Section 1: 10-Q (10-Q)

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, 2019

Commission File No. 001-36408

PACWEST BANCORP

(Exact name of registrant as specified in its charter)

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

9701 Wilshire Blvd., Suite 700
Beverly Hills, CA 90212
(Address of Principal Executive Offices, Including Zip Code)

(310) 887-8500
(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, par value $0.01 per share	**PACW**	**The Nasdaq Stock Market, LLC**
(Title of Each Class)	*(Trading Symbol)*	*(Name of Exchange on Which Registered)*

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes ☑ No ☐

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

☑ Large accelerated filer	☐ Accelerated filer	☐ Non-accelerated filer
☐ Smaller reporting company	☐ Emerging growth company	

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

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

As of July 30, 2019, there were 118,205,610 shares of the registrant's common stock outstanding, excluding 1,616,831 shares of unvested restricted stock.

PACWEST BANCORP

JUNE 30, 2019 QUARTERLY REPORT ON FORM 10-Q

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PART I

Glossary of Acronyms, Abbreviations, and Terms

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

AFX	American Financial Exchange	FRBSF	Federal Reserve Bank of San Francisco
ALLL	Allowance for Loan and Lease Losses	IPO	Initial Public Offering
ALM	Asset Liability Management	IRR	Interest Rate Risk
ASC	Accounting Standards Codification	LIBOR	London Inter-bank Offered Rate
ASU	Accounting Standards Update	LIHTC	Low Income Housing Tax Credit
Basel III	A comprehensive capital framework and rules for U.S. banking organizations approved by the FRB and the FDIC in 2013	MBS	Mortgage-Backed Securities
BHCA	Bank Holding Company Act of 1956, as amended	MVE	Market Value of Equity
BOLI	Bank Owned Life Insurance	NII	Net Interest Income
C&I	Commercial and Industrial	NIM	Net Interest Margin
CDI	Core Deposit Intangible Assets	Non-PCI	Non-Purchased Credit Impaired
CECL	Current Expected Credit Loss	NSF	Non-Sufficient Funds
CET1	Common Equity Tier 1	OREO	Other Real Estate Owned
CMOs	Collateralized Mortgage Obligations	PD/LGD	Probability of Default/Loss Given Default
CPI	Consumer Price Index	PCI	Purchased Credit Impaired
CRA	Community Reinvestment Act	PRSUs	Performance-Based Restricted Stock Units
CRI	Customer Relationship Intangible Assets	PWAM	Pacific Western Asset Management Inc.
CUB	CU Bancorp (a company acquired on October 20, 2017)	ROU	Right-of-use
CU Bank	California United Bank (a wholly-owned subsidiary of CUB)	SBA	Small Business Administration
DBO	California Department of Business Oversight	SEC	Securities and Exchange Commission
DTAs	Deferred Tax Assets	Square 1	Square 1 Financial, Inc. (a company acquired on October 6, 2015)
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act	Tax Equivalent Net Interest Income	Net interest income adjusted for tax equivalent adjustments related to tax-exempt interest on certain loans and investment securities
Efficiency Ratio	Noninterest expense (less intangible asset amortization, net foreclosed assets income/expense, and acquisition, integration and reorganization costs) divided by net revenues (the sum of tax equivalent net interest income plus noninterest income, less gain/loss on sale of securities and gain/loss on sales of assets other than loans and leases)	Tax Equivalent NIM	NIM adjusted for tax equivalent adjustments related to tax-exempt interest on certain loans and investment securities
FASB	Financial Accounting Standards Board	TCJA	Tax Cuts and Jobs Act
FDIC	Federal Deposit Insurance Corporation	TDRs	Troubled Debt Restructurings
FHLB	Federal Home Loan Bank of San Francisco	TRSAs	Time-Based Restricted Stock Awards
FRB	Board of Governors of the Federal Reserve System	U.S. GAAP	U.S. Generally Accepted Accounting Principles
		VIE	Variable Interest Entity

