PACWEST BANCORP
Form 10-Q
August 10, 2015

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2015
Commission File No. 00-30747
PACWEST BANCORP
(Exact name of registrant as specified in its charter)

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

10250 Constellation Blvd., Suite 1640
Los Angeles, CA 90067
(Address of Principal Executive Offices, Including Zip Code)
(310) 286-1144
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes þ No o

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No þ

As of July 29, 2015, there were 102,061,730 shares of the registrant's common stock outstanding, excluding 967,759 shares of unvested restricted stock.

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PACWEST BANCORP AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2015 (Unaudited)	December 31, 2014
	(Dollars in thousands)	
ASSETS:		
Cash and due from banks	$209,598	$164,757
Interest-earning deposits in financial institutions	431,033	148,469
Total cash and cash equivalents	640,631	313,226
Securities available-for-sale, at fair value	1,698,158	1,567,177
Federal Home Loan Bank stock, at cost	17,250	40,609
Total investment securities	1,715,408	1,607,786
Gross loans and leases	12,069,005	11,904,684
Deferred fees and costs	(34,816)	(22,252)
Allowance for loan and lease losses	(99,375)	(84,455)
Total loans and leases, net	11,934,814	11,797,977
Equipment leased to others under operating leases	117,182	122,506
Premises and equipment, net	35,984	36,551
Foreclosed assets, net	31,668	43,721
Goodwill	1,728,380	1,720,479
Core deposit and customer relationship intangibles, net	14,201	17,204
Deferred tax asset, net	211,556	284,411
Other assets	267,196	290,744
Total assets	$16,697,020	$16,234,605
LIABILITIES:		
Noninterest-bearing deposits	$3,396,688	$2,931,352
Interest-bearing deposits	9,185,128	8,823,776
Total deposits	12,581,816	11,755,128
Borrowings	2,751	383,402
Subordinated debentures	433,944	433,583
Accrued interest payable and other liabilities	127,019	156,262
Total liabilities	13,145,530	12,728,375
Commitments and contingencies (Note 10)	—	—
STOCKHOLDERS' EQUITY:		
Preferred stock ($0.01 par value; 5,000,000 shares authorized; none issued and outstanding)	—	—
Common stock ($0.01 par value, 200,000,000 shares authorized at June 30, 2015 and December 31, 2014; 104,428,608 and 104,219,197 shares issued, respectively, including 990,259 and 1,108,505 shares of unvested restricted stock, respectively)	1,044	1,042
Additional paid-in capital	3,712,724	3,807,167
Accumulated deficit	(127,550)	(285,712)
	(50,983)	(42,647)

Treasury stock, at cost (1,376,619 and 1,197,180 shares at June 30, 2015 and December 31, 2014)		
Accumulated other comprehensive income, net	16,255	26,380
Total stockholders' equity	3,551,490	3,506,230
Total liabilities and stockholders' equity	$16,697,020	$16,234,605

See Notes to Condensed Consolidated Financial Statements.

PACWEST BANCORP AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

	Three Months Ended			Six Months Ended	
	June 30, 2015	March 31, 2015	June 30, 2014	June 30, 2015	2014
	(Unaudited)				
	(Dollars in thousands, except per share data)				
Interest income:					
Loans and leases	$203,781	$202,097	$192,201	$405,878	$269,664
Investment securities	14,570	12,195	11,986	26,765	22,809
Deposits in financial institutions	104	22	176	126	250
Total interest income	218,455	214,314	204,363	432,769	292,723
Interest expense:					
Deposits	11,233	10,479	7,313	21,712	8,538
Borrowings	88	235	199	323	278
Subordinated debentures	4,582	4,525	4,318	9,107	5,359
Total interest expense	15,903	15,239	11,830	31,142	14,175
Net interest income	202,552	199,075	192,533	401,627	278,548
Provision for credit losses	6,529	16,434	5,030	22,963	4,386
Net interest income after provision for credit losses	196,023	182,641	187,503	378,664	274,162
Noninterest income:					
Service charges on deposit accounts	2,612	2,574	2,719	5,186	5,721
Other commissions and fees	7,123	5,396	5,743	12,519	7,675
Leased equipment income	5,375	5,382	5,672	10,757	5,672
Gain (loss) on sale of loans and leases	163	—	(485)	163	(379)
(Loss) gain on securities	(186)	3,275	89	3,089	4,841
FDIC loss sharing expense, net	(5,107)	(4,399)	(8,525)	(9,506)	(19,955)
Other income	9,643	8,643	3,266	18,286	9,595
Total noninterest income	19,623	20,871	8,479	40,494	13,170
Noninterest expense:					
Compensation	49,033	47,737	45,081	96,770	73,708
Occupancy	10,588	10,600	11,078	21,188	18,673
Data processing	4,402	4,308	4,099	8,710	6,639
Other professional services	3,332	3,221	2,843	6,553	4,366
Insurance and assessments	4,716	3,025	3,179	7,741	4,772
Intangible asset amortization	1,502	1,501	1,677	3,003	3,041
Leased equipment depreciation	3,103	3,103	3,095	6,206	3,095
Foreclosed assets (income) expense, net	(2,340)	336	497	(2,004)	(1,364)
Acquisition, integration and reorganization costs	900	2,000	86,242	2,900	88,442
Other expense	10,040	8,529	11,409	18,569	17,992
Total noninterest expense	85,276	84,360	169,200	169,636	219,364
Earnings from continuing operations before taxes	130,370	119,152	26,782	249,522	67,968
Income tax expense	(45,287)	(46,073)	(15,552)	(91,360)	(30,833)
Net earnings from continuing operations	85,083	73,079	11,230	158,162	37,135
Loss from discontinued operations before taxes	—	—	(1,151)	—	(2,564)
Income tax benefit	—	—	476	—	1,064
Net loss from discontinued operations	—	—	(675)	—	(1,500)
Net earnings	$85,083	$73,079	$10,555	$158,162	$35,635
Basic earnings per share:					

Net earnings from continuing operations	$0.83	$0.71	$0.11	$1.54	$0.51
Net earnings	$0.83	$0.71	$0.10	$1.54	$0.49
Diluted earnings per share:					
Net earnings from continuing operations	$0.83	$0.71	$0.11	$1.54	$0.51
Net earnings	$0.83	$0.71	$0.10	$1.54	$0.49
Dividends declared per share	$0.50	$0.50	$0.25	$1.00	$0.50

See Notes to Condensed Consolidated Financial Statements.

PACWEST BANCORP AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended			Six Months Ended	
	June 30, 2015	March 31, 2015	June 30, 2014	June 30, 2015	2014
	(Unaudited) (In thousands)				
Net earnings	$85,083	$73,079	$10,555	$158,162	$35,635
Other comprehensive (loss) income, net of tax:					
Unrealized holding (losses) gains on securities available-for-sale	(21,213)	7,363	23,011	(13,850)	45,302
Income tax benefit (expense) related to unrealized holding (losses) gains arising during the period	8,614	(3,105)	(9,663)	5,509	(19,026)
Unrealized holding (losses) gains on securities available-for-sale, net of tax	(12,599)	4,258	13,348	(8,341)	26,276
Reclassification adjustment for losses (gains) included in net earnings [(1)]	186	(3,275)	(89)	(3,089)	(4,841)
Income tax (benefit) expense related to reclassification adjustment	(76)	1,381	37	1,305	2,033
Reclassification adjustment for losses (gains) included in net earnings, net of tax	110	(1,894)	(52)	(1,784)	(2,808)
Other comprehensive (loss) income, net of tax	(12,489)	2,364	13,296	(10,125)	23,468
Comprehensive income	$72,594	$75,443	$23,851	$148,037	$59,103

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

See Notes to Condensed Consolidated Financial Statements.

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

	Six Months Ended June 30, 2015						
	Common Stock		Additional			Accumulated Other	
	Shares	Par Value	Paid-in Capital	Accumulated Deficit	Treasury Stock	Comprehensive Income	Total
	(Unaudited)						
	(Dollars in thousands, except share data)						
Balance, December 31, 2014	103,022,017	$ 1,042	$ 3,807,167	$ (285,712)	$ (42,647)	$ 26,380	$ 3,506,230
Net earnings	—	—	—	158,162	—	—	158,162
Other comprehensive loss - net unrealized loss on securities available-for-sale, net of tax	—	—	—	—	—	(10,125)	(10,125)
Restricted stock awarded and earned stock compensation, net of shares forfeited	208,112	2	8,072	—	—	—	8,074
Restricted stock surrendered	(179,439)	—	—	—	(8,336)	—	(8,336)
Tax effect from vesting of restricted stock	—	—	401	—	—	—	401
Cash dividends paid	—	—	(102,974)	—	—	—	(102,974)
Dividend reinvestment	1,300	—	58	—	—	—	58
Balance, June 30, 2015	103,051,990	$ 1,044	$ 3,712,724	$ (127,550)	$ (50,983)	$ 16,255	$ 3,551,490

See Notes to Condensed Consolidated Financial Statements.

PACWEST BANCORP AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30,	
	2015	2014
	(Unaudited) (Dollars in thousands)	
Cash flows from operating activities:		
Net earnings	$158,162	$35,635
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	22,087	18,023
Provision for credit losses	22,963	4,386
Loss (gain) on sale of foreclosed assets	126	(2,699)
Provision for losses on foreclosed assets	406	368
(Gain) loss on sale of loans and leases	(163)	379
Gain on sale of premises and equipment	(11)	(1,571)
Gain on securities	(3,089)	(4,841)
Unrealized (gain) loss on derivatives and foreign currencies, net	(1,226)	14
Earned stock compensation	8,074	30,696
Write-off of goodwill relating to the asset financing segment reorganization	—	6,645
Tax effect included in stockholders' equity of restricted stock vesting	(401)	(4,294)
Decrease in accrued and deferred income taxes, net	72,169	25,141
Decrease in other assets	26,443	32,585
Decrease in accrued interest payable and other liabilities	(26,541)	(87,303)
Net cash provided by operating activities	278,999	53,164
Cash flows from investing activities:		
Cash acquired in acquisitions, net of cash consideration	—	346,047
Net increase in loan and leases	(169,071)	(18,989)
Proceeds from sales of loans and leases	3,784	22,711
Securities available-for-sale:		
Proceeds from maturities and paydowns	63,741	61,914
Proceeds from sales	159,548	466,534
Purchases	(375,156)	(163,421)
Collections of securities sales proceeds	—	482,724
Net redemptions of Federal Home Loan Bank stock	23,359	24,016
Proceeds from sales of foreclosed assets	14,610	11,450
Purchases of premises and equipment, net	(3,407)	(1,967)
Proceeds from sales of premises and equipment	63	3,753
Net decrease of equipment leased to others under operating leases	—	30,462
Net cash (used in) provided by investing activities	(282,529)	1,265,234
Cash flows from financing activities:		
Net increase (decrease) in deposits:		
Noninterest-bearing	461,107	286,370
Interest-bearing	361,330	(232,598)
Net decrease in borrowings	(380,651)	(1,101,197)
Restricted stock surrendered	(8,336)	(22,307)

Tax effect included in stockholders' equity of restricted vesting stock	401	4,294
Cash dividends paid	(102,916)	(37,017)
Net cash provided by (used in) financing activities	330,935	(1,102,455)
Net increase in cash and cash equivalents	327,405	215,943
Cash and cash equivalents at beginning of period	313,226	147,422
Cash and cash equivalents at end of period	$640,631	$363,365
Supplemental disclosures of cash flow information:		
Cash paid for interest	$29,006	$12,437
Cash paid (received) for income taxes	6,076	(12,613)
Loans transferred to foreclosed assets	3,089	667
Common stock issued in acquisitions	—	2,594,070

See Notes to Condensed Consolidated Financial Statements.

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

Note 1. Organization
PacWest Bancorp is a bank holding company registered under the Bank Holding Company Act of 1956, as amended. Our principal business is to serve as the holding company for our Los Angeles based wholly owned banking subsidiary, Pacific Western Bank, which we refer to as “Pacific Western” or the “Bank.” When we say “we,” “our,” or the “Company,” we mean PacWest Bancorp together with its subsidiaries on a consolidated basis. When we refer to “PacWest” or to the holding company, we are referring to PacWest Bancorp, the parent company, on a stand alone basis. As of June 30, 2015, the Company had total assets of $16.7 billion, gross loans and leases of $12.1 billion, total deposits of $12.6 billion and total stockholders' equity of $3.6 billion.
Pacific Western is a full-service commercial bank offering a broad range of banking products and services including accepting demand, money market, and time deposits and originating loans and leases, including an array of commercial real estate loans and commercial lending products. The Bank strives to attract locally generated and relationship-based deposits, with 80 full-service branches located primarily in Southern California, extending from San Diego County to California’s Central Coast. The Bank also operates three banking offices in the San Francisco Bay area and four banking offices in the Central Valley. The collateral for real estate loan offerings includes healthcare properties, office properties, industrial properties, multifamily properties, hospitality properties, and retail properties. Our commercial loan products include equipment loans and leases, asset-based loans, loans to finance companies, and loans secured by borrower future cash flows.
As a result of the CapitalSource Inc. merger, Pacific Western Bank established the CapitalSource Division, which we also refer to as the National Lending segment. The CapitalSource Division lends throughout the United States, providing middle-market businesses asset-secured loans, equipment-secured loans and leases, cash flow loans, and real estate loans secured by various property types. The Bank's leasing operation, Pacific Western Equipment Finance, and its group specializing in asset-based lending, CapitalSource Business Finance Group, are part of the CapitalSource Division. The CapitalSource Division’s loan and lease origination efforts are conducted through offices located in Chevy Chase, Maryland; Los Angeles and San Jose, California; St. Louis, Missouri; Denver, Colorado; Chicago, Illinois; New York, New York; and Midvale, Utah. When we refer to "CapitalSource Inc.," we are referring to the company acquired on April 7, 2014, and when we refer to the "CapitalSource Division," we are referring to a division of the Bank that specializes in middle-market lending on a nationwide basis.
We generate our revenue primarily from interest received on loans and leases and, to a lesser extent, from interest received on investment securities, and fees received in connection with deposit services, extending credit and other services offered, including foreign exchange services. Our major operating expenses include interest paid by the Bank on deposits and borrowings, compensation and general operating expenses.
We have completed 27 acquisitions from May 2000 through June 30, 2015, including the acquisition of CapitalSource Inc. Since 2000, our acquisitions have been accounted for using the acquisition method of accounting and, accordingly, the operating results of the acquired entities have been included in the consolidated financial statements from their respective acquisition dates. See Note 3, Acquisitions, for more information about the CapitalSource Inc. merger.
Square 1 Financial, Inc. Merger Announcement
On March 2, 2015, PacWest announced the signing of an agreement and plan of merger (the “Agreement”) whereby PacWest and Square 1 Financial, Inc. (“Square 1”) will merge in a transaction currently valued at approximately $867 million. The surviving company will be PacWest Bancorp and the surviving subsidiary bank will be Pacific Western Bank, with the banking operations of Square 1 conducted under the trade name of Square 1 Bank, a division of Pacific Western Bank.
Under the terms of the Agreement, Square 1 stockholders will receive 0.5997 shares of PacWest common stock for each share of Square 1 common stock. The total value of the per share merger consideration is $27.49, based on the $45.84 closing price of PacWest common stock on February 27, 2015, the last trading day before the transaction was announced.

As of June 30, 2015, on a pro forma consolidated basis, after giving effect to the Square 1 merger, the Company would have had approximately $21.1 billion in assets with 80 branches throughout California and one branch in North Carolina.

The transaction, currently expected to close in the fourth quarter of 2015, is subject to customary conditions, including the approval of bank regulatory authorities. The transaction was approved by the Square 1 stockholders on July 29, 2015.

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

Significant Accounting Policies
Except as discussed below, our accounting policies are described in Note 1, Nature of Operations and Summary of Significant Accounting Policies, of our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2014 as filed with the Securities and Exchange Commission ("Form 10-K").
Accounting Standard Adopted in 2015
Effective January 1, 2015, the Company adopted new accounting guidance for investments in affordable housing projects that qualify for the low-income housing tax credit. As a result of the adoption of this new guidance, the Company made an accounting policy election to amortize the initial cost of its qualifying investments in proportion to the tax credits and other benefits received and to present the amortization as a component of income tax expense, referred to as the proportional amortization method. Previously, investments in low-income housing tax credits were accounted for under the equity method and such amortization was presented in other expense. The guidance was required to be applied retrospectively and accordingly, prior period amounts for other expense and tax expense have been revised to conform to the current period presentation. The revised amortization amounts for prior periods were not material.
The retrospective application of the adoption of the new accounting guidance for the proportional amortization method resulted in a cumulative effect on retained earnings of a reduction of $195,000.
Basis of Presentation
Our interim consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Article 10 of Regulation S-X of the Securities Exchange Act of 1934. Accordingly, certain disclosures accompanying annual consolidated financial statements are omitted. In the opinion of management, all adjustments and eliminations, consisting solely of normal recurring accruals, considered necessary for the fair presentation of financial statements for the interim periods, have been included. The current period's results of operations are not necessarily indicative of the results that ultimately may be achieved for the year. The interim consolidated financial statements and notes thereto should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Form 10-K.
The accompanying financial statements reflect our consolidated accounts. All significant intercompany accounts and transactions have been eliminated.
Use of Estimates
We have made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenue and expenses during the reporting period to prepare these condensed consolidated financial statements in conformity with U.S. GAAP. Material estimates subject to change in the near term include, among other items, the allowance for credit losses, the carrying value and useful lives of intangible assets, the carrying value of the FDIC loss sharing asset, the realization of deferred tax assets, and the fair value estimates of assets acquired and liabilities assumed in acquisitions. These estimates may be adjusted as more current information becomes available, and any adjustment may be significant.
As described in Note 3, Acquisitions, the acquired assets and liabilities of CapitalSource Inc. were measured at their estimated fair values. We made significant estimates and exercised significant judgment in estimating fair values and accounting for such acquired assets and assumed liabilities.
Reclassifications
Certain prior period amounts have been reclassified to conform to the current period's presentation format. On the balance sheets, the "Other assets" category includes "FDIC loss sharing asset," which was previously reported as a separate category.

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

Note 2. Discontinued Operations
Discontinued operations include the income and expense related to Electronic Payment Services ("EPS"), a discontinued division of the Bank acquired in connection with the First California Financial Group, Inc. ("FCAL") acquisition. Liabilities of the EPS division were $17.0 million and $21.3 million at June 30, 2015 and December 31, 2014, and consisted primarily of noninterest bearing deposits, and are included in the condensed consolidated balance sheets under the caption “Accrued interest payable and other liabilities.” For segment reporting purposes, the EPS division is included in our Community Banking segment.
Note 3. Acquisitions
The following assets acquired and liabilities assumed of CapitalSource Inc. are presented at their estimated fair values as of its April 7, 2014 acquisition date:

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

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

CapitalSource Inc. Merger

We acquired CapitalSource Inc. on April 7, 2014. As part of the merger, CapitalSource Bank (“CSB”), a wholly owned subsidiary of CapitalSource Inc., merged with and into Pacific Western Bank. We completed the merger in order to augment our loan and lease generation capabilities and to diversify our loan portfolio.

At closing, we created the CapitalSource Division of the Bank. The CapitalSource Division provides a full spectrum of financing solutions across numerous industries and property types to middle market businesses nationwide. When we refer to "CapitalSource Inc.," we are referring to the company acquired on April 7, 2014, and when we refer to the "CapitalSource Division," we are referring to a division of the Bank that lends throughout the United States, providing middle-market businesses asset-secured loans, equipment-secured loans and leases, cash flow loans, and real estate loans secured by various property types.

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

Acquisition-Related Charges

The following table presents the components of acquisition, integration and reorganization costs for the periods indicated:

	Three Months Ended			Six Months Ended	
	June 30, 2015	March 31, 2015	June 30, 2014	June 30, 2015	2014
	(In thousands)				
Acquisition, Integration and Reorganization Costs:					
Severance and employee-related	$—	$—	$54,061	$—	$54,261
System conversion and integration	—	—	873	—	1,123
Asset write-downs, lease terminations and other facilities-related	—	—	5,703	—	5,703
Investment banking deal costs	—	1,050	16,117	1,050	16,117
Other (legal, accounting, insurance, consulting)	900	950	9,488	1,850	11,238
Total acquisition, integration and reorganization costs	$900	$2,000	$86,242	$2,900	$88,442

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

Note 4. Goodwill and Other Intangible Assets
Goodwill arises from the acquisition method of accounting for business combinations and represents the excess of the purchase price over the fair value of the net assets and other identifiable intangible assets acquired. Our intangible assets with definite lives are core deposit intangibles ("CDI") and customer relationship intangibles ("CRI"). In the first quarter of 2015, we finalized the estimated fair value of the deferred tax assets acquired in the CapitalSource Inc. merger that resulted in a $7.9 million decrease with a corresponding adjustment to increase goodwill.
Goodwill and other intangible assets deemed to have indefinite lives generated from purchase business combinations are not subject to amortization and are instead tested for impairment no less than annually. Impairment exists when the carrying value of goodwill exceeds its implied fair value. An impairment loss would be recognized in an amount equal to that excess and would be included in “Noninterest expense” in the condensed consolidated statements of earnings. No impairment losses were recognized during the six months ended June 30, 2015 and 2014.
CDI and CRI are amortized over their respective estimated useful lives and reviewed for impairment at least quarterly. The amortization expense represents the estimated decline in the value of the underlying deposits or loan and lease customers acquired. The weighted average amortization period remaining for all of our CDI and CRI as of June 30, 2015 is 4.1 years. The aggregate CDI and CRI amortization expense is expected to be $6.0 million for 2015. The estimated aggregate amortization expense related to these intangible assets for each of the next five years is $4.1 million for 2016, $2.3 million for 2017, $2.0 million for 2018, $1.7 million for 2019, and $953,000 for 2020.
The following table presents the changes in the carrying amount of goodwill for the period indicated:

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

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

	Three Months Ended			Six Months Ended	
	June 30, 2015	March 31, 2015	June 30, 2014	June 30, 2015	2014
	(In thousands)				
Gross Amount of CDI and CRI:					
Balance, beginning of period	$53,090	$53,090	$48,963	$53,090	$48,963
Additions	—	—	6,720	—	6,720
Fully amortized portion	—	—	(1,293)	—	(1,293)
Write-off due to the asset financing segment reorganization	—	—	(1,300)	—	(1,300)
Balance, end of period	53,090	53,090	53,090	53,090	53,090
Accumulated Amortization:					
Balance, beginning of period	(37,387)	(35,886)	(33,079)	(35,886)	(31,715)
Amortization	(1,502)	(1,501)	(1,677)	(3,003)	(3,041)
Fully amortized portion	—	—	1,293	—	1,293
Write-off due to the asset financing segment reorganization	—	—	804	—	804
Balance, end of period	(38,889)	(37,387)	(32,659)	(38,889)	(32,659)
Net CDI and CRI, end of period	$14,201	$15,703	$20,431	$14,201	$20,431

In the second quarter of 2014, we wrote-off $6.6 million of goodwill and $0.5 million of CRI related to the reorganization of the legacy PacWest asset financing segment, which included the sale of Celtic Capital Corporation.

These amounts are included in "Acquisition, integration and reorganization costs" in the condensed consolidated statements of earnings.

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

Note 5. Investment Securities
Securities Available-for-Sale
The following table presents amortized cost, gross unrealized gains and losses, and carrying values of securities available-for-sale as of the dates indicated:

	June 30, 2015				December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)							
Residential mortgage-backed securities:								
Government agency and government-sponsored enterprise pass-through securities	$411,842	$15,282	$(250)	$426,874	$515,902	$20,142	$(372)	$535,672
Government agency and government-sponsored enterprise collateralized mortgage obligations	262,222	4,443	(766)	265,899	275,513	3,513	(1,080)	277,946
Covered private label collateralized mortgage obligations	25,835	6,573	(85)	32,323	26,889	7,153	(95)	33,947
Other private label collateralized mortgage obligations	8,025	43	(43)	8,025	10,961	46	(93)	10,914
Municipal securities	720,835	10,358	(9,637)	721,556	521,499	15,899	(1,282)	536,116
Corporate debt securities	47,438	343	(371)	47,410	110,074	597	(562)	110,109
Collateralized loan obligations	133,128	1,067	(288)	133,907	—	—	—	—
Government-sponsored enterprise debt securities	36,267	813	—	37,080	36,232	525	—	36,757
Other securities	25,199	2	(117)	25,084	25,801	33	(118)	25,716
Total	$1,670,791	$38,924	$(11,557)	$1,698,158	$1,522,871	$47,908	$(3,602)	$1,567,177

Other securities consist primarily of asset backed securities. See Note 11, Fair Value Measurements, for information on fair value measurements and methodology.
As of June 30, 2015, securities available for sale with a carrying value of $364.3 million were pledged as collateral for borrowings, public deposits and other purposes as required by various statutes and agreements.
During the six months ended June 30, 2015 and 2014, we purchased $375.2 million and $163.4 million in securities available-for-sale.
During the six months ended June 30, 2015, we sold $28.7 million of municipal securities for a $698,000 gain, $67.5 million in corporate debt securities for a realized loss of $232,000 and $60.3 million in government agency and government-sponsored enterprise ("GSE") pass-through securities for a realized gain of $2.6 million. During the six months ended June 30, 2014, we sold $137.3 million in GSE pass-through securities for a realized gain of $4.8 million

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

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

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

	June 30, 2015					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(In thousands)					
Residential mortgage-backed securities:						
Government agency and government-sponsored enterprise pass-through securities	$4,952	$(92)	$9,707	$(158)	$14,659	$(250)
Government agency and government-sponsored enterprise collateralized mortgage obligations	21,528	(51)	14,145	(715)	35,673	(766)
Covered private label collateralized mortgage obligations	1,126	(27)	626	(58)	1,752	(85)
Other private label collateralized mortgage obligations	2,188	(39)	428	(4)	2,616	(43)
Municipal securities	344,761	(7,998)	38,651	(1,639)	383,412	(9,637)
Corporate debt securities	25,104	(371)	—	—	25,104	(371)
Collateralized loan obligations	39,184	(288)	—	—	39,184	(288)
Other securities	12,366	(112)	10,035	(5)	22,401	(117)
Total	$451,209	$(8,978)	$73,592	$(2,579)	$524,801	$(11,557)

	December 31, 2014					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(In thousands)					
Residential mortgage-backed securities:						
Government agency and government-sponsored enterprise pass-through securities	$10,711	$(13)	$27,100	$(359)	$37,811	$(372)
Government agency and government-sponsored enterprise collateralized mortgage obligations	23,908	(73)	40,652	(1,007)	64,560	(1,080)
Covered private label collateralized mortgage obligations	—	—	1,000	(95)	1,000	(95)
Other private label collateralized mortgage obligations	1,618	(93)	—	—	1,618	(93)
Municipal securities	11,854	(66)	84,822	(1,216)	96,676	(1,282)
Corporate debt securities	52,071	(547)	10,131	(15)	62,202	(562)
Other securities	6,440	(90)	10,019	(28)	16,459	(118)

Total	$106,602	$(882)	$173,724	$(2,720)	$280,326	$(3,602)

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

We reviewed the securities that were in a loss position at June 30, 2015, and concluded their unrealized losses were a result of the level of market interest rates relative to the types of securities and pricing changes caused by shifting supply and demand dynamics and not a result of downgraded credit ratings or other indicators of deterioration of the underlying issuers' ability to repay. Accordingly, we determined the securities were temporarily impaired and we did not recognize such impairment in the condensed consolidated statements of earnings. Although we occasionally sell securities for risk management purposes to reduce risks related to price volatility and duration, we do not foresee having to sell any temporarily impaired securities strictly for liquidity needs and believe that it is more likely than not we would not be required to sell any temporarily impaired securities before recovery of their amortized cost.

