increased by $20.6 million to $110.7 million for the third quarter of 2016 compared to $90.1 million for the third quarter of 2015. The increase was due primarily to including the operations of Square 1 subsequent to its October 6, 2015 acquisition date, offset by lower foreclosed assets expense of $4.8 million. Foreclosed assets expense decreased due mainly to lower write-downs on existing properties.

Nine Months Ended September 30, 2016 Compared to Nine Months Ended September 30, 2015

Noninterest expense increased by $71.7 million to $331.5 million for the nine months ended September 30, 2016 compared to $259.8 million for the nine months ended September 30, 2015. The increase was due primarily to including the operations of Square 1 subsequent to its October 6, 2015 acquisition date, offset by lower acquisition, integration and reorganization costs of $3.4 million and lower foreclosed assets expense of $3.3 million. Foreclosed assets expense decreased due mainly to lower write-downs on existing properties, offset partially by lower operating income.

Income Taxes

The effective tax rate for the third quarter of 2016 was 34.1% compared to 37.7% for the second quarter of 2016 and 36.4% for the third quarter of 2015. The effective tax rate for the third quarter of 2016 was lower due to the net favorable treatment of certain items associated with completion of the 2015 tax returns. The expected effective tax rate for the calendar year 2016 is approximately 37.5%. The Company's blended statutory tax rate for federal and state is 41%.

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

Security Type:	September 30, 2016 Amortized Cost	Fair Value	Yield[(1)(2)]	Duration (in years)
	(Dollars in thousands)			
Residential mortgage-backed securities ("MBS") and collateralized mortgage obligations ("CMOs"):				
Agency MBS	$518,996	$528,941	2.08%	2.8
Agency CMOs	154,216	157,231	2.04%	2.2
Private label CMOs	133,917	138,625	5.00%	2.7
Municipal securities	1,437,952	1,522,494	4.13%	6.4
Agency commercial MBS	517,163	531,273	2.84%	5.4
Corporate debt securities	47,155	49,011	7.33%	5.1
Collateralized loan obligations	155,373	156,647	3.05%	0.1
SBA securities	185,639	187,300	0.30%	1.9
Asset-backed and other securities	69,189	69,813	2.71%	3.1
Total securities available-for-sale	$3,219,600	$3,341,335	3.29%	4.7

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

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

Municipal Securities by State:	September 30, 2016 Carrying Value	% of Total
	(Dollars in thousands)	
California	$217,170	14 %
New York	187,238	12 %
Washington	171,032	11 %
Texas	117,842	8 %
Ohio	97,965	6 %
District of Columbia	68,227	4 %
Massachusetts	67,631	4 %
Florida	53,652	4 %
Oregon	45,133	3 %
Illinois	40,559	3 %
Total of 10 largest states	1,066,449	69 %
All other states	456,045	31 %
Total municipal securities	$1,522,494	100%

Loans and Leases

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

	September 30, 2016		June 30, 2016		December 31, 2015	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
	(Dollars in thousands)					
Real estate mortgage:						
Healthcare real estate	$959,993	7 %	$1,152,433	8 %	$1,230,787	9 %
Hospitality	666,523	5 %	712,900	5 %	656,750	5 %
SBA program	468,138	3 %	473,465	3 %	473,960	3 %
Other commercial real estate	2,232,911	15 %	2,180,411	15 %	2,284,036	16 %
Total commercial real estate	4,327,565	30 %	4,519,209	31 %	4,645,533	33 %
Income producing residential	1,070,842	7 %	1,011,651	7 %	1,035,164	7 %
Owner-occupied residential	171,412	1 %	153,133	1 %	176,045	1 %
Total residential real estate	1,242,254	8 %	1,164,784	8 %	1,211,209	8 %
Total real estate mortgage	5,569,819	38 %	5,683,993	39 %	5,856,742	41 %
Real estate construction and land:						
Commercial	510,831	3 %	417,144	3 %	345,991	2 %
Residential	323,104	2 %	281,788	2 %	184,382	1 %
Total real estate construction and land	833,935	5 %	698,932	5 %	530,373	3 %
Total real estate loans	6,403,754	43 %	6,382,925	44 %	6,387,115	44 %
Commercial:						
Technology cash flow	1,097,041	7 %	1,002,709	7 %	978,283	7 %
Security cash flow	416,648	3 %	430,591	3 %	450,544	3 %
Healthcare cash flow	751,580	5 %	821,698	6 %	865,355	6 %
Other cash flow	806,337	5 %	793,441	5 %	779,783	5 %
Total cash flow	3,071,606	20 %	3,048,439	21 %	3,073,965	21 %
Lender finance & timeshare	1,654,585	11 %	1,730,870	12 %	1,587,577	11 %
Healthcare asset-based	174,362	1 %	214,242	1 %	228,445	2 %