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

PACWEST BANCORP AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2019	December 31, 2018
	(Unaudited)	
	(Dollars in thousands, except par value amounts)	
ASSETS:		
Cash and due from banks	$ 185,075	$ 175,830
Interest-earning deposits in financial institutions	422,663	209,937
Total cash, cash equivalents, and restricted cash	607,738	385,767
Securities available-for-sale, at fair value	3,807,244	4,009,431
Federal Home Loan Bank stock, at cost	43,146	32,103
Total investment securities	3,850,390	4,041,534
Gross loans and leases held for investment	18,532,740	18,026,365
Deferred fees, net	(59,888)	(68,652)
Allowance for loan and lease losses	(135,037)	(132,472)
Total loans and leases held for investment, net	18,337,815	17,825,241
Equipment leased to others under operating leases	300,668	292,677
Premises and equipment, net	38,162	34,661
Foreclosed assets, net	1,472	5,299
Deferred tax asset, net	—	17,489
Goodwill	2,548,670	2,548,670
Core deposit and customer relationship intangibles, net	47,380	57,120
Other assets	612,119	522,896
Total assets	$ 26,344,414	$ 25,731,354
LIABILITIES:		
Noninterest-bearing deposits	$ 7,299,213	$ 7,888,915
Interest-bearing deposits	11,506,543	10,981,586
Total deposits	18,805,756	18,870,501
Borrowings	1,913,059	1,371,114
Subordinated debentures	456,112	453,846
Accrued interest payable and other liabilities	317,477	210,305
Total liabilities	21,492,404	20,905,766
Commitments and contingencies		
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, 2019 and December 31, 2018; 121,906,949 and 125,079,705 shares issued, respectively, includes 1,623,494 and 1,344,656 shares of unvested restricted stock, respectively)	1,219	1,251
Additional paid-in capital	3,435,679	3,722,723
Retained earnings	1,424,341	1,182,674
Treasury stock, at cost (2,077,845 and 1,889,872 shares at June 30, 2019 and December 31, 2018)	(82,295)	(74,985)
Accumulated other comprehensive income (loss), net	73,066	(6,075)
Total stockholders' equity	4,852,010	4,825,588
Total liabilities and stockholders' equity	$ 26,344,414	$ 25,731,354

See Notes to Condensed Consolidated Financial Statements.

PACWEST BANCORP AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

	Three Months Ended			Six Months Ended	
	June 30, 2019	March 31, 2019	June 30, 2018	June 30, 2019	June 30, 2018
	(Unaudited) (Dollars in thousands, except per share amounts)				
Interest income:					
Loans and leases	$ 284,236	$ 274,229	$ 260,300	$ 558,465	$ 511,385
Investment securities	28,948	29,680	27,730	58,628	53,868
Deposits in financial institutions	1,349	650	484	1,999	1,036
Total interest income	314,533	304,559	288,514	619,092	566,289
Interest expense:					
Deposits	38,720	34,235	16,367	72,955	30,185
Borrowings	7,210	7,710	2,649	14,920	3,569
Subordinated debentures	7,705	7,738	7,166	15,443	13,703
Total interest expense	53,635	49,683	26,182	103,318	47,457
Net interest income	260,898	254,876	262,332	515,774	518,832
Provision for credit losses	8,000	4,000	17,500	12,000	21,500
Net interest income after provision for credit losses	252,898	250,876	244,832	503,774	497,332
Noninterest income:					
Other commissions and fees	11,590	11,008	11,767	22,598	22,032
Leased equipment income	9,182	9,282	9,790	18,464	19,377
Service charges on deposit accounts	3,771	3,730	4,265	7,501	8,439
Gain on sale of loans and leases	326	—	106	326	4,675
Gain on sale of securities	22,192	2,161	253	24,353	6,564
Other income	3,832	4,883	13,457	8,715	17,110
Total noninterest income	50,893	31,064	39,638	81,957	78,197
Noninterest expense:					
Compensation	68,956	70,845	69,913	139,801	140,936
Occupancy	14,457	14,320	13,575	28,777	26,798
Data processing	6,817	6,925	6,896	13,742	13,555
Leased equipment depreciation	5,558	5,651	5,237	11,209	10,612
Intangible asset amortization	4,870	4,870	5,587	9,740	11,933
Other professional services	4,629	4,513	5,257	9,142	9,696
Insurance and assessments	4,098	4,038	5,330	8,136	11,057
Loan expense	3,451	2,885	3,058	6,336	5,329
Acquisition, integration and reorganization costs	—	618	—	618	—
Foreclosed assets (income) expense, net	(146)	29	(61)	(117)	(183)
Other expense	12,737	11,593	11,657	24,330	24,111
Total noninterest expense	125,427	126,287	126,449	251,714	253,844
Earnings before income taxes	178,364	155,653	158,021	334,017	321,685
Income tax expense	50,239	43,049	42,286	93,288	87,674
Net earnings	$ 128,125	$ 112,604	$ 115,735	$ 240,729	$ 234,011
Earnings per share:					
Basic	$ 1.07	$ 0.92	$ 0.92	$ 1.99	$ 1.85
Diluted	$ 1.07	$ 0.92	$ 0.92	$ 1.99	$ 1.85