Contractual Maturities

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

	June 30, 2015	
	Amortized Cost	Fair Value
	(In thousands)	
Due in one year or less	$5,783	$5,810
Due after one year through five years	106,649	108,045
Due after five years through ten years	282,802	291,215
Due after ten years	1,275,557	1,293,088
Total securities available-for-sale	$1,670,791	$1,698,158

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.

FHLB Stock

At June 30, 2015, we had a $17.3 million investment in Federal Home Loan Bank of San Francisco ("FHLB") stock carried at cost. During the six months ended June 30, 2015, the carrying value of FHLB stock decreased by $23.4 million due to $27.3 million in redemptions, offset partially by $3.9 million in purchases. We evaluated the carrying value of our FHLB stock investment at June 30, 2015, and determined that it was not impaired. Our evaluation considered the long-term nature of the investment, the current financial and liquidity position of the FHLB, repurchase activity of excess stock by the FHLB at its carrying value, the return on the investment, and our intent and ability to hold this investment for a period of time sufficient to recover our recorded investment. The FHLB paid us a special dividend of $1.4 million in the second quarter of 2015.

Interest Income on Investment Securities

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

	Three Months Ended			Six Months Ended	
	June 30, 2015	March 31, 2015	June 30, 2014	June 30, 2015	2014
	(In thousands)				
Taxable interest	$7,577	$7,473	$7,668	$15,050	$14,584
Non-taxable interest	4,808	3,894	3,333	8,702	6,661
Dividend income	2,185	828	985	3,013	1,564
Total interest income on investment securities	$14,570	$12,195	$11,986	$26,765	$22,809

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

Note 6. Loans and Leases

The Company’s loan and lease portfolio includes originated and purchased loans and leases. Originated loans and leases 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 it was 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 when the related loans are paid off or sold.

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

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

	June 30, 2015			December 31, 2014		
	Non-PCI Loans and Leases	PCI Loans	Total	Non-PCI Loans and Leases	PCI Loans	Total
	(In thousands)					
Real estate mortgage	$5,428,698	$212,157	$5,640,855	$5,350,827	$256,489	$5,607,316
Real estate construction and land	346,919	1,464	348,383	309,162	6,924	316,086
Commercial	5,984,472	8,782	5,993,254	5,852,420	27,155	5,879,575
Consumer	86,224	289	86,513	101,423	284	101,707
Total gross loans and leases	11,846,313	222,692	12,069,005	11,613,832	290,852	11,904,684
Deferred fees and costs	(34,762)	(54)	(34,816)	(22,191)	(61)	(22,252)
Total loans and leases, net of deferred fees	11,811,551	222,638	12,034,189	11,591,641	290,791	11,882,432
Allowance for loan and lease losses	(85,047)	(14,328)	(99,375)	(70,456)	(13,999)	(84,455)
Total net loans and leases	$11,726,504	$208,310	$11,934,814	$11,521,185	$276,792	$11,797,977

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

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

	Three Months Ended June 30, 2015						
	Real Estate Mortgage	Real Estate Construction and Land	Commercial	Consumer	Total Non-PCI	Total PCI	Total
	(In thousands)						
Allowance for Loan and Lease Losses:							
Balance, beginning of period	$30,911	$2,173	$45,794	$802	$79,680	$12,698	$92,378
Charge-offs	(62)	—	(534)	(27)	(623)	—	(623)
Recoveries	200	12	1,744	34	1,990	101	2,091
Provision (negative provision)	(1,141)	1,723	3,527	(109)	4,000	1,529	5,529
Balance, end of period	$29,908	$3,908	$50,531	$700	$85,047	$14,328	$99,375

	Six Months Ended June 30, 2015						
	Real Estate Mortgage	Real Estate Construction and Land	Commercial	Consumer	Total Non-PCI	Total PCI	Total
	(In thousands)						
Allowance for Loan and Lease Losses:							
Balance, beginning of period	$25,097	$4,248	$39,858	$1,253	$70,456	$13,999	$84,455
Charge-offs	(1,515)	—	(8,929)	(90)	(10,534)	(579)	(11,113)
Recoveries	1,495	644	2,154	228	4,521	112	4,633
Provision (negative provision)	4,831	(984)	17,448	(691)	20,604	796	21,400
Balance, end of period	$29,908	$3,908	$50,531	$700	$85,047	$14,328	$99,375
Amount of the allowance applicable to loans and leases:							
Individually evaluated for impairment	$1,461	$49	$13,305	$193	$15,008		
Collectively evaluated for impairment	$28,447	$3,859	$37,226	$507	$70,039		

Acquired loans with deteriorated credit quality						$14,328	
The ending balance of the loan and lease portfolio is composed of loans and leases:							
Individually evaluated for impairment	$56,297	$8,118	$98,767	$3,585	$166,767		
Collectively evaluated for impairment	$5,359,373	$335,382	$5,867,335	$82,694	$11,644,784		
Acquired loans with deteriorated credit quality						$222,638	
Ending balance of loans and leases	$5,415,670	$343,500	$5,966,102	$86,279	$11,811,551	$222,638	$12,034,189

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

	Three Months Ended June 30, 2014						
	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	$24,352	$4,103	$27,740	$3,785	$59,980	$21,200	$81,180
Charge-offs	(487)	—	(326)	(17)	(830)	(4,604)	(5,434)
Recoveries	376	64	587	215	1,242	—	1,242
Provision (negative provision)	(1,965)	135	7,529	(568)	5,131	30	5,161
Balance, end of period	$22,276	$4,302	$35,530	$3,415	$65,523	$16,626	$82,149

	Six Months Ended June 30, 2014						
	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	$26,078	$4,298	$26,921	$2,944	$60,241	$21,793	$82,034
Charge-offs	(581)	—	(1,767)	(32)	(2,380)	(4,553)	(6,933)
Recoveries	636	88	965	242	1,931	—	1,931
Provision (negative provision)	(3,857)	(84)	9,411	261	5,731	(614)	5,117
Balance, end of period	$22,276	$4,302	$35,530	$3,415	$65,523	$16,626	$82,149
Amount of the allowance applicable to loans and leases:							
Individually evaluated for impairment	$2,245	$238	$12,531	$321	$15,335		
Collectively evaluated for impairment	$20,031	$4,064	$22,999	$3,094	$50,188		
Acquired loans with deteriorated credit						$16,626	

quality							
The ending balance of the loan and lease portfolio is composed of loans and leases:							
Individually evaluated for impairment	$62,287	$12,797	$51,488	$3,971	$130,543		
Collectively evaluated for impairment	$5,174,165	$285,680	$5,142,247	$59,034	$10,661,126		
Acquired loans with deteriorated credit quality						$398,436	
Ending balance of loans and leases	$5,236,452	$298,477	$5,193,735	$63,005	$10,791,669	$398,436	$11,190,105

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

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

	June 30, 2015			December 31, 2014		
	Classified	Nonclassified	Total	Classified	Nonclassified	Total
	(In thousands)					
Real estate mortgage:						
Hospitality	$16,737	$579,922	$596,659	$17,761	$542,458	$560,219
SBA	10,141	387,921	398,062	11,141	364,786	375,927
Other	53,777	4,367,172	4,420,949	68,084	4,336,330	4,404,414
Total real estate mortgage	80,655	5,335,015	5,415,670	96,986	5,243,574	5,340,560
Real estate construction and land:						
Residential	377	119,428	119,805	402	96,326	96,728
Commercial	984	222,711	223,695	3,346	207,061	210,407
Total real estate construction and land	1,361	342,139	343,500	3,748	303,387	307,135
Commercial:						
Collateralized	19,250	352,541	371,791	22,433	416,754	439,187
Unsecured	1,609	118,526	120,135	1,323	130,501	131,824
Asset-based	6,675	1,833,778	1,840,453	11,547	1,783,304	1,794,851
Cash flow	177,948	2,505,518	2,683,466	83,321	2,376,530	2,459,851
Equipment finance	85,536	818,952	904,488	15,973	953,516	969,489
SBA	3,068	42,701	45,769	3,207	44,054	47,261
Total commercial	294,086	5,672,016	5,966,102	137,804	5,704,659	5,842,463
Consumer	3,886	82,393	86,279	4,073	97,410	101,483
Total Non-PCI loans and leases	$379,988	$11,431,563	$11,811,551	$242,611	$11,349,030	$11,591,641

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.

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

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

	June 30, 2015				
	30 - 89 Days Past Due	90 or More Days Past Due	Total Past Due	Current	Total
	(In thousands)				
Real estate mortgage:					
Hospitality	$—	$—	$—	$596,659	$596,659
SBA	2,526	6,919	9,445	388,617	398,062
Other	4,165	5,515	9,680	4,411,269	4,420,949
Total real estate mortgage	6,691	12,434	19,125	5,396,545	5,415,670
Real estate construction and land:					
Residential	—	—	—	119,805	119,805
Commercial	—	—	—	223,695	223,695
Total real estate construction and land	—	—	—	343,500	343,500
Commercial:					
Collateralized	733	427	1,160	370,631	371,791
Unsecured	33	15	48	120,087	120,135
Asset-based	—	—	—	1,840,453	1,840,453
Cash flow	—	—	—	2,683,466	2,683,466
Equipment finance	2,551	16,443	18,994	885,494	904,488
SBA	293	1,192	1,485	44,284	45,769
Total commercial	3,610	18,077	21,687	5,944,415	5,966,102
Consumer	25	3,146	3,171	83,108	86,279
Total Non-PCI loans and leases	$10,326	$33,657	$43,983	$11,767,568	$11,811,551

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

	December 31, 2014				
	30 - 89 Days Past Due	90 or More Days Past Due	Total Past Due	Current	Total
	(In thousands)				
Real estate mortgage:					
Hospitality	$—	$—	$—	$560,219	$560,219
SBA	5,530	4,357	9,887	366,040	375,927
Other	6,098	7,630	13,728	4,390,686	4,404,414
Total real estate mortgage	11,628	11,987	23,615	5,316,945	5,340,560
Real estate construction and land:					
Residential	—	—	—	96,728	96,728
Commercial	—	715	715	209,692	210,407
Total real estate construction and land	—	715	715	306,420	307,135
Commercial:					
Collateralized	878	965	1,843	437,344	439,187
Unsecured	69	45	114	131,710	131,824
Asset-based	—	—	—	1,794,851	1,794,851
Cash flow	—	232	232	2,459,619	2,459,851
Equipment finance	6,525	366	6,891	962,598	969,489
SBA	205	1,362	1,567	45,694	47,261
Total commercial	7,677	2,970	10,647	5,831,816	5,842,463
Consumer	101	3,146	3,247	98,236	101,483
Total Non-PCI loans and leases	$19,406	$18,818	$38,224	$11,553,417	$11,591,641

At June 30, 2015 and December 31, 2014, the Company had no loans and leases (excluding PCI loans) that were greater than 90 days past due and still accruing interest. It is the Company’s policy to discontinue accruing interest when principal or interest payments are past due 90 days or more unless the loan is both well secured and in the process of collection or when, in the judgment of management, there is a reasonable doubt as to the collectability of a loan or lease in the normal course of business. Interest income on nonaccrual loans is recognized only to the extent cash is received and the principal balance of the loan is deemed collectable.

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

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

	June 30, 2015			December 31, 2014		
	Nonaccrual	Performing	Total	Nonaccrual	Performing	Total
	(In thousands)					
Real estate mortgage:						
Hospitality	$7,894	$588,765	$596,659	$6,366	$553,853	$560,219
SBA	10,141	387,921	398,062	11,141	364,786	375,927
Other	16,213	4,404,736	4,420,949	20,105	4,384,309	4,404,414
Total real estate mortgage	34,248	5,381,422	5,415,670	37,612	5,302,948	5,340,560
Real estate construction and land:						
Residential	377	119,428	119,805	381	96,347	96,728
Commercial	—	223,695	223,695	1,178	209,229	210,407
Total real estate construction and land	377	343,123	343,500	1,559	305,576	307,135
Commercial:						
Collateralized	3,761	368,030	371,791	5,450	433,737	439,187
Unsecured	537	119,598	120,135	639	131,185	131,824
Asset-based	40	1,840,413	1,840,453	4,574	1,790,277	1,794,851
Cash flow	14,605	2,668,861	2,683,466	15,964	2,443,887	2,459,851
Equipment finance	71,130	833,358	904,488	11,131	958,358	969,489
SBA	3,068	42,701	45,769	3,207	44,054	47,261
Total commercial	93,141	5,872,961	5,966,102	40,965	5,801,498	5,842,463
Consumer	3,412	82,867	86,279	3,485	97,998	101,483
Total Non-PCI loans and leases	$131,178	$11,680,373	$11,811,551	$83,621	$11,508,020	$11,591,641

At June 30, 2015, nonaccrual loans and leases totaled $131.2 million and included $33.7 million of loans and leases 90 or more days past due, $4.5 million of loans and leases 30 to 89 days past due, and $93.0 million of current loans and leases that were placed on nonaccrual status based on management’s judgment regarding their collectability. Nonaccrual loans and leases totaled $83.6 million at December 31, 2014, including $18.8 million of loans and leases 90 or more days past due, $8.7 million of loans and leases 30 to 89 days past due, and $56.1 million of current loans and leases that were placed on nonaccrual status based on management’s judgment regarding their collectability. The increase in nonaccrual loans and leases generally, and equipment finance loans and leases specifically, was due to three relationships totaling $64.1 million that are related to the oil and gas industries and which have been adversely impacted by continued low oil prices.

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

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

	June 30, 2015			December 31, 2014		
	Nonaccrual Loans/Leases	Performing Restructured Loans	Total Impaired Loans/Leases	Nonaccrual Loans/Leases	Performing Restructured Loans	Total Impaired Loans/Leases
	(In thousands)					
Real estate mortgage	$34,248	$23,863	$58,111	$37,612	$20,245	$57,857
Real estate construction and land	377	7,741	8,118	1,559	8,996	10,555
Commercial	93,141	6,350	99,491	40,965	5,744	46,709
Consumer	3,412	249	3,661	3,485	259	3,744
Total	$131,178	$38,203	$169,381	$83,621	$35,244	$118,865

The following table presents loan and lease relationships having exposure to the oil and gas industries as of the dates indicated:

	June 30, 2015		March 31, 2015	
	Amount	Obligors	Amount	Obligors
	(Dollars in thousands)			
Loans	$87,005	8	$88,585	9
Leases	90,189	21	92,865	21
Total oil & gas support services	$177,194	29	$181,450	30
Classified	$64,232	4	$65,498	5
Nonaccrual	$64,232	4	$65,074	4

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

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

	June 30, 2015			December 31, 2014		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
	(In thousands)					
With An Allowance Recorded:						
Real estate mortgage:						
Hospitality	$1,919	$1,918	$18	$1,946	$1,945	$47
Other	15,233	15,365	1,443	9,136	9,233	646
Real estate construction and land:						
Residential	755	755	36	763	763	46
Commercial	392	390	13	1,128	4,934	23
Commercial:						
Collateralized	7,336	8,060	4,016	4,630	5,246	3,771
Unsecured	1,147	1,160	1,008	912	924	799
Asset-based	40	150	40	137	247	137
Cash flow	14,606	17,650	4,556	15,578	17,970	2,667
Equipment finance	13,257	13,659	3,685	6,956	7,268	2,601
Consumer	302	307	193	143	142	37
With No Related Allowance Recorded:						
Real estate mortgage:						
Hospitality	$7,894	$10,057	$—	$6,366	$7,593	$—
SBA	10,141	13,678	—	11,141	14,708	—
Other	22,924	35,625	—	29,268	40,643	—
Real estate construction and land:						
Residential	—	—	—	21	19	—
Commercial	6,971	6,968	—	8,643	8,749	—
Commercial:						
Collateralized	1,697	2,120	—	5,566	6,877	—
Unsecured	467	518	—	725	809	—
Asset-based	—	—	—	4,436	5,415	—
Cash flow	—	505	—	387	919	—
Equipment finance	57,873	60,754	—	4,175	7,528	—
SBA	3,068	4,862	—	3,207	4,920	—
Consumer	3,359	3,518	—	3,601	3,768	—
Total Non-PCI Loans and Leases With and Without an Allowance Recorded:						
Real estate mortgage	$58,111	$76,643	$1,461	$57,857	$74,122	$693
Real estate construction and land	8,118	8,113	49	10,555	14,465	69
Commercial	99,491	109,438	13,305	46,709	58,123	9,975
Consumer	3,661	3,825	193	3,744	3,910	37
Total	$169,381	$198,019	$15,008	$118,865	$150,620	$10,774

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

	Three Months Ended June 30,			
	2015		2014	
	Weighted Average Balance[1]	Interest Income Recognized	Weighted Average Balance[1]	Interest Income Recognized
	(In thousands)			
With An Allowance Recorded:				
Real estate mortgage:				
Hospitality	$1,919	$20	$1,974	$20
Other	15,138	161	14,329	174
Real estate construction and land:				
Residential	755	4	771	4
Commercial	392	5	435	6
Commercial:				
Collateralized	6,050	37	5,986	43
Unsecured	1,082	12	701	6
Asset-based	40	—	269	—
Cash flow	14,606	—	—	—
Equipment finance	9,178	—	1,322	—
Consumer	302	2	3,571	5
With No Related Allowance Recorded:				
Real estate mortgage:				
Hospitality	$7,894	$—	$6,552	$—
SBA	9,984	4	4,271	—
Other	20,656	83	27,100	79
Real estate construction and land:				
Residential	—	—	542	—
Commercial	6,971	58	11,049	71
Commercial:				
Collateralized	1,257	17	1,985	24
Unsecured	467	1	304	—
Asset-based	—	—	4,604	—
Cash flow	—	—	174	—
Equipment finance	57,873	—	7,476	—
SBA	3,068	37	1,406	—
Consumer	3,359	2	274	—
Total Non-PCI Loans and Leases With and Without an Allowance Recorded:				
Real estate mortgage	$55,591	$268	$54,226	$273
Real estate construction and land	8,118	67	12,797	81
Commercial	93,621	104	24,227	73
Consumer	3,661	4	3,845	5
Total	$160,991	$443	$95,095	$432

(1) For the loans and leases (excluding PCI loans) reported as impaired at June 30, 2015 and 2014, amounts were calculated based on the period of time such loans and leases were impaired during the reported period.

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

	Six Months Ended June 30,			
	2015		2014	
	Weighted Average Balance(1)	Interest Income Recognized	Weighted Average Balance(1)	Interest Income Recognized
	(In thousands)			
With An Allowance Recorded:				
Real estate mortgage:				
Hospitality	$1,919	$39	$1,974	$40
SBA	—	—	—	—
Other	14,601	309	13,127	277
Real estate construction and land:				
Residential	755	8	771	8
Commercial	392	11	221	7
Commercial:				
Collateralized	5,249	55	4,843	49
Unsecured	1,058	22	684	12
Asset-based	40	—	269	—
Cash flow	14,606	—	—	—
Equipment finance	6,446	—	665	—
SBA	—	—	—	—
Consumer	302	5	2,761	9
With No Related Allowance Recorded:				
Real estate mortgage:				
Hospitality	$7,770	$—	$6,552	$—
SBA	9,213	1	4,193	—
Other	19,814	163	23,697	153
Real estate construction and land:				
Residential	—	—	339	—
Commercial	6,971	114	8,214	97
Commercial:				
Collateralized	1,123	30	1,532	31
Unsecured	467	2	295	—
Asset-based	—	—	2,340	—
Cash flow	—	—	87	—
Equipment finance	32,547	—	6,245	—
SBA	3,068	82	1,406	—
Consumer	3,359	4	253	—
Total Non-PCI Loans and Leases With and Without an Allowance Recorded:				
Real estate mortgage	$53,317	$512	$49,543	$470
Real estate construction and land	8,118	133	9,545	112
Commercial	64,604	191	18,366	92
Consumer	3,661	9	3,014	9
Total	$129,700	$845	$80,468	$683

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(1) For the loans and leases (excluding PCI loans) reported as impaired at June 30, 2015 and 2014, 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 June 30, 2015			Three Months Ended June 30, 2014		
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:						
Other	10	$2,476	$ 2,450	4	$1,341	$1,341
Real estate construction and land:						
Commercial	2	7,004	7,004	—	—	—
Commercial:						
Collateralized	6	3,309	3,309	2	59	59
Unsecured	2	112	112	—	—	—
Cash flow	2	—	—	—	—	—
Equipment finance(1)	5	49,205	49,205	—	—	—
Total	27	$62,106	$ 62,080	6	$1,400	$1,400

(1) During the second quarter of 2015, two loan relationships, consisting of five loans and leases adversely affected by low oil prices, were restructured to reduce the current payment amounts for a period of time. These loans were assessed for impairment during the first quarter of 2015 and a specific credit loss allowance was established. These loans were on nonaccrual status before and after the restructuring.

	Six Months Ended June 30, 2015			Six Months Ended June 30, 2014		
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:						
Other	24	$8,550	$ 8,336	8	$3,856	$3,856
Real estate construction and land:						
Commercial	3	9,614	9,614	2	4,920	4,920
Commercial:						
Collateralized	12	4,708	4,708	6	3,346	3,346
Unsecured	3	306	306	2	38	38
Cash flow	4	566	387	—	—	—
Equipment finance	9	53,338	53,338	—	—	—
SBA	1	—	—	—	—	—
Consumer	1	91	91	1	124	124
Total	57	$77,173	$ 76,780	19	$12,284	$12,284

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:

	Three Months Ended June 30,					
	2015			2014		
Troubled Debt Restructurings That Subsequently Defaulted:	Number of Loans	Recorded Investment[1]		Number of Loans	Recorded Investment[1]	
	(Dollars in thousands)					
Real estate mortgage - Other	3	$1,234		—	$—	
Commercial:						
Collateralized	1	375		—	—	
Equipment finance	2	1,635		—	—	
Consumer	1	16		—	—	
Total	7	$3,260	(2)	—	$—	(3)

(1) The population of defaulted restructured loans for the period indicated includes only those loans restructured during the preceding 12-month period. The table excludes defaulted troubled restructurings in those classes for which the recorded investment was zero at the end of the period.
(2) Represents the balance at June 30, 2015, and there were no charge-offs.
(3) Represents the balance at June 30, 2014, and there were no charge-offs.

	Six Months Ended June 30,					
	2015			2014		
Troubled Debt Restructurings That Subsequently Defaulted:	Number of Loans	Recorded Investment[1]		Number of Loans	Recorded Investment[1]	
	(Dollars in thousands)					
Real estate mortgage - Other	3	$1,234		—	$—	
Commercial:						
Collateralized	1	375		2	427	
Equipment finance	2	1,635		—	—	
Consumer	1	16		—	—	
Total	7	$3,260	(2)	2	$427	(3)

(1) The population of defaulted restructured loans for the period indicated includes only those loans restructured during the preceding 12-month period. The table excludes defaulted troubled restructurings in those classes for which the recorded investment was zero at the end of the period.
(2) Represents the balance at June 30, 2015, and there were no charge-offs.
(3) Represents the balance at June 30, 2014, and is net of charge-offs of $0.2 million.

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

Purchased Credit Impaired (PCI) Loans

The following table reflects the PCI loans by portfolio segment as of the dates indicated:

	June 30, 2015	December 31, 2014
	(In thousands)	
Real estate mortgage	$250,268	$299,660
Real estate construction and land	1,688	7,743
Commercial	14,065	32,904
Consumer	318	332
Total gross PCI loans	266,339	340,639
Less:		
Discount	(43,701)	(49,848)
Allowance for loan losses	(14,328)	(13,999)
Total net PCI loans	$208,310	$276,792

The following table summarizes the changes in the carrying amount of PCI loans and accretable yield on those loans for the period indicated:

	Carrying Amount	Accretable Yield
	(In thousands)	
Balance, December 31, 2014	$276,792	$(106,856)
Accretion	18,059	18,059
Payments received	(85,745)	—
Increase in expected cash flows, net	—	(7,204)
Provision for credit losses	(796)	—
Balance, June 30, 2015	$208,310	$(96,001)

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

	June 30, 2015			December 31, 2014		
	Classified	Nonclassified	Total	Classified	Nonclassified	Total
	(In thousands)					
Real estate mortgage	$65,704	$146,404	$212,108	$101,161	$155,281	$256,442
Real estate construction and land	1,459	—	1,459	3,901	3,010	6,911
Commercial	8,619	163	8,782	26,942	212	27,154
Consumer	289	—	289	284	—	284
Total PCI loans	$76,071	$146,567	$222,638	$132,288	$158,503	$290,791

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 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.

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

Note 7. Foreclosed Assets
The following table summarizes foreclosed assets at the dates indicated:

Property Type:	June 30, 2015	December 31, 2014
	(In thousands)	
Commercial real estate	$3,704	$2,449
Construction and land development	18,942	24,759
Multi family	4,551	4,823
Single family residence	2,260	3,392
Total other real estate owned, net	29,457	35,423
Other foreclosed assets	2,211	8,298
Total foreclosed assets, net[1]	$31,668	$43,721

(1) As of June 30, 2015 and December 31, 2014, the amounts of covered foreclosed assets were $9.8 million and $9.3 million.

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, 2014	$43,721
Foreclosures	3,089
Provision for losses	(406)
Reductions related to sales	(14,736)
Balance, June 30, 2015	$31,668

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

Note 8. FDIC Loss Sharing Asset
We are a party to four loss sharing agreements with the FDIC. Such agreements cover a substantial portion of losses incurred on acquired covered loans and other real estate owned. The loss sharing agreements relate to the acquisitions of: (1) Affinity Bank ("Affinity") in August 2009, (2) Los Padres Bank ("Los Padres") in August 2010, (3) Western Commercial Bank ("Western Commercial") in connection with the May 2013 FCAL acquisition, and (4) San Luis Trust Bank ("San Luis") in connection with the May 2013 FCAL acquisition. Generally, under the terms of the loss sharing agreements, the FDIC is responsible for 80% of losses in connection with covered assets and is entitled to receive 80% of loss recoveries on the covered assets during the applicable contractual periods. The loss sharing provisions for the Affinity Bank non-single family covered assets expired in the third quarter of 2014; accordingly, further activity will be limited to recoveries through the third quarter of 2017 for assets covered by this loss sharing agreement.
Both the Western Commercial and San Luis loss sharing agreements contain true-up provisions, under which we will owe the FDIC amounts at the end of the loss sharing agreements based on the performance of the covered assets. The true-up liability is included in "Accrued interest payable and other liabilities" in the condensed consolidated balance sheets.
The following table presents information about the composition of the FDIC loss sharing asset, the true up liability, and the non single family and the single family covered assets as of the date indicated:

	June 30, 2015				
	Affinity Bank	Los Padres Bank	Western Commercial Bank	San Luis Trust Bank	Total
	(In thousands)				
FDIC loss sharing asset	$(201)	$5,523	$406	$6,162	$11,890
True up liability	N/A	N/A	$1,790	$5,603	$7,393
Non-single family covered assets[(1)]	$100,255	$66,867	$8,018	$22,464	$197,604
Single family covered assets	$10,923	$52,416	N/A	$25,554	$88,893
Loss sharing expiration dates:					
Non single family	3rd Quarter 2014	3rd Quarter 2015	4th Quarter 2015	1st Quarter 2016	
Single family	3rd Quarter 2019	3rd Quarter 2020	N/A	1st Quarter 2021	
Loss recovery expiration dates:					
Non single family	3rd Quarter 2017	3rd Quarter 2018	4th Quarter 2018	1st Quarter 2019	
Single family	3rd Quarter 2019	3rd Quarter 2020	N/A	1st Quarter 2021	

(1) Excludes securities

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

Note 9. Borrowings, Subordinated Debentures and Brokered Time Deposits
Borrowings
The following table summarizes our borrowings as of the dates indicated:

	June 30, 2015			December 31, 2014		
	Amount	Rate		Amount	Rate	
	(Dollars in thousands)					
Non recourse debt	$2,751	6.33	%	$3,402	6.43	%
FHLB overnight advances	—	—	%	380,000	0.27	%
Total borrowings	$2,751			$383,402		

The non recourse debt represents the payment stream of certain equipment leases sold to third parties. The debt is secured by the leased equipment and all interest rates are fixed. As of June 30, 2015, this debt had a weighted average remaining maturity of 2.4 years.

PacWest has an unsecured, variable-rate revolving line of credit in the amount of $75.0 million with an expiration date of September 30, 2015. This borrowing facility provides additional available liquidity to the holding company. As of June 30, 2015 and December 31, 2014, there were no balances outstanding.

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"), or other financial institutions.

FHLB Secured Lines of Credit. The borrowing arrangement with the FHLB is based on an FHLB program collateralized by a blanket lien on certain qualifying loans that are not pledged to the FRBSF. As of June 30, 2015, the borrowing capacity under the FHLB secured borrowing lines was $2.5 billion and there were no balances outstanding. As of December 31, 2014, the balance outstanding was $380.0 million.

FRBSF Secured Line of Credit. The Bank has a secured line of credit with the FRBSF. As of June 30, 2015, the Bank had secured borrowing capacity of $2.0 billion collateralized by liens covering $2.6 billion of certain qualifying loans. As of June 30, 2015 and December 31, 2014, there were no balances outstanding.

Federal Funds Arrangements with Commercial Banks. As of June 30, 2015, the Bank had unsecured lines of credit of $80.0 million with correspondent banks for the purchase of overnight funds, subject to availability of funds. These lines are renewable annually and have no unused commitment fees. As of June 30, 2015 and December 31, 2014, there were no balances outstanding.

FHLB Unsecured Line of Credit. During the second quarter of 2015, the Bank obtained a $99.0 million unsecured line of credit with the FHLB for the purchase of overnight funds. As of June 30, 2015, there was no balance outstanding.

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

Subordinated Debentures
The following table summarizes the terms of each issuance of subordinated debentures outstanding as of the dates indicated:

	June 30, 2015			December 31, 2014			Date	Maturity	Rate Index
Series	Amount	Rate		Amount	Rate		Issued	Date	(Quarterly Reset)
	(Dollars in thousands)								
Trust V	$10,310	3.38	%	$10,310	3.33	%	8/15/2003	9/17/2033	3 month LIBOR + 3.10
Trust VI	10,310	3.34	%	10,310	3.29	%	9/3/2003	9/15/2033	3 month LIBOR + 3.05
Trust CII	5,155	3.23	%	5,155	3.19	%	9/17/2003	9/17/2033	3 month LIBOR + 2.95
Trust VII	61,856	3.03	%	61,856	2.98	%	2/5/2004	4/23/2034	3 month LIBOR + 2.75
Trust CIII	20,619	1.98	%	20,619	1.93	%	8/15/2005	9/15/2035	3 month LIBOR + 1.69
Trust FCCI	16,495	1.89	%	16,495	1.84	%	1/25/2007	3/15/2037	3 month LIBOR + 1.60
Trust FCBI	10,310	1.84	%	10,310	1.79	%	9/30/2005	12/15/2035	3 month LIBOR + 1.55
Trust CS 2005-1	82,475	2.24	%	82,475	2.19	%	11/21/2005	12/15/2035	3 month LIBOR + 1.95
Trust CS 2005-2	128,866	2.23	%	128,866	2.18	%	12/14/2005	1/30/2036	3 month LIBOR + 1.95
Trust CS 2006-1	51,545	2.23	%	51,545	2.18	%	2/22/2006	4/30/2036	3 month LIBOR + 1.95
Trust CS 2006-2	51,550	2.23	%	51,550	2.18	%	9/27/2006	10/30/2036	3 month LIBOR + 1.95
Trust CS 2006-3 (1)	28,747	2.06	%	31,188	2.14	%	9/29/2006	10/30/2036	3 month EURIBOR + 2.05
Trust CS 2006-4	16,470	2.23	%	16,470	2.18	%	12/5/2006	1/30/2037	3 month LIBOR + 1.95
Trust CS 2006-5	6,650	2.23	%	6,650	2.18	%	12/19/2006	1/30/2037	3 month LIBOR + 1.95
Trust CS 2007-2	39,177	2.23	%	39,177	2.18	%	6/13/2007	7/30/2037	3 month LIBOR + 1.95
Gross subordinated debentures	540,535			542,976					
Unamortized discount (2)	(106,591)			(109,393)					
Net subordinated debentures	$433,944			$433,583					

(1) Denomination is in Euros with a value of €25.8 million.
(2) Amount represents the fair value adjustment on trust preferred securities 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.

Brokered Time Deposits

Brokered time deposits totaled $645.3 million and $636.7 million at June 30, 2015 and December 31, 2014. Brokered time deposits under the Certificate of Deposit Account Registry Service Program ("CDARS Program") totaled $41.8 million and $44.0 million at June 30, 2015 and December 31, 2014. The CDARS Program represents deposits that are participated with other FDIC insured financial institutions as a means to provide FDIC deposit insurance coverage for the full amount of our customers’ deposits.

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

Note 10. Commitments and Contingencies
Lending Commitments
The Bank is a party to financial instruments with off balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit, and commitments to purchase equipment being acquired for lease to others. Those instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the condensed consolidated balance sheets. The contract or notional amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments.
The following table presents a summary of the financial instruments described above as of the dates indicated:

	June 30, 2015	December 31, 2014
	(In thousands)	
Loan commitments to extend credit	$2,111,637	$1,921,067
Standby letters of credit	104,693	88,495
Commitments to purchase equipment being acquired for lease to others	1,257	12,839
	$2,217,587	$2,022,401

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, the Company has investments in low income housing project partnerships, which provide the Company income tax credits, and in a few small business investment companies that call for capital contributions up to an amount specified in the partnership agreements. As of June 30, 2015 and December 31, 2014, the Company had commitments to contribute capital to these entities totaling $17.7 million and $11.0 million, respectively. We also had commitments to contribute up to an additional $2.5 million and $2.9 million to 11 private equity funds at June 30, 2015 and December 31, 2014, respectively.
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, would not have a material adverse effect on the Company’s financial statements or operations.

PACWEST BANCORP AND SUBSIDIARIES
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Note 11. 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 government agency and government sponsored enterprise securities.
- 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 covered private label CMOs.

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

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

	Fair Value Measurements as of June 30, 2015			
Measured on a Recurring Basis:	Total	Level 1	Level 2	Level 3
	(In thousands)			
Securities available for sale:				
Government agency and government sponsored enterprise pass-through securities	$426,874	$—	$426,874	$—
Government agency and government sponsored enterprise collateralized mortgage obligations	265,899	—	265,899	—
Covered private label CMOs	32,323	—	—	32,323
Other private label CMOs	8,025	—	8,025	—
Municipal securities	721,556	—	721,556	—
Corporate debt securities	47,410	—	47,410	—
Collateralized loan obligations	133,907	—	133,907	—
Government sponsored enterprise debt securities	37,080	—	37,080	—
Other securities	25,084	518	24,566	—
Total securities available-for-sale	1,698,158	518	1,665,317	32,323
Derivative assets	8,810	—	8,810	—
Total recurring assets	$1,706,968	$518	$1,674,127	$32,323

Derivative liabilities	$725	$—	$725	$—

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Measured on a Recurring Basis:	Fair Value Measurements as of December 31, 2014 Total	Level 1	Level 2	Level 3
	(In thousands)			
Securities available for sale:				
Government agency and government sponsored enterprise pass-through securities	$535,672	$—	$535,672	$—
Government agency and government sponsored enterprise collateralized mortgage obligations	277,946	—	277,946	—
Covered private label CMOs	33,947	—	—	33,947
Other private label CMOs	10,914	—	10,914	—
Municipal securities	536,116	—	536,116	—
Corporate debt securities	110,109	—	110,109	—
Government sponsored enterprise debt securities	36,757	—	36,757	—
Other securities	25,716	519	25,197	—
Total securities available-for-sale	1,567,177	519	1,532,711	33,947
Derivative assets	5,234	—	5,234	—
Total recurring assets	$1,572,411	$519	$1,537,945	$33,947
Derivative liabilities	$118	$—	$118	$—

There were no transfers of assets either between Level 1 and Level 2 nor in or out of Level 3 of the fair value hierarchy for assets measured on a recurring basis during the six months ended June 30, 2015.

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 covered private label CMOs measured at fair value on a recurring basis as of June 30, 2015:

Unobservable Inputs:	Covered Private Label CMOs Range of Inputs	Weighted Average Input
Voluntary annual prepayment speeds	0% - 30.9%	4.9%
Annual default rates	0% - 43.5%	2.6%
Loss severity rates	0% - 87.9%	32.8%
Discount rates	0% - 31.4%	5.7%

The following table summarizes activity for assets measured at fair value on a recurring basis that are categorized as Level 3 for the period indicated:

	Covered Private Label CMOs
	(In thousands)
Balance, December 31, 2014	$33,947
Total realized in earnings	471
Total unrealized loss in comprehensive income	(569)
Net settlements	(1,526)
Balance, June 30, 2015	$32,323

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

	Fair Value Measurement as of June 30, 2015			
Measured on a Non Recurring Basis:	Total	Level 1	Level 2	Level 3
	(In thousands)			
Impaired Non PCI loans	$64,737	$—	$552	$64,185
Other real estate owned	1,549	—	1,549	—
Total non-recurring	$66,286	$—	$2,101	$64,185

	Fair Value Measurement as of December 31, 2014			
Measured on a Non Recurring Basis:	Total	Level 1	Level 2	Level 3
	(In thousands)			
Impaired Non PCI loans	$42,693	$—	$2,366	$40,327
Other real estate owned	24,015	—	18,400	5,615
Investments carried at cost	566	—	—	566
Total non-recurring	$67,274	$—	$20,766	$46,508

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

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

The following table presents the valuation methodology and unobservable inputs for Level 3 assets measured at fair value on a nonrecurring basis as of June 30, 2015:

Asset	Fair Value (In thousands)	Valuation Technique	Unobservable Inputs	Range	Weighted Average
Impaired Non-PCI loans	$41,398	Discounted cash flows	Discount rates	0% - 10.46%	6.26%
	22,787	Third party appraisals	No discounts		
Total non-recurring Level 3	$64,185				

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ASC Topic 825, “Financial Instruments,” requires disclosure of the estimated fair value of certain financial instruments and the methods and significant assumptions used to estimate such fair values. Additionally, certain financial instruments and all nonfinancial instruments are excluded from the applicable disclosure requirements.
The following tables present a summary of the carrying values and estimated fair values of certain financial instruments as of the dates indicated:

	June 30, 2015				
	Carrying or Contract	Estimated Fair Value			
	Amount	Total	Level 1	Level 2	Level 3
	(In thousands)				
Financial Assets:					
Cash and due from banks	$209,598	$209,598	$209,598	$—	$—
Interest earning deposits in financial institutions	431,033	431,033	431,033	—	—
Securities available for sale	1,698,158	1,698,158	518	1,665,317	32,323
Investment in FHLB stock	17,250	17,250	—	17,250	—
Investments carried at cost	1,719	2,320	—	—	2,320
Investments accounted for under the equity method	20,990	21,250	—	—	21,250
Loans and leases, net	11,934,814	12,008,957	—	552	12,008,405
Derivative assets	8,810	8,810	—	8,810	—
Financial Liabilities:					
Deposits:					
Demand, money market, interest checking, and savings deposits	7,236,531	7,236,531	—	7,236,531	—
Time deposits	5,345,285	5,351,765	—	5,351,765	—
Borrowings	2,751	3,099	—	3,099	—
Subordinated debentures	433,944	417,706	—	417,706	—
Derivative liabilities	725	725	—	725	—

	December 31, 2014				
	Carrying or Contract	Estimated Fair Value			
	Amount	Total	Level 1	Level 2	Level 3
	(In thousands)				
Financial Assets:					
Cash and due from banks	$164,757	$164,757	$164,757	$—	$—
Interest earning deposits in financial institutions	148,469	148,469	148,469	—	—
Securities available for sale	1,567,177	1,567,177	519	1,532,711	33,947
Investment in FHLB stock	40,609	40,609	—	40,609	—
Investments carried at cost	3,691	3,691	—	—	3,691
Investments accounted for under the equity method	21,461	21,700	—	—	21,700
Loans and leases, net	11,797,977	11,757,951	—	2,366	11,755,585
Derivative assets	5,234	5,234	—	5,234	—
Financial Liabilities:					
Deposits:					
	6,256,190	6,256,190	—	6,256,190	—

Demand, money market, interest checking, and savings deposits					
Time deposits	5,498,938	5,502,479	—	5,502,479	—
Borrowings	383,402	383,539	380,000	3,539	—
Subordinated debentures	433,583	417,657	—	417,657	—
Derivative liabilities	118	118	—	118	—

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For information regarding the valuation methodologies used to measure our assets recorded at fair value (under ASC Topic 820, “Fair Value Measurement”) 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 14 - Fair Value Measurements to the Consolidated Financial Statements of the Company's 2014 Annual Report on Form 10-K.

Limitations

Fair value estimates are made at a specific point in time and are based on relevant market information and information about the financial instrument. These estimates do not reflect income taxes or any premium or discount that could result from offering for sale at one time the Company’s entire holdings of a particular financial instrument. Because no market exists for a portion of the Company’s financial instruments, fair value estimates are based on what management believes to be reasonable judgments regarding expected future cash flows, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimated fair values are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates. Since the fair values have been estimated as of June 30, 2015, the amounts that will actually be realized or paid at settlement or maturity of the instruments could be significantly different.

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Note 12. Earnings Per Share
The following table presents the computations of basic and diluted net earnings per share for the periods indicated:

	Three Months Ended			Six Months Ended	
	June 30, 2015	March 31, 2015	June 30, 2014	June 30, 2015	2014
	(Dollars in thousands, except per share data)				
Basic earnings per share:					
Net earnings from continuing operations	$85,083	$73,079	$11,230	$158,162	$37,135
Less: Earnings allocated to unvested restricted stock[1]	(807)	(819)	(290)	(1,570)	(424)
Net earnings from continuing operations allocated to common shares	84,276	72,260	10,940	156,592	36,711
Net loss from discontinued operations allocated to common shares	—	—	(675)	—	(1,500)
Net earnings allocated to common shares	$84,276	$72,260	$10,265	$156,592	$35,211
Weighted-average basic shares and unvested restricted stock outstanding	103,030	103,035	98,817	103,033	72,454
Less: Weighted-average unvested restricted stock outstanding	(1,060)	(1,122)	(678)	(1,091)	(911)
Weighted-average basic shares outstanding	101,970	101,913	98,139	101,942	71,543
Basic earnings per share:					
Net earnings from continuing operations	$0.83	$0.71	$0.11	$1.54	$0.51
Net loss from discontinued operations	—	—	(0.01)	—	(0.02)
Net earnings	$0.83	$0.71	$0.10	$1.54	$0.49
Diluted earnings per share:					
Net earnings from continuing operations allocated to common shares	$84,276	$72,260	$10,940	$156,592	$36,711
Net loss from discontinued operations allocated to common shares	—	—	(675)	—	(1,500)
Net earnings allocated to common shares	$84,276	$72,260	$10,265	$156,592	$35,211
Weighted-average basic shares outstanding	101,970	101,913	98,139	101,942	71,543
Diluted earnings per share:					
Net earnings from continuing operations	$0.83	$0.71	$0.11	$1.54	$0.51
Net loss from discontinued operations	—	—	(0.01)	—	(0.02)
Net earnings	$0.83	$0.71	$0.10	$1.54	$0.49

(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.

PACWEST BANCORP AND SUBSIDIARIES
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Note 13. Stock Based Compensation

The Company’s 2003 Stock Incentive Plan, or the 2003 Plan, permits stock-based compensation awards to officers, directors, key employees and consultants. As of June 30, 2015, 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. The authorized amount includes 10,686,565 shares that were added to the 2003 Plan as a result of the CapitalSource Inc. merger. Such shares were available for grant under the former CapitalSource Inc. Equity Incentive Plan and remain available for: (a) former employees of CapitalSource Bank who remain employed with the Company, and (b) newly hired employees of the Company. As of June 30, 2015, there were 13,205,736 shares available for grant under the 2003 Plan, of which 9,781,278 shares related to those added from the CapitalSource Inc. merger.

Restricted Stock

At June 30, 2015, there were 990,259 shares of unvested time based restricted common stock outstanding. The awarded shares of time based restricted common stock vest over a service period of three to four years from the date of the grant or immediately upon the death of an employee. Upon closing of the CapitalSource Inc. merger on April 7, 2014, 1,013,377 of awarded shares of restricted common stock vested due to the triggering of the change of control provision contained within the 2003 Plan and a $26.1 million charge to earnings for the vesting of such shares was recorded. Such amount is included in "Acquisition, integration and reorganization costs" on the accompanying condensed consolidated statements of earnings in the second quarter of 2014.

Compensation expense related to time based restricted stock awards 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. Restricted stock amortization totaled $4.4 million, $3.1 million, and $2.4 million for the three months ended June 30, 2015, March 31, 2015 and June 30, 2014, respectively, and $7.5 million and $4.0 million for the six months ended June 30, 2015 and 2014, respectively. Such amounts are included in "Compensation expense" on the accompanying condensed consolidated statements of earnings.

The amount of unrecognized compensation expense related to all unvested restricted stock as of June 30, 2015 totaled $38.3 million.

PACWEST BANCORP AND SUBSIDIARIES
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Note 14. Business Segments
The Company’s reportable segments consist of “Community Banking," “National Lending,” and “Other.” The Community Banking and National Lending segments include all of the operations of Pacific Western Bank. The Other segment consists of holding company and non-bank subsidiary operations, and intercompany eliminations.
As a result of the CapitalSource Inc. merger, the Bank established the CapitalSource Division, which we also refer to as the National Lending segment. The National Lending segment includes the lending operations gained through the CapitalSource Inc. merger, Pacific Western Equipment Finance, and the CapitalSource Business Finance Group. We reorganized our asset-based lending and leasing operations when we established the CapitalSource Division.
The CapitalSource Division lends throughout the United States, providing middle-market businesses asset-secured loans, equipment-secured loans, cash flow loans, and real estate loans secured by various property types. The CapitalSource Division’s loan and lease origination efforts are conducted through offices located in Chevy Chase, Maryland; Los Angeles and San Jose, California; Phoenix, Arizona; St. Louis, Missouri; Denver, Colorado; Chicago, Illinois; New York, New York; and Midvale, Utah.
The Community Banking segment includes the operations of Pacific Western Bank, excluding the CapitalSource Division, and includes lending and deposit gathering activities conducted primarily through its California-based branch offices and the Bank’s treasury management function and corporate overhead.
The Other segment consists of holding company operations that result in expenses principally for compensation, facilities, professional services, interest on subordinated debentures, and the non-bank subsidiary operations including interest income from a loan portfolio and related loan servicing expense.
The accounting policies of the reported segments are the same as those of the Company described in Note 1, "Nature of Operations and Summary of Significant Accounting Policies," of our Form 10-K. Transactions between segments consist primarily of borrowed funds and expense allocations for interest, deposit gathering, corporate overhead and credit loss provisions. Intersegment interest expense is allocated from the Community Banking segment to the National Lending segment based upon National Lending’s average earning assets, net of a capital allocation, and the Bank’s total cost of deposits. The Community Banking segment further allocates to the National Lending segment noninterest expense for deposit gathering and maintenance costs and the Bank’s corporate overhead. The provision for credit losses is allocated based on actual charge offs for the period as well as net portfolio growth and credit quality trends. All costs associated with investing the Bank’s excess liquidity and acquisition, integration and reorganization costs are included in the Community Banking segment. Noninterest income and noninterest expense, including lending and loan servicing activity, directly attributable to a segment are assigned to such segment.
The following tables present information regarding our business segments as of and for the periods indicated:

	June 30, 2015			
Balance Sheet Data:	Community Banking	National Lending	Other	Consolidated Company
	(In thousands)			
Loans and leases, net of deferred fees	$3,101,834	$8,923,079	$9,276	$12,034,189
Allowance for loan and lease losses	(41,108)	(58,260)	(7)	(99,375)
Total loans and leases, net	$3,060,726	$8,864,819	$9,269	$11,934,814
Goodwill	$333,979	$1,394,401	$—	$1,728,380
Core deposit and customer relationship intangibles, net	13,528	673	—	14,201
Total assets	6,685,456	9,870,154	141,410	16,697,020
Total deposits[1]	12,962,905	35,420	(416,509)	12,581,816

(1) The negative balance for total deposits in the “Other” segment represents the elimination of holding company cash held in deposit accounts at the Bank.

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Balance Sheet Data:	June 30, 2014 Community Banking	National Lending	Other	Consolidated Company
	(In thousands)			
Loans and leases, net of deferred fees	$3,537,994	$7,599,030	$53,081	$11,190,105
Allowance for loan and lease losses	(66,039)	(16,110)	—	(82,149)
Total loans and leases, net	$3,471,955	$7,582,920	$53,081	$11,107,956
Goodwill	$279,296	$1,445,857	$—	$1,725,153
Core deposit and customer relationship intangibles, net	19,330	1,101	—	20,431
Total assets	6,100,744	9,275,500	308,427	15,684,671
Total deposits[1]	11,909,853	28,302	(270,358)	11,667,797

(1) The negative balance for total deposits in the "Other" segment represents the elimination of holding company cash held in deposit accounts at the Bank.