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, 2019	March 31, 2019	June 30, 2018	June 30, 2019	June 30, 2018
			(Unaudited) *(In thousands)*		
Net earnings	$ 128,125	$ 112,604	$ 115,735	$ 240,729	$ 234,011
Other comprehensive income (loss), net of tax:					
Unrealized net holding gains (losses) on securities available-for-sale arising during the period	72,168	62,639	(14,325)	134,807	(76,994)
Income tax (expense) benefit related to net unrealized holding gains (losses) arising during the period	(20,459)	(17,758)	4,102	(38,217)	22,033
Unrealized net holding gains (losses) on securities available-for-sale, net of tax	51,709	44,881	(10,223)	96,590	(54,961)
Reclassification adjustment for net gains included in net earnings (1)	(22,192)	(2,161)	(253)	(24,353)	(6,564)
Income tax expense related to reclassification adjustment	6,291	613	72	6,904	1,878
Reclassification adjustment for net gains included in net earnings, net of tax	(15,901)	(1,548)	(181)	(17,449)	(4,686)
Other comprehensive income (loss), net of tax	35,808	43,333	(10,404)	79,141	(59,647)
Comprehensive income	$ 163,933	$ 155,937	$ 105,331	$ 319,870	$ 174,364

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

See Notes to Condensed Consolidated Financial Statements.

PACWEST BANCORP AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Six Months Ended June 30, 2019						
	Common Stock					Accumulated	
			Additional			Other	
		Par	Paid-in	Retained	Treasury	Comprehensive	
	Shares	Value	Capital	Earnings	Stock	Income (Loss)	Total
	(Unaudited) (Dollars in thousands)						
Balance, December 31, 2018	123,189,833	$ 1,251	$ 3,722,723	$ 1,182,674	$ (74,985)	$ (6,075)	$ 4,825,588
Cumulative effect of change in accounting principle [(1)]	—	—	—	938	—	—	938
Net earnings	—	—	—	112,604	—	—	112,604
Other comprehensive income - net unrealized gain on securities available-for-sale, net of tax	—	—	—	—	—	43,333	43,333
Restricted stock awarded and earned stock compensation, net of shares forfeited	195,536	2	5,806	—	—	—	5,808
Restricted stock surrendered	(113,544)	—	—	—	(4,522)	—	(4,522)
Common stock repurchased under Stock Repurchase Program	(3,070,676)	(31)	(119,556)	—	—	—	(119,587)
Cash dividends paid: Common stock, $0.60/share	—	—	(73,180)	—	—	—	(73,180)
Balance, March 31, 2019	120,201,149	$ 1,222	$ 3,535,793	$ 1,296,216	$ (79,507)	$ 37,258	$ 4,790,982
Net earnings	—	—	—	128,125	—	—	128,125
Other comprehensive income - net unrealized gain on securities available-for-sale, net of tax	—	—	—	—	—	35,808	35,808
Restricted stock awarded and earned stock compensation, net of shares forfeited	619,653	6	6,715	—	—	—	6,721
Restricted stock surrendered	(74,429)	—	—	—	(2,788)	—	(2,788)
Common stock repurchased under Stock Repurchase Program	(917,269)	(9)	(34,920)	—	—	—	(34,929)
Cash dividends paid: Common stock, $0.60/share	—	—	(71,909)	—	—	—	(71,909)
Balance, June 30, 2019	119,829,104	$ 1,219	$ 3,435,679	$ 1,424,341	$ (82,295)	$ 73,066	$ 4,852,010