Results of Operations:	Three Months Ended June 30, 2015 Community Banking	National Lending	Other	Consolidated Company
	(In thousands)			
Interest income	$63,392	$154,816	$247	$218,455
Interest expense	(11,273)	(48)	(4,582)	(15,903)
Intersegment interest income (expense)	7,140	(7,140)	—	—
Net interest income (expense)	59,259	147,628	(4,335)	202,552
Negative provision (provision) for credit losses	734	(7,263)	—	(6,529)
Loss on securities	(186)	—	—	(186)
FDIC loss sharing expense, net	(5,107)	—	—	(5,107)
Other noninterest income	4,235	14,465	6,216	24,916
Total noninterest income	(1,058)	14,465	6,216	19,623
Foreclosed assets (expense) income, net	(351)	(22)	2,713	2,340
Intangible asset amortization	(1,390)	(112)	—	(1,502)
Acquisition, integration and reorganization costs	(806)	—	(94)	(900)
Other noninterest expense	(58,304)	(24,164)	(2,746)	(85,214)
Total noninterest expense	(60,851)	(24,298)	(127)	(85,276)
Intersegment noninterest income (expense)	28,857	(28,857)	—	—
Total noninterest expense - adjusted	(31,994)	(53,155)	(127)	(85,276)
Earnings before taxes	26,941	101,675	1,754	130,370
Income tax (expense) benefit	(10,484)	(39,566)	4,763	(45,287)
Net earnings	$16,457	$62,109	$6,517	$85,083

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	Three Months Ended March 31, 2015			
Results of Operations:	Community Banking	National Lending	Other	Consolidated Company
	(In thousands)			
Interest income	$62,956	$151,219	$139	$214,314
Interest expense	(10,661)	(53)	(4,525)	(15,239)
Intersegment interest income (expense)	6,721	(6,721)	—	—
Net interest income (expense)	59,016	144,445	(4,386)	199,075
Negative provision (provision) for credit losses	8,064	(24,406)	(92)	(16,434)
Gain on securities	3,275	—	—	3,275
FDIC loss sharing expense, net	(4,399)	—	—	(4,399)
Other noninterest income	9,575	5,142	7,278	21,995
Total noninterest income	8,451	5,142	7,278	20,871
Foreclosed assets expense, net	(44)	(61)	(231)	(336)
Intangible asset amortization	(1,389)	(112)	—	(1,501)
Acquisition, integration and reorganization costs	(1,890)	—	(110)	(2,000)
Other noninterest expense	(55,205)	(22,837)	(2,481)	(80,523)
Total noninterest expense	(58,528)	(23,010)	(2,822)	(84,360)
Intersegment noninterest income (expense)	26,563	(26,563)	—	—
Total noninterest expense - adjusted	(31,965)	(49,573)	(2,822)	(84,360)
Earnings (loss) before taxes	43,566	75,608	(22)	119,152
Income tax (expense) benefit	(16,873)	(29,282)	82	(46,073)
Net earnings	$26,693	$46,326	$60	$73,079

	Three Months Ended June 30, 2014			
Results of Operations:	Community Banking	National Lending	Other	Consolidated Company
	(In thousands)			
Interest income	$69,977	$132,742	$1,644	$204,363
Interest expense	(7,450)	(62)	(4,318)	(11,830)
Intersegment interest income (expense)	4,071	(4,071)	—	—
Net interest income (expense)	66,598	128,609	(2,674)	192,533
Negative provision (provision) for credit losses	4,418	(9,448)	—	(5,030)
Gain on securities	89	—	—	89
FDIC loss sharing expense, net	(8,525)	—	—	(8,525)
Other noninterest income	3,681	12,487	747	16,915
Total noninterest income	(4,755)	12,487	747	8,479
Foreclosed assets income (expense), net	(633)	38	98	(497)
Intangible asset amortization	(1,530)	(147)	—	(1,677)
Acquisition, integration and reorganization costs	(77,713)	(7,474)	(1,055)	(86,242)
Other noninterest expense	(50,801)	(24,484)	(5,499)	(80,784)
Total noninterest expense	(130,677)	(32,067)	(6,456)	(169,200)
Intersegment noninterest income (expense)	23,533	(23,533)	—	—
Total noninterest expense - adjusted	(107,144)	(55,600)	(6,456)	(169,200)
(Loss) earnings from continuing operations before taxes	(40,883)	76,048	(8,383)	26,782
Income tax (expense) benefit	11,375	(30,259)	3,332	(15,552)
Net (loss) earnings from continuing operations	(29,508)	45,789	(5,051)	11,230

Loss from discontinued operations before taxes	(1,151)	—	—	(1,151)
Income tax benefit	476	—	—	476
Net loss from discontinued operations	(675)	—	—	(675)
Net (loss) earnings	$(30,183)	$45,789	$(5,051)	$10,555

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	Six Months Ended June 30, 2015			
Results of Operations:	Community Banking	National Lending	Other	Consolidated Company
	(In thousands)			
Interest income	$126,348	$306,035	$386	$432,769
Interest expense	(21,934)	(101)	(9,107)	(31,142)
Intersegment interest income (expense)	13,861	(13,861)	—	—
Net interest income (expense)	118,275	292,073	(8,721)	401,627
Negative provision (provision) for credit losses	8,798	(31,669)	(92)	(22,963)
Gain on securities	3,089	—	—	3,089
FDIC loss sharing expense, net	(9,506)	—	—	(9,506)
Other noninterest income	13,810	19,607	13,494	46,911
Total noninterest income (expense)	7,393	19,607	13,494	40,494
Foreclosed assets (expense) income, net	(395)	(83)	2,482	2,004
Intangible asset amortization	(2,779)	(224)	—	(3,003)
Acquisition, integration and reorganization costs	(2,696)	—	(204)	(2,900)
Other noninterest expense	(113,509)	(47,001)	(5,227)	(165,737)
Total noninterest expense	(119,379)	(47,308)	(2,949)	(169,636)
Intersegment noninterest income (expense)	55,420	(55,420)	—	—
Total noninterest expense - adjusted	(63,959)	(102,728)	(2,949)	(169,636)
Earnings (loss) from continuing operations before taxes	70,507	177,283	1,732	249,522
Income tax (expense) benefit	(27,357)	(68,848)	4,845	(91,360)
Net earnings	$43,150	$108,435	$6,577	$158,162

	Six Months Ended June 30, 2014			
Results of Operations:	Community Banking	National Lending	Other	Consolidated Company
	(In thousands)			
Interest income	$147,572	$143,507	$1,644	$292,723
Interest expense	(8,677)	(139)	(5,359)	(14,175)
Intersegment interest income (expense)	4,293	(4,293)	—	—
Net interest income (expense)	143,188	139,075	(3,715)	278,548
Negative provision (provision) for credit losses	5,244	(9,630)	—	(4,386)
Gain on securities	4,841	—	—	4,841
FDIC loss sharing expense, net	(19,955)	—	—	(19,955)
Other noninterest income	10,578	16,932	774	28,284
Total noninterest income	(4,536)	16,932	774	13,170
Foreclosed assets income, net	1,228	38	98	1,364
Intangible asset amortization	(2,721)	(320)	—	(3,041)
Acquisition, integration and reorganization costs	(79,913)	(7,474)	(1,055)	(88,442)
Other noninterest expense	(91,086)	(31,057)	(7,102)	(129,245)
Total noninterest expense	(172,492)	(38,813)	(8,059)	(219,364)
Intersegment noninterest income (expense)	23,533	(23,533)	—	—
Total noninterest expense - adjusted	(148,959)	(62,346)	(8,059)	(219,364)
(Loss) earnings from continuing operations before taxes	(5,063)	84,031	(11,000)	67,968
Income tax (expense) benefit	(1,664)	(33,590)	4,421	(30,833)
Net (loss) earnings from continuing operations	(6,727)	50,441	(6,579)	37,135

Loss from discontinued operations before taxes	(2,564)	—	—	(2,564)
Income tax benefit	1,064	—	—	1,064
Net loss from discontinued operations	(1,500)	—	—	(1,500)
Net (loss) earnings	$(8,227)	$50,441	$(6,579)	$35,635

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

Note 15. 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 will be effective for annual and interim periods beginning after December 15, 2016. Early application is not permitted. ASU 2014-09 requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU 2014-09 will replace most existing revenue recognition guidance in GAAP when it becomes effective. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU 2014-09 will have on its financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.
In June 2014, the FASB issued ASU 2014-12, "Compensation-Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period." ASU 2014-12 will be effective for annual and interim periods beginning after December 15, 2015. ASU 2014-12 applies to all reporting entities that grant their employees share-based payments in which the terms of the award provide for a performance target that affects vesting could be achieved after the requisite service period. That is the case when an employee is eligible to retire or otherwise terminate employment before the end of the period in which a performance target (for example, an initial public offering or a profitability target) could be achieved and still be eligible to vest in the award if and when the performance target is achieved. We do not currently have outstanding performance-based awards and, as a result, ASU 2014-12 would not impact our financial statements and its related disclosures.
In January 2015, the FASB issued ASU 2015-01, "Income Statement - Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items," which eliminates the concept of extraordinary items from U.S. GAAP as part of its simplification initiative. Under ASU 2015-01, an entity will no longer separate out an extraordinary item from the results of ordinary operations and separately present this extraordinary item on its income statement, nor will related income tax and earnings-per-share data applicable to an extraordinary item need to be disclosed. Despite these simplifications, ASU 2015-01 does not affect disclosure guidance for events or transactions that are unusual in nature or infrequent in their occurrence. ASU 2015-01 is effective for annual periods beginning after December 15, 2015, and interim periods within those annual periods. The Company does not expect the effect of ASU 2015-01 to have a material impact on its financial statements and related disclosures.
In February 2015, the FASB issued ASU 2015-02, "Consolidation (Topic 810) - Amendments to the Consolidation Analysis," which changes the way reporting enterprises evaluate whether (a) they should consolidate limited partnerships and similar entities, (b) fees paid to a decision maker or service provider are variable interests in a variable interest entity (VIE), and (c) variable interests in a VIE held by related parties of the reporting enterprise require the reporting enterprise to consolidate the VIE. It also eliminates the VIE consolidation model based on majority exposure to variability that applied to certain investment companies and similar entities. ASU 2015-2 is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. The Company does not expect the effect of ASU 2015-02 to have a material impact on its financial statements and related disclosures.
In April 2015, the FASB issued ASU 2015-03, "Interest—Imputation of Interest (Subtopic 835-30) - Simplifying the Presentation of Debt Issuance Costs" to modify the presentation of debt issuance costs. Prior to ASU 2015-03, issuance costs were presented as an asset on the statement of financial position, which the FASB concluded was inconsistent with both IFRS as well as FASB Concept Statement No. 6. This ASU requires that issuance costs be presented as a direct deduction of debt balances on the statement of financial position, similar to the presentation of debt discounts. ASU 2015-03 is effective for public companies for years beginning after December 15, 2015, and interim periods within those fiscal periods. For all other entities, ASU 2015-03 is effective for years beginning after

December 15, 2015 and interim periods within annual periods beginning after December 15, 2016, while early adoption is permitted for financial statements that have not already been issued. Additionally, the provisions should be applied on a retrospective basis as a change in accounting principle. ASU 2015-03 will not have an impact on the Company's financial statements and related disclosures.

The FASB also issued ASU 2015-05, "Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40), Customer's Accounting for Fees Paid in a Cloud Computing Arrangement" in April 2015. Under ASU 2015-05, a customer should determine whether the arrangement includes a software license. If so, the customer should account for the software license component in a manner consistent with the accounting for other software licenses. If the arrangement does not include a software license, the arrangement should be accounted for as a service contract. The provisions of ASU 2015-05 must be applied by public entities to annual periods beginning after December 15, 2015 as well as interim periods within those annual periods. The Company does not expect the effect of ASU 2015-05 to have a material impact on its financial statements and related disclosures.

In May 2015, the FASB issued ASU 2015-08, "Business Combinations, Pushdown Accounting (Topic 805), Amendments to SEC Paragraphs Pursuant to Staff Accounting Bulletin No. 115" which revised the SEC's requirement for recognition and disclosure of a new basis of accounting (or pushdown accounting) for certain business combination situations. The Company does not expect ASU 2015-08 to have any impact on its financial statements and related disclosures.

In June 2015, the FASB issued ASU 2015-10, "Technical Corrections and Improvements" which is a set of wide-ranging, small corrections and improvements to clarify the Codification, correct unintended application of guidance, or improve the Codification. The provisions of ASU 2015-10 are effective for fiscal years beginning after December 15, 2015, as well as interim periods within those fiscal years.

Note 16. Subsequent Events

On August 5, 2015, the Company announced that the Board of Directors had declared a quarterly cash dividend of $0.50 per common share. The cash dividend is payable on August 28, 2015 to stockholders of record at the close of business on August 17, 2015.

We have evaluated events that have occurred subsequent to June 30, 2015 and have concluded there are no 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 pending merger between the Company and Square 1, net interest income, allowance for loan and lease losses, net interest margin, deposit growth, loan and lease portfolio growth and production, liquidity, goodwill, effective tax rates, and interest rate risk management. All statements contained in this Form 10-Q that are not clearly historical in nature are forward-looking, and the words “anticipate,” “assume,” “intend,” “believe,” “forecast,” “expect,” “estimate,” “plan,” “continue,” “will,” “should,” “look forwa 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:

- the Company’s ability to complete future acquisitions, including the Square 1 merger, and to successfully integrate such acquired entities or achieve expected benefits, synergies and/or operating efficiencies within expected time frames or at all;
- the Company’s ability to obtain regulatory approvals and meet other closing conditions to the Square 1 merger on the expected terms and schedule;
- delay in closing the Square 1 merger;
- business disruption following the proposed Square 1 merger;
- changes in the Company’s stock price before completion of the Square 1 merger, including as a result of the financial performance of the Company or Square 1 prior to closing;
- the reaction to the Square 1 merger of the companies’ customers, employees and counterparties;
- change in interest rates and lending spreads;
- unfavorable changes in asset mix;
- compression of the net interest margin due to changes in our loan products or spreads on newly originated loans;
- changes in the relationship between yields on investment securities and loans repaid and yields on assets reinvested;
- changes in the forward yield curve;
- a change in the interest rate environment reduces net interest margins;
- credit quality deterioration or pronounced and sustained reduction in market values or other economic factors which adversely effect our borrowers’ ability to repay loans and leases;
- higher than anticipated loan 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 adversely affected the Company’s business, including an increase to capital requirements;
- loan repayments higher than expected;
- continued or worsening credit losses or charge-offs;
- higher than anticipated delinquencies and reserves;
- asset/liability repricing risks and liquidity risks reduce net interest margins and the value of investments;
- the success and timing of other business strategies and asset sales;
- lower than expected dividends paid from Pacific Western 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 non-cash charge to net income;

- changes in tax laws or regulations affecting our business;
- our inability to generate sufficient earnings;
- tax planning or disallowance of tax benefits by tax authorities;
- 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, which we refer to as “Pacific Western” or the “Bank.” References to “we,” “us,” or the “Company” refer to PacWest Bancorp together with its subsidiaries on a consolidated basis. When we refer to “PacWest” or to the “holding company,” we are referring to PacWest Bancorp, the parent company, on a stand-alone basis. References to “Pacific Western Bank” include the Bank’s wholly owned subsidiaries.

Pacific Western is a full-service commercial bank offering a broad range of banking products and services including accepting demand, money market, and time deposits and originating loans and leases, including an array of commercial real estate loans and commercial lending products. The Bank has a foundation of locally generated and relationship based deposits, with 80 full-service branches located primarily in southern and central California. Our branch operations are located primarily in Southern California extending from San Diego County to California’s Central Coast. The Bank also operates three bank branches in the San Francisco Bay area and four bank branches in the Central Valley. The collateral for real estate loan offerings includes healthcare properties, office properties, industrial properties, multifamily properties, hospitality properties, and retail properties. Our commercial loan products, available on a nationwide basis, include equipment loans and leases, asset based loans, loans to finance companies, and loans secured by borrower future cash flows, as well as other business oriented products.

As a result of the CapitalSource Inc. merger, Pacific Western Bank established the CapitalSource Division, which we also refer to as the National Lending segment. The CapitalSource Division lends throughout the United States, providing middle-market businesses asset-secured loans, equipment-secured loans and leases, cash flow loans, and real estate loans secured by various property types. The Bank's leasing operation, Pacific Western Equipment Finance, and its group specializing in asset-based lending, CapitalSource Business Finance Group, are part of the CapitalSource Division. The CapitalSource Division’s loan and lease origination efforts are conducted through key offices located in Chevy Chase, Maryland; Los Angeles and San Jose, California; St. Louis, Missouri; Denver, Colorado; Chicago, Illinois; New York, New York; and Midvale, Utah. When we refer to "CapitalSource Inc.," we are referring to the company acquired on April 7, 2014, and when we refer to the "CapitalSource Division," we are referring to a division of the Bank that specializes in middle-market lending on a nationwide basis.

The Bank competes actively for deposits, and emphasizes solicitation of noninterest bearing deposits. 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 2015, accounted for 90.8% of our net revenues (net interest income plus noninterest income).

At June 30, 2015, we had total assets of $16.7 billion, including loans and leases, net of deferred fees, of $12.0 billion compared to $16.2 billion of total assets and $11.9 billion of loans and leases, net of deferred fees, at December 31, 2014. Total assets increased $462.4 million during the six months ended June 30, 2015 driven by $151.8 million in organic loan and lease growth, which resulted from $1.7 billion in loan and lease production.

At June 30, 2015, we had total liabilities of $13.1 billion, including total deposits of $12.6 billion and borrowings of $2.8 million compared to $12.7 billion of total liabilities, including $11.8 billion of total deposits and $383.4 million of borrowings at December 31, 2014. Total liabilities increased $417.2 million during the six months ended June 30, 2015 due mainly to the $826.7 million increase in deposits offset by the $380.7 million decrease in borrowings. At June 30, 2015, core deposits totaled $6.6 billion or 52% of total deposits and time deposits totaled $5.3 billion or 43% of total deposits.

Square 1 Financial, Inc. Merger Announcement

On March 2, 2015, PacWest announced the signing of an agreement and plan of merger (the “Agreement”) whereby PacWest and Square 1 Financial, Inc. (“Square 1”) will merge in a transaction currently valued at approximately $867 million. The surviving company will be PacWest Bancorp and the surviving subsidiary bank will be Pacific Western Bank, with the banking operations of Square 1 conducted under the trade name of Square 1 Bank, a division of Pacific Western Bank. The merger with Square 1 represents an opportunity to grow core deposits, expand the Company's nationwide lending platform, and increase the Company's presence in the technology and life-sciences credit markets. Under the terms of the Agreement, Square 1 stockholders will receive 0.5997 shares of PacWest common stock for each share of Square 1 common stock. The total value of the per share merger consideration is $27.49, based on the $45.84 closing price of PacWest common stock on February 27, 2015, the last trading day before the transaction was announced.

As of June 30, 2015, on a pro forma consolidated basis, after giving effect for the Square 1 merger, the Company would have had approximately $21.1 billion in assets with 80 branches throughout California and one branch in North Carolina.

The transaction, currently expected to close in the fourth quarter of 2015, is subject to customary conditions, including the approval of bank regulatory authorities. The transaction was approved by the Square 1 stockholders on July 29, 2015.

CapitalSource Inc. Merger

On April 7, 2014, we completed the merger with CapitalSource Inc. As part of the merger, CapitalSource Bank (“CSB”), a wholly-owned subsidiary of CapitalSource Inc., merged with and into Pacific Western Bank. We completed the merger in order to increase our loan and lease generation capabilities and to diversify our loan portfolio. At closing, we created the CapitalSource Division of the Bank. The CapitalSource Division lends throughout the United States, providing middle-market businesses asset-secured loans, equipment-secured loans and leases, and cash flow loans and providing real estate loans secured by various property types. For further information, see Note 3, 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 Our 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 expressed as a percentage of average interest earning assets. A sustained low interest rate environment combined with low loan growth and high levels of marketplace liquidity may lower 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 interest-earning assets 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 these variances by attracting a high percentage of noninterest bearing deposits. As an industrial loan bank, the former CSB funded its balance sheet with a large proportion of higher-cost time deposits and as a result of the CapitalSource Inc. merger, we added $5.3 billion of time deposits. Our goal is to continue replacing these higher-costing time deposits with core deposits through a dedicated deposit transformation initiative that includes sourcing deposits from CapitalSource Division borrowers. As of June 30, 2015, total deposits obtained from CapitalSource Division borrowers totaled $455.5 million, of which $441.8 million were core 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). Our loan origination process emphasizes credit quality. We foster lender relationships with borrowers that have had proven loan repayment performance. Our commitment sizes vary by loan product and can range up to $80 million for certain asset-based lending arrangements and multi-property real estate loans. We attempt to 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 we measure our success by the levels of classified and nonperforming assets and net charge offs. 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, is maintained at a level adequate to cover inherent losses as of the balance sheet date. Provisions for credit losses are charged to operations as and when needed for both on and off balance sheet credit exposures. Loans and leases 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 an allowance methodology that 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 or 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 that 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 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 Our 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 production and 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 by net revenues (the sum of net interest income plus noninterest income). We also calculate a non GAAP measure called the "adjusted efficiency ratio." The adjusted efficiency ratio is calculated in the same manner as the efficiency ratio except that excluded from net revenues are net FDIC loss sharing expense, gain (loss) on sale of assets, and accelerated discount accretion resulting from early payoffs of acquired loans and excluded from noninterest expense are covered OREO expense and acquisition, integration and reorganization costs.

We present this non-GAAP financial measure and others for supplemental information purposes only in order to understand the Company's operating results and these non-GAAP financial measures should not be considered a substitute for financial information presented in accordance with United States generally accepted accounting principles ("U.S. GAAP").

The consolidated efficiency ratios and adjusted efficiency ratios have been as follows for the periods indicated:

Three Months Ended	Efficiency Ratio	Adjusted Efficiency Ratio
June 30, 2015	38.4%	40.6%
March 31, 2015	38.4%	40.4%
December 31, 2014	44.0%	41.7%
September 30, 2014	46.3%	43.1%

We disclose the adjusted efficiency ratio as it shows the trend in recurring overhead related noninterest expense relative to recurring net revenues. See “Non GAAP Measurements” for the calculations of the efficiency ratios and adjusted efficiency ratios.

Adjusted Net Earnings

Our net earnings for the second quarter of 2015 totaled $85.1 million; adjusted net earnings for this same period totaled $72.5 million. Adjusted net earnings is another measure of earnings used as an indicator of earnings generating capability, excluding non-recurring and/or volatile items. We calculate adjusted net earnings by excluding accelerated discount accretion from the early payoff of acquired loans, net FDIC loss sharing expense, gain (loss) on the sale of assets (including loans and leases, securities, and an owned office building), covered OREO expense, and acquisition, integration and reorganization costs. See “-Non GAAP Measurements” for a reconciliation of net earnings to adjusted net earnings.

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, 2014.

Non-GAAP Measurements

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

- Adjusted net earnings: To calculate adjusted net earnings, we exclude from net earnings primarily income statement items for which the related assets or liabilities have been completely resolved and are no longer on the balance sheet. As analysts and investors view this measure as an indicator of the Company's ability to generate recurring earnings, we disclose this amount in addition to net earnings.
- Adjusted return on average assets, adjusted return on average equity, return on average tangible equity, adjusted return on average tangible equity, tangible common equity amounts and ratios, and tangible book value per share: Given that the use of these measures is prevalent among banking regulators, investors and analysts, we disclose them in addition to return on average assets, return on average equity, equity-to-assets ratio, and book value per share, respectively.
- Adjusted efficiency ratio: We disclose this measure in addition to the efficiency ratio as it shows the trend in recurring overhead-related noninterest expense relative to recurring net revenues.
- 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 the adjusted allowance for credit losses to loans and leases in addition to the allowance for credit losses to loans and leases. The adjusted allowance for credit losses to loans and leases excludes acquired loans and leases and the related allowance.

The methodology for determining adjusted net earnings, adjusted return on average assets, adjusted return on average equity, return on average tangible equity, adjusted return on average tangible equity, tangible common equity amounts and ratios, tangible book value per share, adjusted efficiency ratio and adjusted allowance for credit losses to loans and leases may differ among companies.

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

	Three Months Ended			Six Months Ended	
	June 30,	March 31,	June 30,	June 30,	
Adjusted Net Earnings and Related Ratios:	2015	2015	2014	2015	2014
	(In thousands)				
Net earnings	$85,083	$73,079	$10,555	$158,162	$35,635
Less: Tax benefit on discontinued operations	—	—	(476)	—	(1,064)
Add: Tax expense on continuing operations	45,287	46,073	15,552	91,360	30,833
Pre-tax earnings	130,370	119,152	25,631	249,522	65,404
Add: Acquisition, integration, and reorganization costs	900	2,000	86,242	2,900	88,442
Less: FDIC loss sharing expense, net	(5,107)	(4,399)	(8,525)	(9,506)	(19,955)
Gain (loss) on sale of loans and leases	163	—	(485)	163	(379)
(Loss) gain on securities	(186)	3,275	89	3,089	4,841
Covered OREO income, net	12	19	185	31	1,800
Gain on sale of owned office building	—	—	—	—	1,570
Adjusted pre-tax earnings before accelerated discount accretion	136,388	122,257	120,609	258,645	165,969
Less: Accelerated discount accretion from early payoffs of acquired loans	19,447	17,352	15,290	36,799	22,945
Adjusted pre-tax earnings	116,941	104,905	105,319	221,846	143,024
Tax expense (1)	(44,438)	(39,864)	(42,865)	(84,301)	(58,211)
Adjusted net earnings	$72,503	$65,041	$62,454	$137,545	$84,813
Average assets	$16,463,311	$16,296,640	$15,037,101	$16,380,436	$10,798,982
Average stockholders' equity	$3,548,748	$3,533,343	$3,233,018	$3,541,088	$2,032,830
Less: Average intangible assets	1,743,340	1,737,441	1,638,267	1,740,407	935,684
Average tangible common equity	$1,805,408	$1,795,902	$1,594,751	$1,800,681	$1,097,146
Return on average assets (2)	2.07%	1.82%	0.28%	1.95%	0.67%
Adjusted return on average assets (3)	1.77%	1.62%	1.67%	1.69%	1.58%
Return on average equity (4)	9.62%	8.39%	1.31%	9.01%	3.54%
Adjusted return on average equity (5)	8.19%	7.47%	7.75%	7.83%	8.41%
Return on average tangible equity (6)	18.90%	16.50%	2.65%	17.71%	6.55%
Adjusted return on average tangible equity (7)	16.11%	14.69%	15.71%	15.40%	15.59%

(1) Full-year expected effective rate of 38.0% for the 2015 periods and actual effective rate of 40.7% for the 2014 periods.
(2) Annualized net earnings divided by average assets.
(3) Annualized adjusted net earnings divided by average assets.

(4) Annualized net earnings divided by average stockholders' equity.
(5) Annualized adjusted net earnings divided by average stockholders' equity.
(6) Annualized net earnings divided by average tangible common equity.
(7) Annualized adjusted net earnings divided by average tangible common equity.

Adjusted Efficiency Ratio:	Three Months Ended June 30, 2015	March 31, 2015	June 30, 2014	Six Months Ended June 30, 2015	2014
	(Dollars in thousands)				
Noninterest expense	$85,276	$84,360	$169,200	$169,636	$219,364
Less: Acquisition, integration, and reorganization costs	900	2,000	86,242	2,900	88,442
Covered OREO income, net	(12)	(19)	(185)	(31)	(1,800)
Adjusted noninterest expense	$84,388	$82,379	$83,143	$166,767	$132,722
Net interest income	$202,552	$199,075	$192,533	$401,627	$278,548
Noninterest income	19,623	20,871	8,479	40,494	13,170
Net revenues	222,175	219,946	201,012	442,121	291,718
Less: Accelerated discount accretion from early payoffs of acquired loans	19,447	17,352	15,290	36,799	22,945
Gain (loss) on sale of loans and leases	163	—	(485)	163	(379)
(Loss) gain on securities	(186)	3,275	89	3,089	4,841
FDIC loss sharing expense, net	(5,107)	(4,399)	(8,525)	(9,506)	(19,955)
Gain on sale of owned office building	—	—	—	—	1,570
Adjusted net revenues	$207,858	$203,718	$194,643	$411,576	$282,696
Efficiency ratio(1)	38.4 %	38.4 %	84.2 %	38.4 %	75.2 %
Adjusted efficiency ratio(2)	40.6 %	40.4 %	42.7 %	40.5 %	46.9 %

(1) Noninterest expense divided by net revenues.
(2) Adjusted noninterest expense divided by adjusted net revenues.

Tangible Common Equity:	June 30, 2015	December 31, 2014
	(Dollars in thousands)	
PacWest Bancorp Consolidated:		
Stockholders’ equity	$3,551,490	$3,506,230
Less: Intangible assets	1,742,581	1,737,683
Tangible common equity	$1,808,909	$1,768,547
Total assets	$16,697,020	$16,234,605
Less: Intangible assets	1,742,581	1,737,683
Tangible assets	$14,954,439	$14,496,922
Equity to assets ratio	21.27 %	21.60 %
Tangible common equity ratio(1)	12.10 %	12.20 %
Book value per share	$34.46	$34.03
Tangible book value per share	$17.55	$17.17
Shares outstanding	103,051,989	103,022,017
Pacific Western Bank:		
Stockholder's equity	$3,440,715	$3,378,879
Less: Intangible assets	1,742,581	1,737,683
Tangible common equity	$1,698,134	$1,641,196
Total assets	$16,555,610	$15,995,719
Less: Intangible assets	1,742,581	1,737,683
Tangible assets	$14,813,029	$14,258,036
Equity to assets ratio	20.78 %	21.12 %
Tangible common equity ratio(1)	11.46 %	11.51 %

(1) Tangible common equity divided by tangible assets.

Adjusted Allowance for Credit Losses to Loans and Leases (Excludes PCI Loans):	June 30, 2015	December 31, 2014
	(Dollars in thousands)	
Adjustment for Allowance on Acquired Loans and Leases:		
Allowance for credit losses	$92,921	$76,767
Less: Allowance related to acquired Non-PCI loans and leases	12,697	4,184
Adjusted allowance for credit losses	$80,224	$72,583
Gross Non-PCI loans and leases	$11,846,313	$11,613,832
Less: Carrying value of acquired Non PCI loans and leases	5,587,662	6,562,237
Adjusted loans and leases	$6,258,651	$5,051,595
Allowance for credit losses to loans and leases	0.78 %	0.66 %
Adjusted allowance for credit losses to adjusted loans and leases	1.28 %	1.44 %
Adjustment for Unamortized Purchase Discount on Acquired Loans and Leases:		
Allowance for credit losses	$92,921	$76,767
Add: Unamortized purchase discount related to acquired Non-PCI loans and leases	103,302	156,428
Adjusted allowance for credit losses	$196,223	$233,195
Gross Non-PCI loans and leases	$11,846,313	$11,613,832

Add: Unamortized purchase discount related to acquired Non-PCI loans and leases	103,302	156,428
Adjusted loans and leases	$11,949,615	$11,770,260
Adjusted allowance for credit losses to adjusted loans and leases	1.64 %	1.98 %

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Results of Operations
Acquisitions Impact Earnings Performance
The comparability of financial information is affected by our acquisitions. We completed the CapitalSource Inc. acquisition on April 7, 2014, adding assets of $9.1 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 its acquisition date.
Earnings Performance
The following table presents profitability metrics for the periods indicated:

	Three Months Ended						Six Months Ended			
	June 30, 2015		March 31, 2015		June 30, 2014		June 30, 2015		2014	
Profitability Measures:										
Diluted earnings per share	$0.83		$0.71		$0.10		$1.54		$0.49	
Annualized return on:										
Average assets	2.07	%	1.82	%	0.28	%	1.95	%	0.67	%
Average equity	9.62	%	8.39	%	1.31	%	9.01	%	3.54	%
Average tangible equity (1)	18.90	%	16.50	%	2.65	%	17.71	%	6.55	%
Annualized adjusted return on:										
Average assets (2)	1.77	%	1.62	%	1.67	%	1.69	%	1.58	%
Average tangible equity (2)	16.11	%	14.69	%	15.71	%	15.40	%	15.59	%
Net interest margin (tax equivalent)	5.89	%	5.95	%	6.29	%	5.92	%	6.22	%
Core net interest margin (3)	5.33	%	5.44	%	5.79	%	5.38	%	5.72	%
Efficiency ratio	38.38	%	38.35	%	84.17	%	38.37	%	75.20	%
Adjusted efficiency ratio (2)	40.60	%	40.44	%	42.72	%	40.52	%	46.95	%

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

Second Quarter of 2015 Compared to First Quarter of 2015
Net earnings were $85.1 million, or $0.83 per diluted share for the second quarter of 2015, compared to $73.1 million, or $0.71 per diluted share, for the first quarter of 2014. The quarter over quarter increase of $12.0 million in net earnings was due to the $9.9 million decrease in the provision for credit losses and higher net interest income of $3.5 million, offset by lower noninterest income of $1.2 million and higher noninterest expense of $0.9 million. The increase in net interest income was attributable to increased FHLB dividends, higher average loan and lease balances, higher accelerated discount accretion and one more day in the second quarter. The decrease in noninterest income was attributed to lower foreign currency translation net gains of $4.0 million and lower gains on sales of securities of $3.5 million, offset by higher dividends and realized gains on equity investments of $4.7 million and higher other commissions and fees of $1.7 million. The increase in noninterest expense was due to higher insurance and assessments expense of $1.7 million, higher compensation expense of $1.3 million and higher loan-related expense of $1.1 million, offset by lower foreclosed assets expense of $2.7 million and lower acquisition, integration and reorganization costs of $1.1 million.
When certain income and expense items are excluded, adjusted net earnings were $72.5 million for the second quarter of 2015 compared to $65.0 million for the prior quarter. See "Non-GAAP Measurements" for the calculation of adjusted net earnings. The $7.5 million increase in adjusted net earnings was driven mainly by a lower provision for credit losses and higher adjusted noninterest income. The higher adjusted net earnings resulted in the adjusted return on average assets increasing from 1.62% to 1.77% and the adjusted return on average tangible equity increasing from 14.69% to 16.11%. The adjusted efficiency ratio increased slightly to 40.60% for the second quarter of 2015 compared to 40.44% for the prior quarter.

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Second Quarter of 2015 Compared to Second Quarter of 2014

Net earnings for the second quarter of 2015 were $85.1 million, or $0.83 per diluted share, compared to net earnings for the second quarter of 2014 of $10.6 million, or $0.10 per diluted share. The $74.5 million increase in net earnings was due to higher net interest income of $10.0 million, higher noninterest income of $11.1 million, and lower noninterest expense of $83.9 million, offset by higher income tax expense from continuing operations of $29.7 million and a higher provision for credit losses of $1.5 million. The increase in interest income was attributable to higher average loan and lease balances, higher accelerated discount accretion and increased FHLB dividends. The increase in noninterest income was attributed to higher dividends and realized gains on equity investments of $7.5 million, lower FDIC loss sharing expense of $3.4 million and higher other commissions and fees of $1.4 million, offset by lower foreign currency translation net gains of $1.6 million. The decrease in noninterest expense was due to lower acquisition, integration and reorganization costs of $85.3 million, lower foreclosed assets expense of $2.8 million, and lower loan-related expense of $1.5 million, offset by higher compensation expense of $4.0 million and higher insurance and assessments expense of $1.5 million.

Six Months Ended June 30, 2015 Compared to Six Months Ended June 30, 2014

Net earnings were $158.2 million, or $1.54 per diluted share for the six months ended June 30, 2015 compared to $35.6 million, or $0.49 per diluted share, for the six months ended June 30, 2014. The $122.5 million increase in net earnings was due to higher net interest income of $123.1 million, higher noninterest income of $27.3 million, and lower noninterest expense of $49.7 million, offset by higher income tax expense from continuing operations of $60.5 million and a higher provision for credit losses of $18.6 million. The decrease in noninterest expense was due mainly to a reduction in acquisition, integration and reorganization costs of $85.5 million. Excluding this item, all of the changes from period to period were due mostly to including the operations of CapitalSource Inc. for the entire 2015 period compared to only subsequent to its April 7, 2014 acquisition date for the 2014 period.

Net Interest Income

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

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

	Three Months Ended								
	June 30, 2015			March 31, 2015			June 30, 2014		
	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:									
Loans and leases, net of deferred fees (1)	$12,108,016	$203,781	6.75 %	$12,055,682	$202,097	6.80 %	$10,500,521	$192,201	7.34 %
Investment securities (2)	1,672,590	16,739	4.01 %	1,613,422	13,980	3.51 %	1,606,848	13,533	3.38 %
Deposits in financial institutions	161,683	104	0.26 %	32,761	22	0.27 %	276,095	176	0.26 %
Total interest earning assets (2)	13,942,289	220,624	6.35 %	13,701,865	216,099	6.40 %	12,383,464	205,910	6.67 %
Other assets	2,521,022			2,594,775			2,653,637		
Total assets	$16,463,311			$16,296,640			$15,037,101		
LIABILITIES AND STOCKHOLDERS' EQUITY:									
Interest checking deposits	$741,966	202	0.11 %	$726,748	194	0.11 %	$601,958	77	0.05 %
Money market deposits	2,065,190	1,088	0.21 %	1,836,094	945	0.21 %	1,691,115	874	0.21 %
Savings deposits	740,878	555	0.30 %	756,578	571	0.31 %	722,808	548	0.30 %
Time deposits	5,559,903	9,388	0.68 %	5,481,886	8,769	0.65 %	5,613,601	5,814	0.42 %
Total interest bearing deposits	9,107,937	11,233	0.49 %	8,801,306	10,479	0.48 %	8,629,482	7,313	0.34 %
Borrowings	81,164	88	0.43 %	424,061	235	0.22 %	39,931	199	2.00 %
Subordinated debentures	432,656	4,582	4.25 %	432,603	4,525	4.24 %	409,934	4,318	4.22 %
Total interest bearing liabilities	9,621,757	15,903	0.66 %	9,657,970	15,239	0.64 %	9,079,347	11,830	0.52 %
Noninterest bearing demand deposits	3,157,129			2,949,719			2,546,540		
Other liabilities	135,677			155,608			178,196		
Total liabilities	12,914,563			12,763,297			11,804,083		
Stockholders' equity	3,548,748			3,533,343			3,233,018		
Total liabilities and stockholders'									

equity	$16,463,311			$16,296,640			$15,037,101		
Net interest income (tax equivalent) [(2)]		$204,721			$200,860			$194,080	
Net interest rate spread			5.69 %			5.76 %			6.15 %
Net interest margin			5.89 %			5.95 %			6.29 %
Total deposits [(3)]	$12,265,066	$11,233	0.37 %	$11,751,025	$10,479	0.36 %	$11,176,022	$7,313	0.26 %
Funding sources [(4)]	$12,778,886	$15,903	0.50 %	$12,607,689	$15,239	0.49 %	$11,625,887	$11,830	0.41 %

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

(2) Includes tax-equivalent adjustments of $2.2 million, $1.8 million, and $1.5 million for the three months ended June 30, 2015, March 31, 2015 and June 30, 2014, 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 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 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.

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	Six Months Ended June 30, 2015			June 30, 2014		
	Average Balance	Interest Income/ Expense	Yields and Rates	Average Balance	Interest Income/ Expense	Yields and Rates
	(Dollars in thousands)					
ASSETS:						
Loans and leases, net of deferred fees [1]	$12,081,994	$405,878	6.77 %	$7,383,239	$269,664	7.37 %
Investment securities [2]	1,643,169	30,719	3.77 %	1,560,031	26,039	3.37 %
Deposits in financial institutions	97,578	126	0.26 %	197,823	250	0.25 %
Total interest earning assets [2]	13,822,741	436,723	6.37 %	9,141,093	295,953	6.53 %
Other assets	2,557,695			1,657,889		
Total assets	$16,380,436			$10,798,982		
LIABILITIES AND STOCKHOLDERS' EQUITY:						
Interest checking deposits	$734,399	396	0.11 %	$614,655	154	0.05 %
Money market deposits	1,951,275	2,033	0.21 %	1,572,200	1,493	0.19 %
Savings deposits	748,685	1,126	0.30 %	474,321	561	0.24 %
Time deposits	5,521,110	18,157	0.66 %	3,153,698	6,330	0.40 %
Total interest bearing deposits	8,955,469	21,712	0.49 %	5,814,874	8,538	0.30 %
Borrowings	251,665	323	0.26 %	29,114	278	1.93 %
Subordinated debentures	432,630	9,107	4.24 %	272,081	5,359	3.97 %
Total interest bearing liabilities	9,639,764	31,142	0.65 %	6,116,069	14,175	0.47 %
Noninterest bearing demand deposits	3,053,997			2,461,725		
Other liabilities	145,587			188,358		
Total liabilities	12,839,348			8,766,152		
Stockholders' equity	3,541,088			2,032,830		
Total liabilities and stockholders' equity	$16,380,436			$10,798,982		
Net interest income (tax equivalent) [2]		$405,581			$281,778	
Net interest rate spread			5.72 %			6.06 %
Net interest margin			5.92 %			6.22 %
Total deposits [3]	$12,009,466	$21,712	0.36 %	$8,276,599	$8,538	0.21 %
Funding sources [4]	$12,693,761	$31,142	0.49 %	$8,577,794	$14,175	0.33 %

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

(2) Includes tax-equivalent adjustments of $4.0 million and $3.2 million for the six months ended June 30, 2015 and June 30, 2014, 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 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 interest-bearing liabilities and noninterest-bearing demand deposits. The cost of funding sources is calculated as annualized total interest expense divided by average funding sources.

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

	Three Months Ended			Six Months Ended	
	June 30, 2015	March 31, 2015	June 30, 2014	June 30, 2015	2014
NIM:					
Reported	5.89 %	5.95 %	6.29 %	5.92 %	6.22 %
Less: Accelerated accretion of acquisition discounts from early payoffs of acquired loans	(0.56)%	(0.51)%	(0.50)%	(0.54)%	(0.50)%
Core	5.33 %	5.44 %	5.79 %	5.38 %	5.72 %
Loan and Lease Yield:					
Reported	6.75 %	6.80 %	7.34 %	6.77 %	7.37 %
Less: Accelerated accretion of acquisition discounts from early payoffs of acquired loans	(0.64)%	(0.58)%	(0.58)%	(0.61)%	(0.63)%
Core	6.11 %	6.22 %	6.76 %	6.16 %	6.74 %

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

	Three Months Ended				
	June 30, 2015	March 31, 2015	December 31, 2014	September 30, 2014	June 30, 2014
	(Dollars in thousands)				
Impact on Net Interest Income:					
Net interest income (tax equivalent)	$204,721	$200,860	$196,618	$190,373	$194,080
Less:					
Accelerated accretion of acquisition discounts from early payoffs of acquired loans	(19,447)	(17,352)	(11,421)	(4,501)	(15,290)
Remaining accretion of Non-PCI loan acquisition discounts	(9,195)	(11,245)	(13,073)	(15,072)	(17,976)
Total accretion of loan acquisition discounts	(28,642)	(28,597)	(24,494)	(19,573)	(33,266)
Amortization of TruPS discount	1,400	1,401	1,401	1,402	1,304
Accretion of time deposits premium	(799)	(1,285)	(2,469)	(5,081)	(6,671)
Total purchase accounting adjustments	(28,041)	(28,481)	(25,562)	(23,252)	(38,633)
Net interest income - excluding purchase accounting	$176,680	$172,379	$171,056	$167,121	$155,447
Impact on Net Interest Margin:					
Net interest margin (tax equivalent)	5.89 %	5.95 %	5.91 %	5.82 %	6.29 %
Less:					
Accelerated accretion of acquisition discounts					
	(0.56)%	(0.51)%	(0.34)%	(0.14)%	(0.50)%

from early payoffs of acquired loans					
Remaining accretion of Non-PCI loan acquisition discounts	(0.26)%	(0.33)%	(0.39)%	(0.46)%	(0.58)%
Total accretion of loan acquisition discounts	(0.82)%	(0.84)%	(0.73)%	(0.60)%	(1.08)%
Amortization of TruPS discount	0.04 %	0.04 %	0.04 %	0.04 %	0.04 %
Accretion of time deposits premium	(0.02)%	(0.04)%	(0.07)%	(0.16)%	(0.22)%
Total purchase accounting adjustments	(0.80)%	(0.84)%	(0.76)%	(0.72)%	(1.26)%
Net interest margin - excluding purchase accounting	5.09 %	5.11 %	5.15 %	5.10 %	5.03 %

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The following table presents the loan and lease yields and related average balances of our Non PCI loans and leases, PCI loans, and total loan and lease portfolio for the periods indicated:

	Three Months Ended			Six Months Ended	
	June 30, 2015	March 31, 2015	June 30, 2014	June 30, 2015	2014
	(Dollars in thousands)				
Yields:					
Non PCI loans and leases	6.61 %	6.60 %	7.06 %	6.61 %	6.81 %
PCI loans	13.87 %	15.82 %	15.08 %	14.90 %	18.27 %
Total loans and leases	6.75 %	6.80 %	7.34 %	6.77 %	7.37 %
Average Balances:					
Non PCI loans and leases	$11,879,799	$11,795,034	$10,125,327	$11,837,651	$7,025,878
PCI loans	228,217	260,648	375,194	244,343	357,361
Total loans and leases	$12,108,016	$12,055,682	$10,500,521	$12,081,994	$7,383,239

Second Quarter of 2015 Compared to First Quarter of 2015

Net interest income increased by $3.5 million to $202.6 million for the second quarter of 2015 compared to $199.1 million for the first quarter of 2015 due to increased FHLB dividends, higher average loan and lease balances, higher accelerated discount accretion from early payoffs of acquired loans, and one more day in the second quarter. Interest income includes a special dividend from the FHLB of $1.4 million, which increased our tax equivalent NIM by four basis points.

Our tax equivalent NIM for the second quarter of 2015 was 5.89% compared to 5.95% for the first quarter of 2015, and the loan and lease yield was 6.75% compared to 6.80% for the first quarter of 2015. The decreases in the NIM and loan and lease yield were both due to higher nonaccrual loan and lease average balances in the second quarter, the payoffs of higher-yielding loans and leases and lower discount accretion on acquired loans and leases. The impact on the NIM from accretion of loan and lease acquisition discounts was 82 basis points for the second quarter of 2015 compared to 84 basis points for the first quarter of 2015. The impact on the loan and lease yield from accelerated discount accretion was 64 basis points for the second quarter of 2015 and 58 basis points for the first quarter of 2015. Tax free interest income represented six basis points of the tax equivalent NIM for the second quarter of 2015 and first quarter of 2015.

The cost of total deposits increased to 0.37% from 0.36% in the prior quarter due primarily to a $0.5 million decrease in the amount of premium accretion on the time deposits acquired in the CapitalSource merger. The repricing of maturing time deposits at current rates and new time deposit production resulted in the decline in the weighted average contractual interest rate on time deposits to 0.71% at June 30, 2015 from 0.72% at March 31, 2015.

Second Quarter of 2015 Compared to Second Quarter of 2014

Net interest income increased by $10.0 million to $202.6 million for the second quarter of 2015 compared to $192.5 million for the second quarter of 2014 due mainly to higher average loan and lease balances.

The tax equivalent NIM decreased 40 basis points to 5.89% for the second quarter of 2015 compared to 6.29% for the same quarter last year, due mostly to rates on new originations being lower than the average portfolio rate, the higher-yielding PCI loan portfolio being a smaller percentage of the entire loan portfolio and lower accretion of loan acquisition discounts and time deposit acquisition premiums. The impact on the NIM from accretion of loan and lease acquisition discounts was 82 basis points for the second quarter of 2015 compared to 108 basis points for the second quarter of 2014. Accretion of time deposit acquisition premiums was $0.8 million in the second quarter of 2015 (two basis points on the NIM) compared to $6.7 million in the second quarter of 2014 (22 basis points on the NIM).

The yield on loans and leases decreased 59 basis points to 6.75% for the second quarter of 2015 compared to 7.34% for the same quarter of 2014 due mainly to rates on newly originated loans being lower than the average portfolio rate, the higher-yielding PCI loan portfolio being a smaller percentage of the entire loan portfolio, and the PCI loan yield being lower in the current quarter.

The cost of all funding sources increased nine basis points to 0.50% for the second quarter of 2015 from 0.41% for the second quarter of 2014 due mainly to lower premium accretion on time deposits acquired in the CapitalSource Inc. merger. The all in deposit cost increased 11 basis points to 0.37% for the second quarter of 2015 from 0.26% for the same quarter last year. The cost of total interest bearing liabilities increased 14 basis points to 0.66% for the second quarter of 2015 from 0.52% for the same quarter last year.

Six Months Ended June 30, 2015 Compared to Six Months Ended June 30, 2014

Net interest income increased by $123.1 million to $401.6 million for the six months ended June 30, 2015, compared to $278.5 million for the six months ended June 30, 2014 due to the significant increase in interest-earning assets acquired in the CapitalSource Inc. merger on April 7, 2014.

The tax equivalent NIM decreased 30 basis points to 5.92% for the six months ended June 30, 2015 compared to 6.22% for the same period in 2014, due mostly to lower accretion of loan acquisition discounts and accretion of time deposit acquisition premiums. The impact on the NIM from accretion of loan acquisition discounts was 84 basis points for the six months ended June 30, 2015 compared to 96 basis points for the same period last year. The impact on the NIM from accretion of time deposits acquisition premiums was three basis points for the first six months of 2015 compared to 15 basis points for the same period in 2014. Tax free interest income represented six basis points of the tax equivalent NIM for the six months ended June 30, 2014 and eight basis points for the same period in 2014.

The yield on loans and leases decreased 60 basis points to 6.77% for the first six months of 2015 compared to 7.37% for the same period in 2014 due mainly to lower accretion of loan acquisition discounts. The impact on the loan and lease yield from accretion of loan acquisition discounts was 95 basis points for the six months ended June 30, 2015 compared to 119 basis points for the same period last year. Additionally, this decrease was due to rates on newly originated loans being lower than the average portfolio rate, the higher-yielding PCI loan portfolio representing a smaller percentage of the entire loan portfolio, and the PCI loan yield being lower in the current period.

The cost of all funding sources increased 16 basis points to 0.49% for the six months ended June 30, 2015 from 0.33% for the same period last year due mainly to the $5.3 billion of higher-cost time deposits acquired in the CapitalSource Inc. merger and lower premium accretion on time deposits acquired in the CapitalSource Inc. merger. The all in deposit cost increased 15 basis points to 0.36% for the first six months of 2015 from 0.21% for the same period last year. The cost of total interest bearing liabilities increased 18 basis points to 0.65% for the six months ended June 30, 2015 from 0.47% for the same period last year.

Provision for Credit Losses

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

	Three Months Ended			Six Months Ended	
	June 30, 2015	March 31, 2015	June 30, 2014	June 30, 2015	2014
	(Dollars in thousands)				
Provision For Credit Losses:					
Addition to allowance for Non PCI loans and leases	$4,000	$16,604	$5,131	$20,604	$5,731
Addition to (reduction in) reserve for unfunded loan commitments	1,000	563	(131)	1,563	(731)
Total provision for Non PCI loans and leases	5,000	17,167	5,000	22,167	5,000
Provision (negative provision) for PCI Loans	1,529	(733)	30	796	(614)
Total provision for credit losses	$6,529	$16,434	$5,030	$22,963	$4,386
Non PCI Credit Quality Metrics:					
Net charge offs (recoveries) on Non PCI loans and leases	$(1,367)	$7,380	$(412)	$6,013	$449
Annualized net charge offs (recoveries) to average Non PCI loans and leases	(0.05)%	0.25%	(0.02)%	0.10%	0.01%
At period end:					
Allowance for loan and lease losses	$85,047	$79,680	$62,523		
Allowance for credit losses	92,921	86,554	72,367		
Non PCI nonaccrual loans and leases	131,178	139,334	96,802		
Non PCI classified loans and leases	379,988	333,182	304,627		
Allowance for credit losses to Non PCI loans and leases	0.78%	0.72%	0.67%		
Allowance for credit losses to Non PCI nonaccrual loans and leases	70.84%	62.12%	74.80%		

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 made a provision for credit losses of $6.5 million in the second quarter of 2015 and $16.4 million in the first quarter of 2015 in accordance with our allowance methodology, which takes into consideration new loan and lease fundings, commitments to make loans and leases and underlying credit quality trends. For the Non-PCI portfolio, the $5.0 million provision, combined with net recoveries of $1.4 million, increased the allowance for credit losses by $6.4 million in the second quarter.

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

Noninterest Income

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

	Three Months Ended			Six Months Ended	
	June 30, 2015	March 31, 2015	June 30, 2014	June 30, 2015	2014
	(In thousands)				
Noninterest Income:					
Service charges on deposit accounts	$2,612	$2,574	$2,719	$5,186	$5,721
Other commissions and fees	7,123	5,396	5,743	12,519	7,675
Leased equipment income	5,375	5,382	5,672	10,757	5,672
Gain (loss) on sale of loans and leases	163	—	(485)	163	(379)
(Loss) gain on securities	(186)	3,275	89	3,089	4,841
FDIC loss sharing expense, net	(5,107)	(4,399)	(8,525)	(9,506)	(19,955)
Other income:					
Dividends and realized gains on equity investments	8,169	3,477	658	11,646	658
Foreign currency translation net (losses) gains	(1,377)	2,597	251	1,220	251
Income recognized on early repayment of leases	1,648	736	961	2,384	4,466
Gain on sale of owned office building	—	—	—	—	1,570
Other	1,203	1,833	1,396	3,036	2,650
Total noninterest income	$19,623	$20,871	$8,479	$40,494	$13,170

The following table presents the details of FDIC loss sharing expense, net for the periods indicated:

	Three Months Ended			Six Months Ended	
	June 30, 2015	March 31, 2015	June 30, 2014	June 30, 2015	2014
	(In thousands)				
FDIC Loss Sharing Expense, Net:					
Loss on FDIC loss sharing asset(1)	$(725)	$(278)	$(991)	$(1,003)	$(3,197)
FDIC loss sharing asset amortization, net	(4,286)	(4,015)	(7,270)	(8,301)	(15,182)
Net reimbursement from (to) FDIC for covered OREOs(2)	7	(3)	(175)	4	(1,399)
Other	(103)	(103)	(89)	(206)	(177)
Total FDIC loss sharing expense, net	$(5,107)	$(4,399)	$(8,525)	$(9,506)	$(19,955)

(1) Includes increases related to covered loan loss provisions and decreases for: (a) write offs for covered loans expected to be resolved at amounts higher than their carrying values, and (b) amounts to be reimbursed to the FDIC for covered loans resolved at amounts higher than their carrying values.