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(1) Impact due to adoption on January 1, 2019 of ASU 2016-02, "*Leases (Topic 842),*" and the related amendments.

PACWEST BANCORP AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Six Months Ended June 30, 2018						
	Common Stock					Accumulated	
	Shares	Par Value	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Other Comprehensive Income (Loss)	Total
				(Unaudited) (Dollars in thousands)			
Balance, December 31, 2017	128,782,878	$ 1,305	$ 4,287,487	$ 723,471	$ (65,836)	$ 31,171	$ 4,977,598
Cumulative effect of changes in accounting principles (2)	—	—	—	(6,136)	—	6,136	—
Net earnings	—	—	—	118,276	—	—	118,276
Other comprehensive loss - net unrealized loss on securities available-for-sale, net of tax	—	—	—	—	—	(49,243)	(49,243)
Restricted stock awarded and earned stock compensation, net of shares forfeited	96,034	1	7,198	—	—	—	7,199
Restricted stock surrendered	(55,186)	—	—	—	(2,858)	—	(2,858)
Common stock repurchased under Stock Repurchase Program	(2,285,855)	(23)	(119,770)	—	—	—	(119,793)
Cash dividends paid: Common stock, $0.50/share	—	—	(63,689)	—	—	—	(63,689)
Balance, March 31, 2018	126,537,871	$ 1,283	$ 4,111,226	$ 835,611	$ (68,694)	$ (11,936)	$ 4,867,490
Net earnings	—	—	—	115,735	—	—	115,735
Other comprehensive loss - net unrealized loss on securities available-for-sale, net of tax	—	—	—	—	—	(10,404)	(10,404)
Restricted stock awarded and earned stock compensation, net of shares forfeited	398,132	4	7,542	—	—	—	7,546
Restricted stock surrendered	(81,172)	—	—	—	(4,332)	—	(4,332)
Common stock repurchased under Stock Repurchase Program	(2,286,881)	(23)	(122,001)	—	—	—	(122,024)
Cash dividends paid: Common stock, $0.60/share	—	—	(76,052)	—	—	—	(76,052)
Balance, June 30, 2018	124,567,950	$ 1,264	$ 3,920,715	$ 951,346	$ (73,026)	$ (22,340)	$ 4,777,959

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

See Notes to Condensed Consolidated Financial Statements.