(2) Represents amounts to be reimbursed to the FDIC for gains on covered other real estate owned ("OREO") sales and due from the FDIC for covered OREO write downs.

Second Quarter of 2015 Compared to First Quarter of 2015

Noninterest income decreased by $1.3 million to $19.6 million for the second quarter of 2015 compared to $20.9 million for the first quarter of 2015 due mostly to lower foreign currency translation net gains (losses) and lower gains (losses) on securities offset by higher dividends and realized gains on equity investments and higher other commissions and fees. Foreign currency translation net gains decreased $4.0 million from the prior quarter and are based upon movement of the U.S. Dollar against various foreign currencies, principally the Euro. We hedged our Euro-denominated trust preferred issuance in June 2015 to reduce the related foreign currency translation volatility. The gain on securities was $3.3 million for the first quarter of 2015 compared to a net loss of $0.2 million for the second quarter; all sales related to ongoing portfolio risk management activities. Dividends and realized gains on equity investments tend to fluctuate from period to period based upon actual dividends received and sales activity. The second quarter included the sale of three equity investments at a net gain of $6.0 million; there were no similar sales in the first quarter. The $1.7 million increase in other commissions and fees was due to higher loan prepayment fees and is driven by the level of loan payoff activity.

Second Quarter of 2015 Compared to Second Quarter of 2014

Noninterest income increased by $11.1 million to $19.6 million for the second quarter of 2015 compared to $8.5 million for the second quarter of 2014. The increase was due mostly to higher dividends and realized gains on equity investments of $7.5 million, lower FDIC loss sharing expense of $3.4 million and higher other commissions and fees of $1.4 million, offset by lower foreign currency translation net gains of $1.6 million. The 2015 second quarter included a net gain of $6.0 million on the sale of three equity investments and dividends received of $2.2 million; the 2014 second quarter included a net gain of $0.4 million on the sale of two equity investments and dividends received of $0.3 million. The decrease in FDIC loss sharing expense resulted from a $3.0 million decline in the amortization expense of the FDIC loss sharing asset, as one of the Bank's loss sharing agreements reached the end of its initial indemnification period during the third quarter of 2014. The increase in other commissions and fees was due to higher loan-related unused commitment fees and prepayment fees.

Six Months Ended June 30, 2015 Compared to Six Months Ended June 30, 2014

Noninterest income increased by $27.3 million to $40.5 million for the six months ended June 30, 2015, compared to $13.2 million for the six months ended June 30, 2014. The increase was due mostly to income streams gained in the CapitalSource Inc. merger, including higher dividends and realized gains on equity investments of $11.0 million, lower FDIC loss sharing expense of $10.4 million, higher leased equipment income of $5.1 million and higher other commissions and fees of $4.8 million, offset by lower income recognized on early repayment of leases of $2.1 million and lower gains on the sale of securities of $1.8 million. The 2015 period included the sale of three equity investments at a net gain of $6.0 million and dividends received of $5.6 million; the 2014 period included a net gain of $0.4 million on the sale of two equity investments and dividends received of $0.3 million. The decrease in FDIC loss sharing expense resulted from a $6.9 million decline in the amortization expense of the FDIC loss sharing asset, as one of the Bank's loss sharing agreements reached the end of its initial indemnification period during the third quarter of 2014; a $2.2 million decrease in the loss on the FDIC loss sharing asset; and a $1.4 million decrease in net reimbursement expense to the FDIC for covered OREO's. The increase in other commissions and fees was due to higher loan-related unused commitment fees and prepayment fees.

Noninterest Expense

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

	Three Months Ended			Six Months Ended	
	June 30, 2015	March 31, 2015	June 30, 2014	June 30, 2015	2014
	(In thousands)				
Noninterest Expense:					
Compensation	$49,033	$47,737	$45,081	$96,770	$73,708
Occupancy	10,588	10,600	11,078	21,188	18,673
Data processing	4,402	4,308	4,099	8,710	6,639
Other professional services	3,332	3,221	2,843	6,553	4,366
Insurance and assessments	4,716	3,025	3,179	7,741	4,772
Intangible asset amortization	1,502	1,501	1,677	3,003	3,041
Leased equipment depreciation	3,103	3,103	3,095	6,206	3,095
Foreclosed assets expense (income), net	(2,340)	336	497	(2,004)	(1,364)
Acquisition, integration and reorganization costs	900	2,000	86,242	2,900	88,442
Other expense:					
Loan expense	1,486	339	3,024	1,825	4,218
Other	8,554	8,190	8,385	16,744	13,774
Total noninterest expense	$85,276	$84,360	$169,200	$169,636	$219,364

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

	Three Months Ended			Six Months Ended	
	June 30, 2015	March 31, 2015	June 30, 2014	June 30, 2015	2014
	(In thousands)				
Foreclosed Assets (Income) Expense:					
Provision for losses	$282	$124	$274	$406	$368
Operating (income) expense	(2,642)	106	606	(2,536)	974
Loss (gain) on sale	20	106	(383)	126	(2,706)
Total foreclosed assets (income) expense, net	$(2,340)	$336	$497	$(2,004)	$(1,364)

The following table presents the components of acquisition, integration and reorganization costs for the periods indicated:

	Three Months Ended			Six Months Ended	
	June 30, 2015	March 31, 2015	June 30, 2014	June 30, 2015	2014
	(In thousands)				
Acquisition, Integration and Reorganization Costs:					
Severance and employee-related	$—	$—	$54,061	$—	$54,261
System conversion and integration	—	—	873	—	1,123
Asset write-downs, lease terminations and other facilities-related	—	—	5,703	—	5,703
Investment banking deal costs	—	1,050	16,117	1,050	16,117
Other (legal, accounting, insurance, consulting)	900	950	9,488	1,850	11,238
Total acquisition, integration and reorganization costs	$900	$2,000	$86,242	$2,900	$88,442

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Second Quarter of 2015 Compared to First Quarter of 2015

Noninterest expense increased by $0.9 million to $85.3 million for the second quarter of 2015 compared to $84.4 million for the first quarter of 2015. The increase was due mostly to higher insurance and assessments expense of $1.7 million, higher compensation expense of $1.3 million and higher loan-related expense of $1.1 million, offset by lower foreclosed assets expense of $2.7 million and lower acquisition, integration and reorganization costs of $1.1 million. Insurance and assessments expense increased due to the FDIC deposit insurance assessment being calculated under the “large-bank” method starting in the second quarter of 2015. Compensation expense increased due to higher stock-based compensation expense, employee pay raises that took effect towards the end of the first quarter of 2015 and higher incentive compensation accruals. Loan-related expense increased due to lower recoveries of legal costs specifically and lower loan-related expenses generally. The first quarter of 2015 included a $1.7 million recovery of legal costs compared to a $0.6 million recovery in the second quarter related to the same matter. Foreclosed assets expense decreased due to higher operating income related to foreclosed assets sales in the second quarter. Acquisition, integration and reorganization costs will fluctuate from period to period based on the timing and amount of such activities.

Second Quarter of 2015 Compared to Second Quarter of 2014

Noninterest expense decreased by $83.9 million to $85.3 million for the second quarter of 2015 compared to $169.2 million for the second quarter of 2014. The decrease in noninterest expense was due to lower acquisition, integration and reorganization costs of $85.3 million, lower foreclosed assets expense of $2.8 million, and lower loan-related expense of $1.5 million, offset by higher compensation expense of $4.0 million and higher insurance and assessments expense of $1.5 million. Foreclosed assets expense declined due to higher operating income related to foreclosed assets sales in the second quarter of 2015. Compensation expense increased due to higher stock-based compensation expense and higher incentive accruals in the second quarter of 2015. Insurance and assessments expense increased due to the FDIC insurance assessment being calculated under the “large-bank” method starting in the second quarter of 2015. The acquisition, integration and reorganization costs for the second quarter of 2015 related to the pending Square 1 Financial, Inc. merger, while these costs for the second quarter of 2014 related to the CapitalSource Inc. merger.

Six Months Ended June 30, 2015 Compared to Six Months Ended June 30, 2014

Noninterest expense decreased by $49.7 million to $169.6 million for the six months ended June 30, 2015 compared to $219.4 million for the six months ended June 30, 2014. The decrease in noninterest expense was due mainly to lower acquisition, integration and reorganization costs of $85.5 million. Excluding this item, all of the changes from period to period were due mostly to including the operations of CapitalSource Inc. subsequent to its April 7, 2014 acquisition date. The acquisition, integration and reorganization costs for the six months ended June 30, 2015 related to the pending Square 1 Financial, Inc. merger, while these costs for the same period last year related to the CapitalSource Inc. merger.

Income Taxes

The effective tax rate for the second quarter of 2015 was 34.7% compared to 38.7% for the first quarter of 2015 and 58.8% for the second quarter of 2014. The decline in the effective rate in the second quarter of 2015 is related to utilization of a portion of the capital loss carryforward and adjustments to certain deferred tax assets. The Company operates primarily in the states of California and Maryland and the blended statutory tax rate for federal and states is 41%. We expect that our effective tax rate will be 38% for 2015 and 39% for 2016.

Business Segments

The Company's reportable segments consist of "Community Banking," "National Lending," and "Other." The Community Banking and National Lending segments include all of the operations of Pacific Western Bank. The Other segment consists of holding company and non-bank subsidiary operations, and intercompany eliminations.

As a result of the CapitalSource Inc. merger, the Bank established the CapitalSource Division, which we also refer to as the National Lending segment. The National Lending segment includes the lending operations gained through the CapitalSource Inc. merger, Pacific Western Equipment Finance, and the CapitalSource Business Finance Group. We reorganized our asset-based lending and leasing operations when we established the CapitalSource Division.

The CapitalSource Division lends throughout the United States, providing middle-market businesses asset-secured loans, equipment-secured loans, cash flow loans, and real estate loans secured by various property types. The CapitalSource Division's loan and lease origination efforts are conducted through offices located in Chevy Chase, Maryland; Los Angeles and San Jose, California; Phoenix, Arizona; St. Louis, Missouri; Denver, Colorado; Chicago, Illinois; New York, New York; and Midvale, Utah.

The Community Banking segment includes the operations of Pacific Western Bank, excluding the CapitalSource Division, and includes lending and deposit gathering activities conducted primarily through its California-based branch offices and the Bank's treasury management function and corporate overhead.

The Other segment consists of holding company operations that result in expenses principally for compensation, facilities, professional services, interest on subordinated debentures, and the non-bank subsidiary operations including interest income from a loan portfolio and related loan servicing expense.

For further information, see Note 14, Business Segments, in the Notes to Condensed Consolidated Financial Statements (Unaudited) contained in "Item 1. Condensed Consolidated Financial Statements (Unaudited)."

The following tables present information regarding our business segments as of and for the periods indicated:

	June 30, 2015			
Balance Sheet Data:	Community Banking	National Lending	Other	Consolidated Company
	(In thousands)			
Loans and leases, net of deferred fees	$3,101,834	$8,923,079	$9,276	$12,034,189
Allowance for loan and lease losses	(41,108)	(58,260)	(7)	(99,375)
Total loans and leases, net	$3,060,726	$8,864,819	$9,269	$11,934,814
Goodwill	$333,979	$1,394,401	$—	$1,728,380
Core deposit and customer relationship intangibles, net	13,528	673	—	14,201
Total assets	6,685,456	9,870,154	141,410	16,697,020
Total deposits(1)	12,962,905	35,420	(416,509)	12,581,816

(1) The negative balance for total deposits in the "Other" segment represents the elimination of holding company cash held in deposit accounts at the Bank.

	June 30, 2014			
Balance Sheet Data:	Community Banking	National Lending	Other	Consolidated Company
	(In thousands)			
Loans and leases, net of deferred fees	$3,537,994	$7,599,030	$53,081	$11,190,105
Allowance for loan and lease losses	(66,039)	(16,110)	—	(82,149)
Total loans and leases, net	$3,471,955	$7,582,920	$53,081	$11,107,956
Goodwill	$279,296	$1,445,857	$—	$1,725,153
Core deposit and customer relationship intangibles, net	19,330	1,101	—	20,431
Total assets	6,100,744	9,275,500	308,427	15,684,671
Total deposits(1)	11,909,853	28,302	(270,358)	11,667,797

(1) The negative balance for total deposits in the "Other" segment represents the elimination of holding company cash held in deposit accounts at the Bank.

Results of Operations:	Three Months Ended June 30, 2015 Community Banking (In thousands)	National Lending	Other	Consolidated Company
Interest income	$63,392	$154,816	$247	$218,455
Interest expense	(11,273)	(48)	(4,582)	(15,903)
Intersegment interest income (expense)	7,140	(7,140)	—	—
Net interest income (expense)	59,259	147,628	(4,335)	202,552
Negative provision (provision) for credit losses	734	(7,263)	—	(6,529)
Loss on securities	(186)	—	—	(186)
FDIC loss sharing expense, net	(5,107)	—	—	(5,107)
Other noninterest income	4,235	14,465	6,216	24,916
Total noninterest income	(1,058)	14,465	6,216	19,623
Foreclosed assets (expense) income, net	(351)	(22)	2,713	2,340
Intangible asset amortization	(1,390)	(112)	—	(1,502)
Acquisition, integration and reorganization costs	(806)	—	(94)	(900)
Other noninterest expense	(58,304)	(24,164)	(2,746)	(85,214)
Total noninterest expense	(60,851)	(24,298)	(127)	(85,276)
Intersegment noninterest income (expense)	28,857	(28,857)	—	—
Total noninterest expense - adjusted	(31,994)	(53,155)	(127)	(85,276)
Earnings before taxes	26,941	101,675	1,754	130,370
Income tax (expense) benefit	(10,484)	(39,566)	4,763	(45,287)
Net earnings	$16,457	$62,109	$6,517	$85,083

Results of Operations:	Three Months Ended March 31, 2015 Community Banking (In thousands)	National Lending	Other	Consolidated Company
Interest income	$62,956	$151,219	$139	$214,314
Interest expense	(10,661)	(53)	(4,525)	(15,239)
Intersegment interest income (expense)	6,721	(6,721)	—	—
Net interest income (expense)	59,016	144,445	(4,386)	199,075
Negative provision (provision) for credit losses	8,064	(24,406)	(92)	(16,434)
Gain on securities	3,275	—	—	3,275
FDIC loss sharing expense, net	(4,399)	—	—	(4,399)
Other noninterest income	9,575	5,142	7,278	21,995
Total noninterest income	8,451	5,142	7,278	20,871
Foreclosed assets expense, net	(44)	(61)	(231)	(336)
Intangible asset amortization	(1,389)	(112)	—	(1,501)
Acquisition, integration and reorganization costs	(1,890)	—	(110)	(2,000)
Other noninterest expense	(55,205)	(22,837)	(2,481)	(80,523)
Total noninterest expense	(58,528)	(23,010)	(2,822)	(84,360)
Intersegment noninterest income (expense)	26,563	(26,563)	—	—
Total noninterest expense - adjusted	(31,965)	(49,573)	(2,822)	(84,360)
Earnings (loss) before taxes	43,566	75,608	(22)	119,152
Income tax (expense) benefit	(16,873)	(29,282)	82	(46,073)
Net earnings	$26,693	$46,326	$60	$73,079

	Three Months Ended June 30, 2014			
Results of Operations:	Community Banking	National Lending	Other	Consolidated Company
	(In thousands)			
Interest income	$69,977	$132,742	$1,644	$204,363
Interest expense	(7,450)	(62)	(4,318)	(11,830)
Intersegment interest income (expense)	4,071	(4,071)	—	—
Net interest income (expense)	66,598	128,609	(2,674)	192,533
Negative provision (provision) for credit losses	4,418	(9,448)	—	(5,030)
Gain on securities	89	—	—	89
FDIC loss sharing expense, net	(8,525)	—	—	(8,525)
Other noninterest income	3,681	12,487	747	16,915
Total noninterest income	(4,755)	12,487	747	8,479
Foreclosed assets income (expense), net	(633)	38	98	(497)
Intangible asset amortization	(1,530)	(147)	—	(1,677)
Acquisition, integration and reorganization costs	(77,713)	(7,474)	(1,055)	(86,242)
Other noninterest expense	(50,801)	(24,484)	(5,499)	(80,784)
Total noninterest expense	(130,677)	(32,067)	(6,456)	(169,200)
Intersegment noninterest income (expense)	23,533	(23,533)	—	—
Total noninterest expense - adjusted	(107,144)	(55,600)	(6,456)	(169,200)
(Loss) earnings from continuing operations before taxes	(40,883)	76,048	(8,383)	26,782
Income tax (expense) benefit	11,375	(30,259)	3,332	(15,552)
Net (loss) earnings from continuing operations	(29,508)	45,789	(5,051)	11,230
Loss from discontinued operations before taxes	(1,151)	—	—	(1,151)
Income tax benefit	476	—	—	476
Net loss from discontinued operations	(675)	—	—	(675)
Net (loss) earnings	$(30,183)	$45,789	$(5,051)	$10,555

	Six Months Ended June 30, 2015			
Results of Operations:	Community Banking	National Lending	Other	Consolidated Company
	(In thousands)			
Interest income	$126,348	$306,035	$386	$432,769
Interest expense	(21,934)	(101)	(9,107)	(31,142)
Intersegment interest income (expense)	13,861	(13,861)	—	—
Net interest income (expense)	118,275	292,073	(8,721)	401,627
Negative provision (provision) for credit losses	8,798	(31,669)	(92)	(22,963)
Gain on securities	3,089	—	—	3,089
FDIC loss sharing expense, net	(9,506)	—	—	(9,506)
Other noninterest income	13,810	19,607	13,494	46,911
Total noninterest income (expense)	7,393	19,607	13,494	40,494
Foreclosed assets (expense) income, net	(395)	(83)	2,482	2,004
Intangible asset amortization	(2,779)	(224)	—	(3,003)
Acquisition, integration and reorganization costs	(2,696)	—	(204)	(2,900)
Other noninterest expense	(113,509)	(47,001)	(5,227)	(165,737)
Total noninterest expense	(119,379)	(47,308)	(2,949)	(169,636)
Intersegment noninterest income (expense)	55,420	(55,420)	—	—
Total noninterest expense - adjusted	(63,959)	(102,728)	(2,949)	(169,636)
Earnings (loss) from continuing operations before taxes	70,507	177,283	1,732	249,522
Income tax (expense) benefit	(27,357)	(68,848)	4,845	(91,360)
Net earnings	$43,150	$108,435	$6,577	$158,162

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Results of Operations:	Six Months Ended June 30, 2014 Community Banking (In thousands)	National Lending	Other	Consolidated Company
Interest income	$147,572	$143,507	$1,644	$292,723
Interest expense	(8,677)	(139)	(5,359)	(14,175)
Intersegment interest income (expense)	4,293	(4,293)	—	—
Net interest income (expense)	143,188	139,075	(3,715)	278,548
Negative provision (provision) for credit losses	5,244	(9,630)	—	(4,386)
Gain on securities	4,841	—	—	4,841
FDIC loss sharing expense, net	(19,955)	—	—	(19,955)
Other noninterest income	10,578	16,932	774	28,284
Total noninterest income	(4,536)	16,932	774	13,170
Foreclosed assets income, net	1,228	38	98	1,364
Intangible asset amortization	(2,721)	(320)	—	(3,041)
Acquisition, integration and reorganization costs	(79,913)	(7,474)	(1,055)	(88,442)
Other noninterest expense	(91,086)	(31,057)	(7,102)	(129,245)
Total noninterest expense	(172,492)	(38,813)	(8,059)	(219,364)
Intersegment noninterest income (expense)	23,533	(23,533)	—	—
Total noninterest expense - adjusted	(148,959)	(62,346)	(8,059)	(219,364)
(Loss) earnings from continuing operations before taxes	(5,063)	84,031	(11,000)	67,968
Income tax (expense) benefit	(1,664)	(33,590)	4,421	(30,833)
Net (loss) earnings from continuing operations	(6,727)	50,441	(6,579)	37,135
Loss from discontinued operations before taxes	(2,564)	—	—	(2,564)
Income tax benefit	1,064	—	—	1,064
Net loss from discontinued operations	(1,500)	—	—	(1,500)
Net (loss) earnings	$(8,227)	$50,441	$(6,579)	$35,635

Second Quarter of 2015 Compared to Second Quarter of 2014

Net earnings for the Community Banking segment increased $46.6 million for the second quarter of 2015 to $16.5 million, compared to a net loss of $30.2 million in the second quarter of 2014. Net earnings before taxes increased $67.8 million as a result of lower noninterest expense-adjusted of $98.7 million and higher noninterest income of $3.7 million, offset by higher provision for credit losses of $3.7 million and lower net interest income of $7.3 million. The decrease in noninterest expense-adjusted is due mostly to lower acquisition, integration and reorganization costs of $76.9 million. The increase in noninterest income is due to lower FDIC loss sharing expense of $3.4 million during the second quarter of 2015 when compared to the second quarter of 2014. Net interest income decreased compared to the prior year period due to lower average loan and lease balances and a lower loan and lease yield.

Net earnings for the National Lending segment increased $16.3 million for the second quarter of 2015 to $62.1 million, compared to $45.8 million for the second quarter of 2014. The increase in net earnings is a result of increased interest-earning assets and the related increase in net interest income of $19.0 million. Loans increased $1.3 billion to $8.9 billion as of June 30, 2015 from $7.6 billion as of June 30, 2014.

Six Months Ended June 30, 2015 Compared to Six Months Ended June 30, 2014

Net earnings for the Community Banking segment increased $51.4 million for the six months ended June 30, 2015 to $43.2 million compared to a net loss of $8.2 million for the six months ended June 30, 2014. Net earnings before taxes increased $75.6 million primarily as a result of lower noninterest expense-adjusted of $64.0 million. The decrease in noninterest expense-adjusted is due mostly to lower acquisition, integration and reorganization costs of $77.2 million.

Net earnings for the National Lending segment increased $58.0 million for the six months ended June 30, 2015 to $108.4 million compared to net earnings of $50.4 million for the six months ended June 30, 2014. The increase in earnings is a result of the CapitalSource Inc. merger that increased interest-earning assets and net interest income. Loans and leases increased $8.0 billion to $8.5 billion at the beginning of the 2015 period from $474.9 million at the beginning of the 2014 period.

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:	June 30, 2015 Amortized Cost	Fair Value	Yield[(1)(2)]	Duration (in years)
	(Dollars in thousands)			
Residential mortgage-backed securities:				
Government agency and government-sponsored enterprise pass through securities	$411,842	$426,874	2.73%	4.1
Government agency and government-sponsored enterprise collateralized mortgage obligations	262,222	265,899	2.47%	4.7
Private label collateralized mortgage obligations	33,860	40,348	8.83%	2.6
Municipal securities [(2)]	720,835	721,556	4.35%	6.0
Corporate debt securities	47,438	47,410	7.72%	5.8
Collateralized loan obligations	133,128	133,907	2.52%	0.3
Government-sponsored enterprise debt securities	36,267	37,080	2.20%	4.8
Other securities	25,199	25,084	0.50%	4.0
Total securities available-for-sale [(2)]	$1,670,791	$1,698,158	3.60%	4.7

(1) Represents the yield for the month of June 30, 2015.
(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:	June 30, 2015 Carrying Value	% of Total	
	(Dollars in thousands)		
Texas	$94,968	13	%
Washington	81,207	11	%
Ohio	67,243	9	%
New York	49,776	7	%
California	46,320	6	%
Illinois	39,521	6	%
Colorado	27,144	4	%
Indiana	25,176	4	%
District of Columbia	22,321	3	%
Connecticut	19,018	3	%
Total of 10 largest states	472,694	66	%
All other states	248,862	34	%
Total municipal securities	$721,556	100	%

Loans and Leases

The following table presents our total loans and leases, net of deferred fees, by portfolio segment and class as of the dates indicated:

	June 30, 2015		March 31, 2015		December 31, 2014	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
	(Dollars in thousands)					
Real estate mortgage:						
Hospitality	$607,468	5 %	$622,310	5 %	$570,634	5 %
SBA	401,832	3 %	392,704	3 %	380,890	3 %
Commercial real estate	2,465,129	20 %	2,742,593	22 %	2,583,965	21 %
Healthcare real estate	1,127,111	9 %	1,097,910	9 %	1,051,491	9 %
Multi-family	832,418	7 %	749,661	6 %	789,271	7 %
Other	193,821	2 %	209,703	2 %	220,751	2 %
Total real estate mortgage	5,627,779	46 %	5,814,881	47 %	5,597,002	47 %
Real estate construction and land:						
Residential	119,825	1 %	122,338	1 %	96,749	1 %
Commercial	225,133	2 %	208,259	2 %	217,297	2 %
Total real estate construction and land	344,958	3 %	330,597	3 %	314,046	3 %
Total real estate loans	5,972,737	49 %	6,145,478	50 %	5,911,048	50 %
Commercial:						
Collateralized	371,954	3 %	394,576	3 %	439,567	4 %
Unsecured	120,415	1 %	143,585	1 %	131,939	1 %
Asset-based	1,840,514	15 %	1,719,835	14 %	1,794,907	15 %
Cash flow	2,691,743	22 %	2,818,293	23 %	2,486,411	21 %
Equipment finance	904,488	9 %	914,015	8 %	969,489	8 %
SBA	45,769	— %	42,426	— %	47,304	— %
Total commercial	5,974,883	50 %	6,032,730	49 %	5,869,617	49 %
Consumer	86,569	1 %	93,958	1 %	101,767	1 %
Total loans and leases, net of deferred fees[(1)]	$12,034,189	100 %	$12,272,166	100 %	$11,882,432	100 %

(1) Includes PCI loans of $222.6 million, $254.3 million and $290.8 million at June 30, 2015, March 31, 2015 and December 31, 2014, of which the majority are included in the Real Estate Mortgage - "Other" category in this table.

Our real estate portfolio exposes us to risk elements associated with mortgage loans on commercial property. Commercial real estate mortgage loan repayments typically do not rely on the sale of the underlying collateral, but instead rely on the income producing potential of the collateral as the source of repayment. Ultimately, though, due to the loan amortization period generally being greater than the contractual loan term, the borrower may be required to refinance the loan, either with us or another lender, or pay off the loan, by selling the underlying collateral. Our commercial-related real estate loans do not expose us to risks generally associated with residential mortgage loans such as option ARM, interest-only, or subprime mortgage loans.

Credit Exposure Affected by Low Oil Prices

At June 30, 2015, we had 29 outstanding loan and lease relationships totaling $177.2 million to borrowers and lessees primarily involved in the oil and gas industry as compared to $181.5 million at March 31, 2015. The obligors under these loans and leases either conduct oil and gas extraction or provide industrial support services to such types of businesses. The collateral for these loans and leases primarily includes equipment, such as drilling and mining equipment and transportation vehicles, used directly and indirectly in these activities. At June 30, 2015, four relationships totaling $64.2 million were on nonaccrual status and were classified.

The following table presents loan and lease relationships having exposure to the oil and gas industries as of the dates indicated:

	June 30, 2015		March 31, 2015	
	Amount	Obligors	Amount	Obligors
	(Dollars in thousands)			
Loans	$87,005	8	$88,585	9
Leases	90,189	21	92,865	21
Total oil & gas support services	$177,194	29	$181,450	30
Classified	$64,232	4	$65,498	5
Nonaccrual	$64,232	4	$65,074	4

The following table presents the composition of our total real estate mortgage loan portfolio as of the dates indicated:

	June 30, 2015			March 31, 2015			December 31, 2014		
Loan Category:	Amount	% of Total		Amount	% of Total		Amount	% of Total	
	(Dollars in thousands)								
Commercial real estate mortgage:									
Industrial/warehouse	$382,074	7	%	$479,571	8	%	$480,437	9	%
Retail	507,900	9	%	521,798	9	%	469,340	8	%
Office buildings	813,377	14	%	812,594	14	%	776,718	14	%
Owner-occupied	688,074	12	%	615,927	11	%	601,729	11	%
Hotel	604,397	11	%	624,459	11	%	572,855	10	%
Healthcare	1,081,025	19	%	1,077,483	19	%	1,030,852	19	%
Mixed use	167,446	3	%	169,192	3	%	129,135	2	%
Gas station	11,059	—	%	13,078	—	%	11,428	—	%
Self storage	46,117	1	%	67,169	1	%	60,262	1	%
Restaurant	9,360	—	%	13,281	—	%	17,145	—	%
Land acquisition/development	33,827	1	%	32,714	—	%	28,910	1	%
Unimproved land	7,445	—	%	7,465	—	%	7,483	—	%
Other	222,125	4	%	221,128	4	%	224,875	4	%
Total commercial real estate mortgage	4,574,226	81	%	4,655,859	80	%	4,411,169	79	%
Residential real estate mortgage:									
Multi-family	689,854	13	%	734,298	13	%	774,710	14	%
Single family owner-occupied	138,880	2	%	150,003	3	%	161,652	3	%
Single family nonowner-occupied	157,372	3	%	202,152	3	%	173,964	3	%
Mixed use	11,157	—	%	11,318	—	%	11,537	—	%
HELOCs	56,290	1	%	61,251	1	%	63,970	1	%
Total residential real estate mortgage	1,053,553	19	%	1,159,022	20	%	1,185,833	21	%
Total gross real estate mortgage loans	$5,627,779	100	%	$5,814,881	100	%	$5,597,002	100	%

The following table presents a roll forward of the loan and lease portfolio by business segment for the period indicated:

Loan and Lease Roll Forward by Business Segment[1]:	Three Months Ended June 30, 2015 Community Banking	National Lending	Total
	(Dollars in thousands)		
Beginning balance	$3,349,928	$8,922,238	$12,272,166
Originations	79,760	578,909	658,669
Existing loans and leases:			
Transfers between segments	(90,021)	90,021	—
Principal repayments, net[2]	(234,714)	(654,994)	(889,708)
Loan and lease sales	—	(3,621)	(3,621)
Transfers to foreclosed assets	(2,694)	—	(2,694)
Charge-offs	(425)	(198)	(623)
Ending balance	$3,101,834	$8,932,355	$12,034,189
Weighted average yields on originations for the three months ended:			
June 30, 2015	5.17%	6.00%	5.89%
March 31, 2015	5.28%	5.84%	5.76%
December 31, 2014	5.09%	5.76%	5.67%
September 30, 2014	4.73%	5.56%	5.34%

(1) Includes direct financing leases but excludes equipment leased to others under operating leases.
(2) Includes principal repayments on existing loans, changes in revolving lines of credit (repayments and draws), loan participation sales and other changes within the loan portfolio.

Allowance for Credit Losses on Non-PCI Loans and Leases

The allowance for credit losses on non-purchased credit impaired ("Non-PCI") loans and leases is the combination of the allowance for loan and lease losses and the reserve for unfunded loan commitments. The allowance for loan and lease losses is reported as a reduction of outstanding loan and lease balances and the reserve for unfunded loan commitments is included within "Accrued interest payable and other liabilities." The following discussion is for Non-PCI loans and leases and the allowance for credit losses thereon. Refer to "Balance Sheet Analysis - Allowance for Credit Losses on PCI Loans" for the policy on PCI loans. For loans and leases acquired and measured at fair value and deemed non-impaired on the acquisition date, our allowance methodology measures deterioration in credit quality or other inherent risks related to these acquired assets that may occur after the acquisition date.

The allowance for loan and lease losses is maintained at a level deemed appropriate by management to adequately provide for known and inherent risks in the loan and lease portfolio and other extensions of credit at the balance sheet date. The allowance is based upon our continual review of the credit quality of the loan and lease portfolio, which includes loan and lease payment trends, borrowers' compliance with loan agreements, borrowers' current and budgeted financial performance, collateral valuation trends, and current economic factors and external conditions that may affect our borrowers' ability to pay. Loans and leases that are deemed to be uncollectable are charged off and deducted from the allowance. The provision for loan and lease losses and recoveries on loans and leases previously charged off are added to the allowance.

The allowance for loan and lease losses contains a general reserve component for loans and leases with no credit impairment and a specific reserve component for loans and leases determined to be impaired.

A loan or lease is considered impaired when it is probable that we will be unable to collect all amounts due according to the original contractual terms of the agreement. We assess our loans for impairment on an ongoing basis using certain criteria such as payment performance, borrower reported financial results and budgets, and other external factors when appropriate. We measure impairment of a loan based upon the fair value of the loan’s collateral if the loan is collateral-dependent or the present value of cash flows, discounted at the loan’s effective interest rate, if the loan is not collateral-dependent. We measure impairment of a lease based upon the present value of the scheduled lease and residual cash flows, discounted at the lease's effective interest rate. To the extent a loan or lease balance exceeds the estimated collectable value, a specific reserve or charge-off is recorded depending upon the certainty of the estimate of loss. Smaller balance loans (under $250,000), with a few exceptions for certain loan types, are generally not individually assessed for impairment but are evaluated collectively.

The methodology we use to estimate the general reserve component of our allowance for credit losses considers both quantitative and qualitative criteria. The quantitative criteria uses our actual historical loan and lease charge-off experience on pools of similar loans and leases to establish loss factors that are applied to our current loan and lease balances to estimate inherent credit losses. When estimating the general reserve component for the various pools of similar loan types, the loss factors applied to the loan pools consider the current credit risk ratings, giving greater weight to loans with more adverse credit risk ratings. We recognize that the determination of the allowance for loan and lease losses is sensitive to the assigned credit risk ratings and inherent loss rates at any given point in time. To ensure the accuracy of our credit risk ratings, an independent credit review function assesses the ratings assigned to loans on an ongoing basis.

The qualitative criteria considered when establishing the loss factors include the following:

- current economic trends and forecasts;
- current commercial real estate values, performance trends, and overall outlook in the markets where we lend;
- legal and regulatory matters that could impact our borrowers’ ability to repay our loans;
- our loan portfolio composition and any loan concentrations;
- our current lending policies and the effects of any new policies or policy amendments;
- our new loan origination volume and the nature of it;
- our loan portfolio credit performance trends; and
- the results of our ongoing independent credit review.

The reserve for unfunded commitments is estimated using the same loss factors as used for the allowance for loan and lease losses and is computed based only on the expected usage of the unfunded commitments.

The credit risk ratings assigned to every loan and lease are either “pass,” “special mention,” “substandard” or “doubtful” and defined as follows:

- Pass: Loans and leases classified as "pass" are not adversely classified and collection and repayment in full are expected.
- Special Mention: Loans and leases classified as "special mention" have a potential weakness that requires management's attention. If not addressed, these potential weaknesses may result in further deterioration in the borrower's ability to repay the loan or lease.
- Substandard: Loans and leases classified as "substandard" have a well-defined weakness or weaknesses that jeopardize the collection of the debt. They are characterized by the possibility that we will sustain some loss if the weaknesses are not corrected.
- Doubtful: Loans and leases classified as "doubtful" have all the weaknesses of those classified as "substandard," with the additional trait that the weaknesses make collection or repayment in full highly questionable and improbable.

In addition, we may refer to the loans and leases classified as "substandard" and "doubtful" together as "classified" loans and leases. For further information on classified loans and leases, see Note 6, Loans and Leases, of the Notes to Condensed Consolidated Financial Statements (Unaudited) contained in "Item 1. Condensed Consolidated Financial Statements (Unaudited)."

Management believes that the allowance for credit losses is appropriate for the known and inherent risks in our Non-PCI loan and lease portfolio and that the credit risk ratings and inherent loss rates currently assigned are appropriate. It is possible that others, given the same information, may at any point in time reach different conclusions that could result in a significant impact to the Company's financial statements. In addition, current credit risk ratings are subject to change as we continue to monitor our loans and leases. To the extent we experience, for example, increased levels of documentation deficiencies, adverse changes in collateral values, or negative changes in economic and business conditions that adversely affect our borrowers, our classified loans and leases may increase. Higher levels of classified loans and leases generally result in increased provisions for credit losses and an increased allowance for credit losses. Although we have established an allowance for credit losses that we consider appropriate, there can be no assurance that the established allowance will be sufficient to absorb related losses in the future.
The following table presents information regarding the allowance for credit losses on Non-PCI loans and leases as of the dates indicated:

Non-PCI Allowance for Credit Losses Data:	June 30, 2015	March 31, 2015	December 31, 2014	June 30, 2014
	(Dollars in thousands)			
Allowance for loan and lease losses	$85,047	$79,680	$70,456	$65,523
Reserve for unfunded loan commitments	7,874	6,874	6,311	6,844
Total allowance for credit losses	$92,921	$86,554	$76,767	$72,367
Allowance for credit losses to loans and leases	0.78 %	0.72 %	0.66 %	0.67 %
Allowance for credit losses to nonaccrual loans and leases	70.84 %	62.12 %	91.80 %	74.80 %

See "Balance Sheet Analysis - Nonperforming Assets and Performing Restructured Loans" for information regarding the increase in our nonaccrual loans and leases during the six months ended June 30, 2015.
All acquired loans are recorded initially at their estimated fair value with such initial fair value including an estimate of credit losses. Two additional credit coverage ratios shown in the table below are presented to give an indication of overall credit risk coverage:

Credit Risk Coverage Ratios (Excludes PCI Loans):	June 30, 2015 Non-PCI Loans and Leases	Allowance/ Discount	Coverage Ratio	March 31, 2015 Non-PCI Loans and Leases	Allowance/ Discount	Coverage Ratio
	(Dollars in thousands)					
Ending balance	$11,846,314	$92,921	0.78 %	$12,047,946	$86,554	0.72 %
Acquired loans	(5,587,662)	(12,697)		(6,152,731)	(8,962)	
Adjusted balance	$6,258,652	$80,224	1.28 %	$5,895,215	$77,592	1.32 %
Ending balance	$11,846,314	$92,921	0.78 %	$12,047,946	$86,554	0.72 %
Unamortized purchase discount	103,302	103,302		130,845	130,845	
Adjusted balance	$11,949,616	$196,223	1.64 %	$12,178,791	$217,399	1.79 %

The first additional credit coverage ratio calculation makes adjustments for acquired loans and leases and the related allowance. Our Non PCI loans and leases at June 30, 2015, included $5.6 billion in loans and leases acquired in acquisitions. These acquired loans and leases were initially recorded at their estimated fair values and such initial fair values included an estimate of credit losses. The allowance calculation for Non PCI loans and leases takes into consideration those acquired loans and leases whose credit quality has deteriorated since their acquisition dates. At June 30, 2015, our allowance for credit losses included $12.7 million related to these acquired loans and leases. When these acquired loans and leases are excluded from the total of Non PCI loans and leases and the related allowance is excluded from the allowance for credit losses, the result is an adjusted coverage ratio of our allowance for credit losses to Non PCI loans and leases of 1.28% at June 30, 2015. At March 31, 2015, this ratio was 1.32%.

The second additional credit coverage ratio calculation makes an adjustment for the unamortized purchase discount on acquired loans and leases. Our acquired Non-PCI loans and leases included an unamortized purchase discount of $103.3 million at June 30, 2015, which is assigned specifically to those loans and leases only. Such discount represents the acquisition date fair value adjustment based on market, liquidity, interest rate and credit risk. When the unamortized purchase discount is added back to our Non-PCI loans and leases and allowance for credit losses, the result is an adjusted coverage ratio of our allowance for credit losses to Non-PCI loans and leases of 1.64% at June 30, 2015. At March 31, 2015, this ratio was 1.79%.

The unamortized purchase discount is being accreted to interest income over the remaining life of the respective loans and leases using the interest method. Use of the interest method results in steadily declining amounts being taken into income in each reporting period. Assuming all of these loans and leases continue to make payments according to their terms and there are no prepayments and no deterioration in credit quality, the remaining discount of $103.3 million at June 30, 2015 is expected to be fully accreted to income by the end of 2018.

The following table presents the changes in our allowance for credit losses on Non-PCI loans and leases for the periods indicated:

Non-PCI Allowance for Credit Losses:	Three Months Ended June 30, 2015	March 31, 2015	June 30, 2014	Six Months Ended June 30, 2015	2014
	(Dollars in thousands)				
Allowance for credit losses, beginning of period	$86,554	$76,767	$66,955	$76,767	$67,816
Provision for credit losses:					
Addition to allowance for loan and lease losses	4,000	16,604	5,131	20,604	5,731
Addition to (reduction in) reserve for unfunded loan commitment	1,000	563	(131)	1,563	(731)
Provision for credit losses	5,000	17,167	5,000	22,167	5,000
Loans and leases charged off:					
Real estate mortgage	(62)	(1,453)	(487)	(1,515)	(581)
Real estate construction and land	—	—	—	—	—
Commercial	(534)	(8,395)	(326)	(8,929)	(1,767)
Consumer	(27)	(63)	(17)	(90)	(32)
Total loans and leases charged off	(623)	(9,911)	(830)	(10,534)	(2,380)
Recoveries on loans charged off:					
Real estate mortgage	200	1,295	376	1,495	636
Real estate construction and land	12	632	64	644	88
Commercial	1,744	410	587	2,154	965
Consumer	34	194	215	228	242
Total recoveries on loans charged off	1,990	2,531	1,242	4,521	1,931
Net (charge-offs) recoveries	1,367	(7,380)	412	(6,013)	(449)
Allowance for credit losses, end of period	$92,921	$86,554	$72,367	$92,921	$72,367
Annualized net charge-offs (recoveries) to average loans and leases	(0.05)%	0.25%	(0.02)%	0.10%	0.01%

Allowance for Credit Losses on PCI Loans

The PCI loans are subject to our internal and external credit review. For PCI loans, the allowance for loan losses is measured at the end of each financial reporting period based on expected cash flows. Decreases or (increases) in the amount and changes in the timing of expected cash flows on the PCI loans as of the financial reporting date compared to those previously estimated are usually recognized by recording a provision or a (negative provision) for credit losses on such loans. If deterioration in the expected cash flows results in a reserve requirement, a provision for credit losses is charged to earnings.

The following table presents the changes in our allowance for credit losses on PCI loans for the periods indicated:

PCI Allowance for Credit Losses:	Three Months Ended June 30, 2015	March 31, 2015	June 30, 2014	Six Months Ended June 30, 2015	2014
	(In thousands)				
Allowance for credit losses on PCI loans, beginning of period	$12,698	$13,999	$21,200	$13,999	$21,793
Provision (negative provision)	1,529	(733)	30	796	(614)
Net (charge-offs) recoveries	101	(568)	(4,604)	(467)	(4,553)
Allowance for credit losses on PCI loans, end of period	$14,328	$12,698	$16,626	$14,328	$16,626

Nonperforming Assets and Performing Restructured Loans

The following table presents nonperforming assets and performing restructured loans information as of the dates indicated:

	June 30, 2015	March 31, 2015	December 31, 2014	June 30, 2014
	(Dollars in thousands)			
Nonaccrual Non-PCI loans and leases	$131,178	$139,334	$83,621	$96,802
Nonaccrual PCI loans[(1)]	6,016	23,331	25,264	38,467
Total nonaccrual loans	137,194	162,665	108,885	135,269
Foreclosed assets, net	31,668	35,940	43,721	53,821
Total nonperforming assets	$168,862	$198,605	$152,606	$189,090
Performing restructured loans[(2)]	$38,203	$35,975	$35,244	$33,741
Nonaccrual loans and leases to loans and leases	1.14%	1.32%	0.91%	1.21%
Nonperforming assets to loans and leases and foreclosed assets, net	1.40%	1.61%	1.28%	1.68%

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(1) Represents legacy CapitalSource Inc. borrowing relationships placed on nonaccrual status as of the acquisition date.

(2) Excludes PCI loans.

Nonperforming assets include Non-PCI and PCI nonaccrual loans and leases and foreclosed assets and totaled $168.9 million at June 30, 2015 compared to $198.6 million at March 31, 2015. The $29.7 million decrease in nonperforming assets was due to a $25.5 million decrease in nonaccrual loans and leases and a $4.3 million decrease in foreclosed assets. The ratio of nonperforming assets to loans and leases and foreclosed assets decreased to 1.40% at June 30, 2015 from 1.61% at March 31, 2015.

Nonaccrual Loans and Leases

The $25.5 million decrease in nonaccrual loans and leases during the second quarter of 2015 was attributable to $30.0 million in principal payments and other reductions offset by $4.5 million in additions.

The following table presents our Non-PCI nonaccrual loans and leases and accruing loans and leases past due between 30 and 89 days by portfolio segment and class as of the dates indicated:

	Nonaccrual Loans and Leases						Accruing and 30 - 89 Days Past Due	
	June 30, 2015			March 31, 2015				
	Amount	% of Loan Category		Amount	% of Loan Category		June 30, 2015 Amount	March 31, 2015 Amount
	(Dollars in thousands)							
Real estate mortgage:								
Hospitality	$7,894	1.3	%	$8,088	1.3	%	$—	$—
SBA	10,141	2.5	%	10,919	2.8	%	2,272	3,310
Other	16,213	0.4	%	18,328	0.4	%	2,482	3,009
Total real estate mortgage	34,248	0.6	%	37,335	0.7	%	4,754	6,319
Real estate construction and land:								
Residential	377	0.3	%	379	0.3	%	—	—
Commercial	—	—	%	453	0.2	%	—	—
Total real estate construction and land	377	0.1	%	832	0.3	%	—	—
Commercial:								
Collateralized	3,761	1.0	%	3,601	0.9	%	131	1,397
Unsecured	537	0.4	%	594	0.4	%	—	—
Asset-based	40	—	%	4,159	0.2	%	—	—
Cash flow	14,605	0.5	%	15,172	0.5	%	—	—
Equipment finance	71,130	7.9	%	71,039	7.8	%	915	7,751
SBA	3,068	6.7	%	3,128	7.4	%	—	614
Total commercial	93,141	1.6	%	97,693	1.6	%	1,046	9,762
Consumer	3,412	4.0	%	3,474	3.7	%	1	9
Total Non-PCI loans and leases	$131,178	1.1	%	$139,334	1.2	%	$5,801	$16,090

The following table lists the ten largest Non-PCI lending relationships on nonaccrual status as of the date indicated:

June 30, 2015 Nonaccrual Amount (In thousands)	Quarter Placed on Nonaccrual Status	Description
$41,127	2015 Q1	Loan secured by a fleet of vessels used to service shallow water oil platforms in the Gulf of Mexico. Although the borrower has been negatively affected by low oil prices, it is still operating. Borrower is current under a restructured loan agreement.
15,657	2015 Q1	Lease secured by hydraulic fracturing equipment. Lessee has been negatively affected by low oil prices. After quarter-end, the Bank repossessed the equipment and subsequently entered into a purchase and sale agreement with a third party to sell the equipment at a price approximating book value. Under the terms of this agreement, the buyer paid $5 million upfront and has agreed to pay monthly installments of $1 million.
14,606	2014 Q2	Two healthcare cash flow loans secured by enterprise value. Although the borrower is current on principal and interest payments, leverage has increased due to a decline in performance.
7,317	2015 Q1	Loan secured by four oil rigs. Although the borrower has been negatively affected by low oil prices, it is still operating. Borrower is current under a restructured loan agreement.
6,025	2013 Q4	Two loans, each secured by a hotel in San Diego County. The borrower is paying according to the restructured terms of each loan.
3,403	2014 Q1	Loan secured by an industrial building in Santa Barbara County.
3,257	2014 Q4	SBA 7(a) loan secured by a franchise restaurant in Colorado. Loan is supported by a 75% SBA guarantee on the Bank's balance.
3,146	2014 Q1	Two loans secured by various residential and commercial properties located predominantly in San Luis Obispo County.
3,006	2014 Q3	Loans secured by equipment used for coal production. Although borrower is current on principal and interest payments, operating performance has declined.
2,206	2013 Q2	Two loans that are both unsecured. The borrower is paying according to the restructured terms of each loan.
$99,750		Total

Foreclosed Assets

The following table presents the components of foreclosed assets (primarily other real estate owned, or OREO) as of the dates indicated:

Property Type:	June 30, 2015	March 31, 2015	December 31, 2014	June 30, 2014
	(In thousands)			
Commercial real estate	$3,704	$1,036	$2,449	$10,770
Construction and land development	18,942	18,942	24,759	32,682
Multi-family	4,551	4,964	4,823	835
Single family residence	2,260	3,253	3,392	31
Total OREO, net	29,457	28,195	35,423	44,318
Other foreclosed assets	2,211	7,745	8,298	9,503
Total foreclosed assets	$31,668	$35,940	$43,721	$53,821

Foreclosed assets decreased $4.3 million during the second quarter of 2015 mainly as a result of sales of $6.7 million.

Performing Restructured Loans

Non-PCI performing restructured loans increased by $2.2 million during the second quarter of 2015 to $38.2 million at June 30, 2015. The increase was attributable primarily to $4.9 million in additions, offset partially by $2.4 million in payoffs. At June 30, 2015, we had $23.9 million in real estate mortgage loans, $7.7 million in real estate construction and land loans, $6.4 million in commercial loans, and $0.2 million in consumer loans that were accruing interest under the terms of troubled debt restructurings.

The majority of the performing restructured loans was on accrual status prior to the loan modifications and have remained on accrual status after the loan modifications due to the borrowers making payments before and after the restructurings. In these circumstances, generally, a borrower may have had a fixed-rate loan that they continued to repay, but may be having cash flow difficulties. In an effort to work with certain borrowers, we have agreed to interest rate reductions and/or interest-only payments for a period of time. In these cases, we do not forgive principal but may consider the extension of maturity date as part of the loan modification in order to assist the borrower. As a result of the current economic environment, we anticipate loan restructurings to continue.

PCI Delinquent and Nonaccrual Loans

Loans accounted for as PCI are generally considered accruing and performing loans as the loans accrete their discount to interest income over the estimated life of the loan when cash flows are reasonably estimable. Accordingly, PCI loans that are contractually past due are still considered to be accruing and performing loans. If the timing and amount of future cash flows is not reasonably estimable, the loans are classified as nonaccrual loans and interest income is not recognized until the timing and amount of future cash flows can be reasonably estimated. As of June 30, 2015, there are $6.0 million of PCI loans on nonaccrual status and included in the delinquency table below.

The following table presents a summary of the borrowers' underlying payment status of PCI loans as of the dates indicated:

	June 30, 2015	March 31, 2015	December 31, 2014	June 30, 2014
	(In thousands)			
Current	$204,288	$229,642	$268,263	$319,074
30 to 89 days past due	4,672	4,954	2,700	29,610
90 days or more past due	13,678	19,689	19,828	49,752
Total	$222,638	$254,285	$290,791	$398,436

Deposits

The following table presents the balance of each major category of deposits at the dates indicated:

Deposit Category:	June 30, 2015 Amount	% of Total	March 31, 2015 Amount	% of Total	December 31, 2014 Amount	% of Total
	(Dollars in thousands)					
Noninterest-bearing deposits	$3,396,688	26 %	$3,029,463	26 %	$2,931,352	25 %
Interest checking deposits	722,231	6	739,073	6	732,196	6
Money market deposits	1,722,633	14	1,682,123	14	1,709,068	15
Savings deposits	743,054	6	746,741	6	762,961	6
Total core deposits	6,584,606	52	6,197,400	52	6,135,577	52
Brokered non-maturity deposits	651,925	5	155,976	1	120,613	1
Total non-maturity deposits	7,236,531	57	6,353,376	53	6,256,190	53
Time deposits under $100,000	2,328,109	19	2,562,078	22	2,467,338	21
Time deposits $100,000 and over	3,017,176	24	3,018,721	25	3,031,600	26
Total time deposits	5,345,285	43	5,580,799	47	5,498,938	47
Total deposits	$12,581,816	100 %	$11,934,175	100 %	$11,755,128	100 %

Total deposits increased $647.6 million during the second quarter to $12.6 billion at June 30, 2015, including an increase in core deposits of $387.2 million. At June 30, 2015, core deposits totaled $6.6 billion, or 52% of total deposits, including $3.4 billion of noninterest-bearing demand deposits, or 26% of total deposits. Deposits obtained from CapitalSource Division borrowers totaled $455.5 million at June 30, 2015, of which $441.8 million were core deposits. The remaining unamortized purchase accounting premium on acquired CapitalSource Inc. time deposits as of June 30, 2015 was $1.7 million, of which $0.9 million will be recognized as a reduction of interest expense in the remainder of 2015.