PACWEST BANCORP AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30,	
	2019	**2018**
	(Unaudited) *(In thousands)*	
Cash flows from operating activities:		
Net earnings	$ 240,729	$ 234,011
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	18,607	17,512
Amortization of net premiums on securities available-for-sale	7,933	14,164
Amortization of intangible assets	9,740	11,933
Amortization of operating lease ROU assets	14,723	—
Provision for credit losses	12,000	21,500
(Gain) loss on sale of foreclosed assets	(320)	35
Provision for losses on foreclosed assets	—	65
Gain on sale of loans and leases	(326)	(4,675)
Gain on sale of premises and equipment	(37)	(8)
Gain on sale of securities	(24,353)	(6,564)
Gain on BOLI death benefit	—	(387)
Unrealized (gain) loss on derivatives and foreign currencies, net	(40)	20
Earned stock compensation	12,529	14,745
Decrease (increase) in deferred income taxes, net	14,714	(1,640)
Decrease in other assets	29,635	53,534
Decrease in accrued interest payable and other liabilities	(55,550)	(47,696)
Net cash provided by operating activities	279,984	306,549
Cash flows from investing activities:		
Net increase in loans and leases	(605,228)	(95,306)
Proceeds from sales of loans and leases	80,440	643,261
Proceeds from maturities and paydowns of securities available-for-sale	150,766	157,806
Proceeds from sales of securities available-for-sale	1,410,510	368,775
Purchases of securities available-for-sale	(1,232,214)	(708,167)
Net purchases of Federal Home Loan Bank stock	(11,043)	(5,481)
Proceeds from sales of foreclosed assets	4,184	57
Purchases of premises and equipment, net	(8,621)	(7,332)
Proceeds from sales of premises and equipment	54	32
Proceeds from BOLI death benefit	555	313
Net (increase) decrease in equipment leased to others under operating leases	(18,986)	7,746
Net cash (used in) provided by investing activities	(229,583)	361,704
Cash flows from financing activities:		
Net decrease in noninterest-bearing deposits	(588,417)	(379,436)
Net increase (decrease) in interest-bearing deposits	524,957	(554,453)
Net increase in borrowings	541,945	719,884
Net decrease in subordinated debentures	—	(12,372)
Common stock repurchased and restricted stock surrendered	(161,826)	(249,007)
Cash dividends paid	(145,089)	(139,741)
Net cash provided by (used in) financing activities	171,570	(615,125)
Net increase in cash, cash equivalents, and restricted cash	221,971	53,128
Cash, cash equivalents, and restricted cash, beginning of period	385,767	398,437
Cash, cash equivalents, and restricted cash, end of period	$ 607,738	$ 451,565

See Notes to Condensed Consolidated Financial Statements.

PACWEST BANCORP AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30,	
	2019	**2018**
	(Unaudited)	
	(In thousands)	
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 97,238	$ 47,569
Cash paid for income taxes	68,305	23,273
Loans transferred to foreclosed assets	37	1,059
Transfers from loans held for investment to loans held for sale	25,124	—

See Notes to Condensed Consolidated Financial Statements.

NOTE 1. ORGANIZATION

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

We are focused on relationship-based business banking to small, middle-market and venture-backed businesses nationwide. The Bank offers a broad range of loan and lease and deposit products and services through 74 full-service branches located throughout the State of California, one branch located in Durham, North Carolina, and numerous loan production offices across the country through its Community Banking, National Lending and Venture Banking groups. Community Banking provides real estate loans, commercial loans, and comprehensive deposit and treasury management services to small and medium-sized businesses conducted primarily through our California-based branch offices. National Lending provides asset-based, equipment, real estate, and security monitoring cash flow loans and treasury management services to established middle-market businesses on a national basis. Venture Banking offers a comprehensive suite of financial services focused on entrepreneurial businesses and their venture capital and private equity investors, with offices located in key innovation hubs across the United States. In addition, we provide investment advisory and asset management services to select clients through Pacific Western Asset Management Inc., a wholly-owned subsidiary of the Bank and a SEC-registered investment adviser.

We generate our revenue primarily from interest received on loans and leases and, to a lesser extent, from interest received on investment securities, and fees received in connection with deposit services, extending credit and other services offered, including foreign exchange services. Our major operating expenses are interest paid by the Bank on deposits and borrowings, compensation, occupancy, and general operating expenses.

We have completed 29 acquisitions from May 1, 2000 through June 30, 2019. 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.

Significant Accounting Policies

Our accounting policies are described in Note 1. *Nature of Operations and Summary of Significant Accounting Policies*, of our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2018 as filed with the Securities and Exchange Commission ("Form 10-K").

Accounting Standards Adopted in 2019

Effective January 1, 2019, the Company adopted ASU 2016-02, "*Leases (Topic 842),*" and the related amendments to this new standard issued in 2018. ASU 2016-02 supersedes Topic 840, "*Leases,*" and is intended to increase transparency and comparability among organizations by requiring the recognition of right-of-use ("ROU") assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of the financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

The Company adopted the new standard using the optional transition method under ASU 2018-11, "*Leases (Topic 842): Targeted Improvements,*" and recognized a cumulative effect adjustment to increase retained earnings by $938,000, net of taxes, without restating prior periods and applying the requirements of the new standard prospectively. The Company has elected the following practical expedients: (1) to not separate lease and non-lease components for facilities leases; (2) to not reassess whether any expired or existing contracts are or contain leases and to maintain existing lease classifications; (3) to not record short-term leases (initial term less than 12 months) on the balance sheet; and (4) to present sales tax on a net basis for those transactions in which the Company is the lessor.

The standard had a more significant impact on our condensed consolidated balance sheet than on our condensed consolidated statement of earnings. The most significant impact was the recognition of ROU assets and lease liabilities for operating leases, while the accounting for leases as a lessor remained substantially unchanged. The ROU asset is included within "Other assets," while the ROU liability is included within "Accrued interest payable and other liabilities". See Note 8. *Leases* and Note 7. *Other Assets* for further details.

Effective January 1, 2019, the Company early-adopted any removed or modified disclosures as permitted by ASU 2018-13, "*Fair Value Measurement (Topic 820): Disclosure Framework - Changes to Disclosure Requirements for Fair Value Measurements,"* but will defer adoption of the additional disclosures until the effective date of January 1, 2020 as permitted in the transition guidance in ASU 2018-13.

Effective January 1, 2019, the Company early-adopted ASU 2018-15, "*Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract (a consensus of the FASB Emerging Issues Task Force),"* which aligns the requirements for capitalizing implementation costs in a cloud computing arrangement service contract with the requirements for capitalizing implementation costs incurred for an internal-use software license. The new guidance also prescribes the balance sheet, income statement, and cash flow classification of the capitalized implementation costs and related amortization expense, and requires additional quantitative and qualitative disclosures. The Company opted to apply ASU 2018-15 prospectively. The primary effect of the provisions is to capitalize eligible implementation costs during the application development phase and to amortize those costs over the life of the agreement. There was no impact to our condensed consolidated financial statements from the adoption of this new standard.

Basis of Presentation

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

Use of Estimates

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

Reclassifications

None.

NOTE 2. RESTRICTED CASH BALANCES

The Company is required to maintain reserve balances with the FRBSF. Such reserve requirements are based on a percentage of deposit liabilities and may be satisfied by cash on hand. The average reserves required to be held at the FRBSF for the six months ended June 30, 2019 and year ended December 31, 2018 were $108.8 million and $77.0 million. As of June 30, 2019 and December 31, 2018, we pledged cash collateral for our derivative contracts of $2.1 million and $2.6 million.

NOTE 3. INVESTMENT SECURITIES

Securities Available-for-Sale

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

	June 30, 2019				December 31, 2018			
Security Type	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)							
Agency residential CMOs	$ 1,125,267	$ 25,513	$ (306)	$ 1,150,474	$ 634,774	$ 3,448	$ (5,372)	$ 632,850
Agency commercial MBS	1,033,895	25,046	(95)	1,058,846	1,133,846	383	(21,525)	1,112,704
Municipal securities	700,470	36,594	(494)	736,570	1,298,514	21,000	(7,320)	1,312,194
Agency residential MBS	343,131	8,381	(152)	351,360	281,486	1,902	(2,300)	281,088
Asset-backed securities	226,693	866	(438)	227,121	81,762	104	(481)	81,385
Private label residential CMOs	108,526	3,610	(99)	112,037	101,313	1,985	(2,093)	101,205
Collateralized loan obligations	94,149	—	(347)	93,802	—	—	—	—
SBA securities	51,154	670	(12)	51,812	68,158	—	(1,111)	67,047
Corporate debt securities	17,000	3,034	—	20,034	17,000	553	—	17,553
U.S. Treasury securities	4,983	205	—	5,188	401,056	2,437	(88)	403,405
Total	$ 3,705,268	$ 103,919	$ (1,943)	$ 3,807,244	$ 4,017,909	$ 31,812	$ (40,290)	$ 4,009,431

See Note 11. *Fair Value Measurements* for information on fair value measurements and methodology.