The following table summarizes the maturities of time deposits, together with their weighted average contractual rate and estimated effective rate, as of the date indicated:

Maturity:	June 30, 2015 Time Deposits Under $100,000	Time Deposits $100,000 or More	Total Time Deposits	Contractual Rate	Estimated Effective Rate
	(Dollars in thousands)				
Due in three months or less	$850,820	$1,287,366	$2,138,186	0.65%	0.63%
Due in over three months through six months	467,525	365,480	833,005	0.57%	0.53%
Due in over six months through twelve months	838,723	1,147,809	1,986,532	0.81%	0.78%
Due in over 12 months through 24 months	128,086	181,988	310,074	0.81%	0.70%
Due in over 24 months	42,955	34,533	77,488	1.04%	0.78%
Total	$2,328,109	$3,017,176	$5,345,285	0.71%	0.69%
At March 31, 2015	$2,562,078	$3,018,721	$5,580,799	0.72%	0.68%

Regulatory Matters

Capital

Bank regulatory agencies measure capital adequacy through standardized risk-based capital guidelines that compare different levels of capital (as defined by such guidelines) to risk-weighted assets and off-balance sheet obligations. At June 30, 2015, Banks and bank holding companies considered to be “well capitalized” must maintain a minimum Tier 1 leverage ratio of 5.00%, a minimum common equity Tier 1 risk-based capital ratio of 6.50%, a minimum Tier 1 risk-based capital ratio of 8.00%, and a minimum total risk-based capital ratio of 10.00%. Regulatory capital requirements limit the amount of deferred tax assets that may be included when determining the amount of regulatory capital. Deferred tax asset amounts in excess of the calculated limit are disallowed from regulatory capital. At June 30, 2015, such disallowed amount was $56.1 million for the Company and none were disallowed for the Bank. No assurance can be given that the regulatory capital deferred tax asset limitation will not increase in the future or that the Company or Bank will not have increased deferred tax assets that are disallowed.

In July 2013, the Company’s primary federal regulator, the FRB, and the Bank’s primary federal regulator, the FDIC, approved final rules (the “New Capital Rules”) establishing a new comprehensive capital framework for U.S. banking organizations. The New Capital Rules generally implement the Basel Committee on Banking Supervision’s December 2010 final capital framework referred to as “Basel III” for strengthening international capital standards. The New Capital Rules required under Basel III were effective for the Company and the Bank on January 1, 2015, subject to phase-in periods for certain of their components and other provisions. As expected, the most significant of the provisions of the New Capital Rules which applied to the Company and the Bank were as follows: the phase-out of trust preferred securities from Tier 1 capital, the higher risk-weighting of high volatility and past due real estate loans and the capital treatment of deferred tax assets and liabilities above certain thresholds.

The following table presents our regulatory capital ratios and the regulatory capital requirements under Basel III:

	June 30, 2015					
	Pacific Western Bank		PacWest Bancorp Consolidated		Well Capitalized Requirement	
Tier 1 Leverage	11.65	%	11.96	%	5.00	%
Common Equity Tier-1 Capital	12.55		12.87		6.50	
Tier 1 Capital	12.55		12.87		8.00	
Total Capital	13.35		16.53		10.00	

Subordinated Debentures

The Company issued subordinated debentures to trusts that were established by us or entities we have acquired, which, in turn, issued trust preferred securities. The amount of subordinated debentures totaled $433.9 million at June 30, 2015. At June 30, 2015, $32.8 million of the trust preferred securities was included in the Company's Tier I capital and $389.7 million was included in Tier II capital.

Dividends on Common Stock and Interest on Subordinated Debentures

Bank holding companies, such as PacWest, are required to notify the Board of Governors of the Federal Reserve System (“FRB”) prior to declaring and paying a dividend to stockholders during any period in which quarterly and/or cumulative twelve-month net earnings are insufficient to fund the dividend amount, among other requirements. Interest payments made by the Company on subordinated debentures are considered dividend payments under FRB regulations.

Liquidity

Liquidity Management

The goals of our liquidity management are to ensure the ability of the Company to meet its financial commitments when contractually due and to respond to other demands for funds such as the ability to meet the cash flow requirements of customers who may be either depositors wanting to withdraw funds or borrowers who may need assurance that sufficient funds will be available to meet their credit needs. We have an Executive Management ALM Committee, or "Executive ALM Committee," which is comprised of members of senior management and is responsible for managing balance sheet and off-balance sheet commitments to meet the needs of customers while achieving our financial objectives. Our Executive ALM Committee meets regularly to review funding capacities, current and forecasted loan demand, and investment opportunities.

The Company manages its liquidity by maintaining pools of liquid assets on-balance sheet, consisting of cash and due from banks, interest-earning deposits in other financial institutions and unpledged investment securities available-for-sale, which we refer to as our primary liquidity. In addition, we also maintain available borrowing capacity under secured borrowing lines with the FHLB and the Federal Reserve Bank of San Francisco ("FRBSF"), which we refer to as our secondary liquidity. In addition to its secured lines of credit, the Bank also maintains unsecured lines of credit, subject to availability, of $80.0 million with correspondent banks for the purchase of overnight funds and $99.0 million with FHLB for the purchase of overnight funds.

The following table provides a summary of the Bank's primary and secondary liquidity levels at the dates indicated:

	June 30, 2015	March 31, 2015	December 31, 2014
	(In thousands)		
Primary Liquidity - On-Balance Sheet:			
Cash and due from banks	$209,598	$140,873	$164,757
Interest-earning deposits at financial institutions	431,033	250,981	148,469
Investment securities available-for-sale	1,698,158	1,595,409	1,567,177
Less: pledged securities	(364,300)	(354,726)	(308,555)
Total primary liquidity	$1,974,489	$1,632,537	$1,571,848
Ratio of primary liquidity to total deposits	15.7 %	13.7 %	13.4 %

	June 30, 2015	March 31, 2015	December 31, 2014
	(In thousands)		
Secondary Liquidity - Off-Balance Sheet Available Secured Borrowing Capacity:			
Total secured borrowing capacity with the FHLB	$2,484,956	$2,361,965	$2,391,157
Less: secured advances outstanding	—	(615,000)	(380,000)
Net secured borrowing capacity with the FHLB	2,484,956	1,746,965	2,011,157
Secured credit line with the FRBSF	1,973,725	1,533,630	1,305,650
Total secondary liquidity	$4,458,681	$3,280,595	$3,316,807

During the three months ended June 30, 2015, the Bank's primary liquidity increased $342.0 million due to a $180.1 million increase in interest-earning deposits in financial institutions, a $102.7 million increase in investment securities available-for-sale, and a $68.7 million increase in cash and due from banks, offset by a $9.6 million increase in pledged investment securities available-for-sale. The Bank's secondary liquidity increased $1.2 billion during the second quarter due to a $615.0 million decrease in FHLB secured advances outstanding, a $440.1 million increase in the secured credit line with the FRBSF and a $123.0 million increase in the borrowing capacity on the secured credit line with the FHLB, due to increased in loans pledged as collateral on those facilities.

At June 30, 2015, $2.6 billion of certain qualifying loans were specifically pledged as collateral for the secured borrowing line maintained with the FRBSF. The FHLB borrowing lines are secured by a blanket lien on certain qualifying loans that are not pledged to the FRBSF.

In addition to our primary liquidity, we generate liquidity from cash flows from our amortizing loan and securities portfolios and from our large base of core customer deposits, defined as noninterest-bearing demand, interest checking, savings and money market accounts. At June 30, 2015, such deposits totaled $6.6 billion and represented 52% of the Bank's total deposits. These core deposits are normally less volatile, often with customer relationships tied to other products offered by the Company promoting long-standing relationships and stable funding sources. Deposits from our customers may decrease if interest rates increase significantly or if corporate customers move funds from the Bank generally. In order to address the Bank’s liquidity risk as deposit balances may fluctuate, the Bank maintains adequate levels of available liquidity.

The following table provides a summary of the Bank’s core deposits at the dates indicated:

	June 30, 2015	March 31, 2015	December 31, 2014
	(In thousands)		
Core Deposits:			
Noninterest-bearing demand	$3,396,688	$3,029,463	$2,931,352
Interest checking	722,231	739,073	732,196
Money market deposits	1,722,633	1,682,123	1,709,068
Savings deposits	743,054	746,741	762,961
Total core deposits	$6,584,606	$6,197,400	$6,135,577

Our liquidity policy establishes various liquidity guidelines for the Bank. The policy includes guidelines for On-Balance Sheet Liquidity (a measurement of primary liquidity to total deposits plus borrowings), Coverage and Crisis Coverage Ratios (measurements of liquid assets to expected short-term liquidity required for the loan and deposit portfolios under normal and stressed conditions), Loan to Funding Ratio (measurement of gross loans net of fees divided by deposits plus FHLB borrowings), Wholesale Funding Ratio (measurement of wholesale funding divided by interest-earning assets), and other guidelines developed for measuring and maintaining liquidity. As of June 30, 2015, we were in compliance with all liquidity guidelines established in the liquidity policy.

We use brokered deposits, the availability of which is uncertain and subject to competitive market forces, for liquidity management purposes. At June 30, 2015, brokered deposits totaled $1.3 billion, consisting of $603.5 million of brokered time deposits, $651.9 million of non-maturity brokered sweep accounts, $41.8 million of CDARS Program deposits, and $16.4 million of other miscellaneous brokered deposits. At December 31, 2014, brokered deposits totaled $776.5 million, consisting of $592.7 million of brokered time deposits, $120.6 million of non-maturity brokered sweep accounts, $44.0 million of CDARS Program deposits, and $19.1 million of other miscellaneous brokered deposits, The CDARS Program represents deposits that are participated with other FDIC insured financial institutions as a means to provide FDIC deposit insurance coverage for the full amount of our customers’ deposits. The amount of our brokered deposits has increased in recent quarters because of favorable market conditions for brokered deposits compared to retail time deposits we obtain from the Bank's branch network and the large amount of deposits that can be obtained in a short period of time to manage liquidity and funding needs.

Holding Company Liquidity

The primary sources of liquidity for the holding company include dividends from the Bank and our ability to raise capital, issue subordinated debt and secure outside borrowings. Our ability to obtain funds for the payment of dividends to our stockholders and for other cash requirements is largely dependent upon the Bank’s earnings. The Bank is subject to restrictions under certain federal and state laws and regulations that limit its ability to transfer funds to the holding company through intercompany loans, advances or cash dividends.

Dividends paid by state banks, such as the Bank, are regulated by the California Department of Business Oversight ("DBO") under its general supervisory authority as it relates to a bank's capital requirements and the FDIC. A state bank may declare a dividend without the approval of the DBO and the FDIC as long as the total dividends declared in a calendar year do not exceed either the retained earnings or the total of net profits for three previous fiscal years less any dividends paid during such period. During the three and six months ended June 30, 2015, PacWest received $40.0 million and $95.0 million in dividends from the Bank. For the foreseeable future, any dividends from the Bank to the holding company require DBO and FDIC approval.

At June 30, 2015, PacWest had $419.0 million in cash, of which the majority is on deposit at the Bank. We believe this amount of cash, along with anticipated dividends from the Bank, will be sufficient to fund the holding company's cash flow needs over the next 12 months.

On October 1, 2014, the holding company obtained an unsecured, variable-rate revolving line of credit in the amount of $75 million with an expiration date of September 30, 2015. This borrowing facility provides additional available liquidity to the holding company.

Contractual Obligations

The following table summarizes the known contractual obligations of the Company as of the date indicated:

	June 30, 2015				
	Due Within One Year	Due in One to Three Years	Due in Three to Five Years	Due After Five Years	Total
	(In thousands)				
Time deposits[1]	$4,955,882	$358,230	$28,795	$552	$5,343,459
Long-term debt obligations[1]	672	1,210	869	540,535	543,286
Contractual interest[2]	15,824	4,330	1,163	35	21,352
Operating lease obligations	21,862	34,334	23,276	28,876	108,348
Other contractual obligations	13,872	11,710	6,477	13,059	45,118
Total	$5,008,112	$409,814	$60,580	$583,057	$6,061,563

(1) Excludes purchase accounting fair value adjustments.
(2) Excludes interest on subordinated debentures as these instruments are variable rate.

Long-term debt obligations include subordinated debentures. Debt obligations are also discussed in Note 9, Borrowings, Subordinated Debentures and Brokered Deposits, in the Notes to Condensed Consolidated Financial Statements (Unaudited) contained in "Item 1. Condensed Consolidated Financial Statements (Unaudited)." Operating lease obligations are discussed in the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2014. The other contractual obligations relate to our minimum liability associated with our data and item processing contract with a third-party provider and commitments to contribute capital to investments in low income housing project partnerships and private equity funds.

We believe that we will be able to meet our contractual obligations as they come due through the maintenance of adequate cash levels. We expect to maintain adequate cash levels through profitability, loan and securities repayment and maturity activity, and continued deposit gathering activities. We believe we have in place various borrowing mechanisms for both short-term and long-term liquidity needs.

Off-Balance Sheet Arrangements

Our obligations also include off-balance sheet arrangements consisting of loan and lease-related commitments, of which only a portion is expected to be funded. At June 30, 2015, our loan and lease-related commitments, including standby letters of credit, totaled $2.2 billion. The commitments, which may result in funded loans and leases, increase our profitability through net interest income. We manage our overall liquidity taking into consideration funded and unfunded commitments as a percentage of our liquidity sources. Our liquidity sources have been and are expected to be sufficient to meet the cash requirements of our lending activities.

Asset/Liability Management and Interest Rate Sensitivity

Interest Rate Risk

We measure our interest rate risk position on at least a quarterly basis using two methods: (i) net interest income simulation analysis; and (ii) market value of equity modeling. The Executive ALM Committee and the Board Asset Liability Management Committee review the results of these analyses quarterly. If hypothetical changes to interest rates cause changes to our simulated net present value of equity and/or net interest income outside our pre established limits, we may adjust our asset and liability mix in an effort to bring our interest rate risk exposure within our established limits.

We evaluated the results of our net interest income simulation and market value of equity models prepared as of June 30, 2015, the results of which are presented below. Our net interest income simulation indicates that our balance sheet is asset sensitive. An asset sensitive profile would suggest that a sudden sustained increase in rates would result in an increase in our estimated net interest income and market value of equity, while a liability sensitive profile would suggest that these amounts would decrease. In general, we view the net interest income model results as more relevant to the Company’s current operating profile and manage our balance sheet giving priority to this information.

Net Interest Income Simulation

We used a simulation model to measure the estimated changes in net interest income that would result over the next 12 months from immediate and sustained changes in interest rates as of June 30, 2015. This model is an interest rate risk management tool and the results are not necessarily an indication of our future net interest income. This model has inherent limitations and these results are based on a given set of rate changes and assumptions at one point in time. We have assumed no growth in either our total interest sensitive assets or liabilities over the next 12 months; therefore, the results reflect an interest rate shock to a static balance sheet.

This analysis calculates the difference between net interest income forecasted using both increasing and declining interest rate scenarios using the forward yield curve at June 30, 2015. In order to arrive at the base case, we extend our balance sheet at June 30, 2015 one year and reprice any assets and liabilities that would contractually reprice or mature during that period using the products’ pricing as of June 30, 2015. Based on such repricing, we calculate an estimated net interest income and net interest margin.

The repricing relationship for each of our assets and liabilities includes many assumptions. For example, many of our assets are variable rate loans, which are assumed to reprice in accordance with their contractual terms. Some loans and investment vehicles include the opportunity of prepayment (imbedded options) and the simulation model uses prepayment assumptions to estimate these prepayments and reinvest these proceeds at current simulated yields. Our deposit products reprice at our discretion and are assumed to reprice more slowly in a rising or declining interest rate environment and usually reprice at a rate less than the change in market rates. The effects of certain balance sheet attributes, such as fixed rate loans, variable rate loans that have reached their floors, the 4.00% floor we have administered on the Bank's base lending rate (affecting $520 million of variable-rate loans originated by the Community Banking segment tied to this index), and the volume of noninterest bearing deposits as a percentage of earning assets, impact our assumptions and consequently the results of our interest rate risk management model. Changes that could vary significantly from our assumptions include loan and deposit growth or contraction, changes in the mix of our earning assets or funding sources, and future asset/liability management decisions, all of which may have significant effects on our net interest income.

The following table presents as of June 30, 2015, forecasted net interest income and net interest margin for the next 12 months using a base market interest rate and the estimated change to the base scenario given immediate and sustained upward and downward movements in interest rates of 100, 200 and 300 basis points:

June 30, 2015 Interest Rate Scenario:	Estimated Net Interest Income (Dollars in millions)	Percentage Change From Base	Estimated Net Interest Margin	Estimated Net Interest Margin Change From Base
Up 300 basis points	$820.0	11.5%	5.75%	0.58%
Up 200 basis points	$784.9	6.7%	5.51%	0.34%
Up 100 basis points	$754.6	2.6%	5.30%	0.13%
BASE CASE	$735.5	—	5.17%	—
Down 100 basis points	$740.2	0.6%	5.20%	0.03%
Down 200 basis points	$741.1	0.8%	5.21%	0.04%
Down 300 basis points	$741.7	0.8%	5.21%	0.04%

Total base case year 1 net interest income decreased slightly to $735.5 million at June 30, 2015 from $736.4 at March 31, 2015. The net interest income ("NII") simulation model prepared as of June 30, 2015 suggests our balance sheet is asset sensitive. The degree of asset sensitivity in the second quarter’s NII rate shock results decreased slightly compared to the prior quarter primarily due to adjustments made to deposit pricing beta assumptions, which we monitor and adjust on an ongoing basis.

Although $9.1 billion of the $12.1 billion of total loans in the portfolio have variable interest rate terms, only $2.3 billion of those variable-rate loans would immediately reprice at June 30, 2015 under the modeled scenarios. Of the remaining variable-rate loans, $6.1 billion would not immediately reprice because the loans' fully-indexed rates are below their floor rates. Of these $6.1 billion of loans at their floors, the fully-indexed rates would rise off of the floors and reprice as follows:

June 30, 2015

Cumulative Amount of Loans (Dollars in millions)	Rate Increase Needed to Reprice
$5,457.4	100 bps
$5,821.7	200 bps
$5,948.8	300 bps

Additionally, certain variable-rate hybrid ARM loans do not immediately reprice because the loans contain an initial fixed-rate period before they become adjustable. The cumulative amounts of hybrid ARM loans that would switch from being fixed-rate to variable-rate, because the initial fixed-rate term would expire, was approximately $141.0 million, $304.0 million, and $495.0 million in the next one, two, and three years.

Market Value of Equity

We measure the impact of market interest rate changes on the net present value of estimated cash flows from our assets, liabilities and off-balance sheet items, defined as the market value of equity, using a simulation model. This simulation model assesses the changes in the market value of our interest-sensitive financial instruments that would occur in response to an instantaneous and sustained increase or decrease in market interest rates of 100, 200, and 300 basis points. This analysis assigns significant value to our noninterest-bearing deposit balances. The projections are by their nature forward-looking and therefore inherently uncertain, and include various assumptions regarding cash flows and interest rates.

This model is an interest rate risk management tool and the results are not necessarily an indication of our actual future results. Actual results may vary significantly from the results suggested by the market value of equity table. Loan prepayments and deposit attrition, changes in the mix of our earning assets or funding sources, and future asset/liability management decisions, among others, may vary significantly from our assumptions. The base case is determined by applying various current market discount rates to the estimated cash flows from the different types of assets, liabilities and off-balance sheet items existing at June 30, 2015.

The following table shows the projected change in the market value of equity for the set of rate scenarios presented as of June 30, 2015:

June 30, 2015 Interest Rate Scenario:	Estimated Market Value	Dollar Change From Base	Percentage Change From Base	Percentage of Total Assets	Ratio of Estimated Market Value to Book Value
	(Dollars in millions)				
Up 300 basis points	$4,450.9	$158.5	3.7 %	26.7 %	125.3 %
Up 200 basis points	$4,407.0	$114.6	2.7 %	26.4 %	124.1 %
Up 100 basis points	$4,352.2	$59.8	1.4 %	26.1 %	122.5 %
BASE CASE	$4,292.4	$—	—	25.7 %	120.9 %
Down 100 basis points	$4,236.4	$(56.0)	(1.3)%	25.4 %	119.3 %
Down 200 basis points	$4,138.7	$(153.7)	(3.6)%	24.8 %	116.5 %
Down 300 basis points	$4,066.5	$(225.9)	(5.3)%	24.4 %	114.5 %

In comparing the June 30, 2015 simulation results to March 31, 2015, our base case estimated market value of equity has increased while our overall profile has remained relatively unchanged. Base case market value of equity increased $391 million compared to March 31, 2015. This increase was due mostly to revised modeling assumptions used to model the decay rates of our non-maturity deposits, which resulted in longer weighted average lives than were previously assumed in the model.

Market Risk - Foreign Currency Exchange

The Company enters into foreign exchange contracts with its clients and counterparty banks primarily for the purpose of offsetting or hedging clients' transaction and economic exposures arising out of commercial transactions. We have experienced and will continue to experience fluctuations in our net income as a result of transaction gains or losses related to revaluing certain asset and liability balances that are denominated in currencies other than the U.S. Dollar. We recognized foreign currency gains of $1.2 million and $0.3 million for the six months ended June 30, 2015 and 2014, respectively. In June 2015, we hedged our Euro-denominated trust preferred issuance to reduce the related foreign currency translation volatility.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Please see the section above titled "Asset/Liability Management and Interest Rate Sensitivity" in "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" which provides an update to our quantitative and qualitative disclosure about market risk. This analysis should be read in conjunction with text under the caption "Quantitative and Qualitative Disclosure About Market Risk" in our Annual Report on Form 10-K for the year ended December 31, 2014, which text is incorporated herein by reference. Our analysis of market risk and market-sensitive financial information contains forward-looking statements and is subject to the disclosure at the beginning of Item 2 regarding such forward-looking information.

ITEM 4. CONTROLS AND PROCEDURES

As of the end of the period covered by this report, an evaluation was carried out by the Company's management, with the participation of the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, these disclosure controls and procedures were effective.

There have been no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In the ordinary course of our business, we are 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 information currently available to us, any resulting liability, in addition to amounts already accrued, taking into consideration insurance which may be applicable, would not have a material adverse effect on the Company’s financial statements or operations.

ITEM 1A. RISK FACTORS

For information regarding factors that could affect the Company's results of operations, financial condition and liquidity, see the risk factors disclosed in the "Risk Factors" section of our Annual Report on Form 10-K for the year ended December 31, 2014. See also Part I, Item 2 (Forward-Looking Information) of this quarterly report on Form 10-Q.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table presents stock purchases made during the second quarter of 2015:

Purchase Dates	Total Number of Shares Purchased[1]	Average Price Paid Per Share
April 1 - April 30, 2015	59,403	$46.79
May 1 - May 31, 2015	120,036	46.29
June 1 - June 30, 2015	—	—
Total	179,439	$46.46

(1) Shares repurchased pursuant to net settlement by employees and directors, in satisfaction of income tax withholding obligations incurred through the vesting of Company stock.

ITEM 6. INDEX TO EXHIBITS

Exhibit Number	Description
2.1	Agreement and Plan of Merger dated March 1, 2015 between PacWest Bancorp and Square 1 Financial, Inc. (Exhibit 2.1 to Form 8-K filed on March 5, 2015 and incorporated herein by this reference).
3.1	Certificate of Incorporation, as amended, of PacWest Bancorp, a Delaware corporation, dated April 22, 2008 (Exhibit 3.1 to Form 8-K filed on May 14, 2008 and incorporated herein by this reference).
3.2	Certificate of Amendment of Certificate of Incorporation of PacWest Bancorp, a Delaware Corporation, dated May 14, 2010 (Exhibit 3.1 to Form 8-K filed on May 14, 2010 and incorporated herein by this reference).
3.3	Certificate of Merger filed with the Delaware Secretary of State, dated April 7, 2014.
3.4	Certificate of Correction of Certificate of Merger filed with the Delaware Secretary of State, dated April 14, 2014.
3.5	Amended and Restated Bylaws of PacWest Bancorp, a Delaware corporation, dated November 5, 2014 (Exhibit 3.5 to Form 10-Q filed on November 7, 2014 and incorporated herein by this reference).
10.1	Form of Voting Agreement dated March 1, 2015, between PacWest Bancorp and certain stockholders of Square 1 Financial, Inc. (Exhibit 99.1 to Form 8-K filed on March 5, 2015 and incorporated herein by this reference).
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer. *
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer. *
32.1	Section 1350 Certification of Chief Executive Officer. *
32.2	Section 1350 Certification of Chief Financial Officer. *
101	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Condensed Consolidated Balance Sheets as of June 30, 2015 and December 31, 2014, (ii) the Condensed Consolidated Statements of Earnings for the three months ended June 30, 2015, March 31, 2015 and June 30, 2014 and six months ended June 30, 2015 and 2014, (iii) the Condensed Consolidated Statements of Comprehensive Income for the three months ended June 30, 2015, March 31, 2015 and June 30, 2014 and six months ended June 30, 2015 and 2014, (iv) the Condensed Consolidated Statement of Changes in Stockholders' Equity for the six months ended June 30, 2015 and 2014, (v) the Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2015 and 2014, and (vi) the Notes to Condensed Consolidated Financial Statements.

* Filed herewith.

Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	PACWEST BANCORP
Date: August 7, 2015	/s/ VICTOR R. SANTORO
	Victor R. Santoro
	Executive Vice President and Chief Financial Officer