As of June 30, 2019, securities available-for-sale with a fair value of $493.8 million were pledged as collateral for borrowings, public deposits, and other purposes as required by various statutes and agreements.

Realized Gains and Losses on Securities Available-for-Sale

During the three months ended June 30, 2019, we sold $980.4 million of securities available-for-sale for a gross realized gain of $24.2 million and a gross realized loss of $2.0 million. During the three months ended June 30, 2018, we sold $62.3 million of securities available-for-sale for a gross realized gain of $0.3 million and a gross realized loss of $60,000.

During the six months ended June 30, 2019, we sold $1.4 billion of securities available-for-sale for a gross realized gain of $28.2 million and a gross realized loss of $3.9 million. During the six months ended June 30, 2018, we sold $362.2 million of securities available-for-sale for a gross realized gain of $7.1 million and a gross realized loss of $0.6 million.

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, 2019					
	Less Than 12 Months		12 Months or More		Total	
Security Type	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(In thousands)					
Agency residential CMOs	$ 85,397	$ (267)	$ 7,696	$ (39)	$ 93,093	$ (306)
Agency commercial MBS	—	—	29,902	(95)	29,902	(95)
Municipal securities	4,044	(12)	25,874	(482)	29,918	(494)
Agency residential MBS	—	—	9,533	(152)	9,533	(152)
Asset-backed securities	84,083	(426)	3,915	(12)	87,998	(438)
Private label residential CMOs	—	—	18,008	(99)	18,008	(99)
Collateralized loan obligations	93,802	(347)	—	—	93,802	(347)
SBA securities	—	—	2,063	(12)	2,063	(12)
Total	$ 267,326	$ (1,052)	$ 96,991	$ (891)	$ 364,317	$ (1,943)

	December 31, 2018					
	Less Than 12 Months		12 Months or More		Total	
Security Type	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(In thousands)					
Agency residential CMOs	$ 69,859	$ (326)	$ 164,097	$ (5,046)	$ 233,956	$ (5,372)
Agency commercial MBS	40,641	(341)	1,020,684	(21,184)	1,061,325	(21,525)
Municipal securities	52,386	(238)	284,915	(7,082)	337,301	(7,320)
Agency residential MBS	60,164	(169)	85,245	(2,131)	145,409	(2,300)
Asset-backed securities	11,548	(38)	35,859	(443)	47,407	(481)
Private label residential CMOs	32,170	(831)	49,237	(1,262)	81,407	(2,093)
SBA securities	249	(1)	66,798	(1,110)	67,047	(1,111)
U.S. Treasury securities	49,729	(88)	—	—	49,729	(88)
Total	$ 316,746	$ (2,032)	$ 1,706,835	$ (38,258)	$ 2,023,581	$ (40,290)

We reviewed the securities that were in an unrealized loss position at June 30, 2019, and concluded their unrealized losses were a result of the level of market interest rates relative to the types of securities and pricing changes caused by shifting supply and demand dynamics and not a result of downgraded credit ratings or other indicators of deterioration of the underlying issuers' ability to repay. Accordingly, we determined the securities were temporarily impaired and we did not recognize such impairment in the condensed consolidated statements of earnings. Although we periodically sell securities for portfolio management purposes, we do not foresee having to sell any temporarily impaired securities strictly for liquidity needs and believe that it is more likely than not we would not be required to sell any temporarily impaired securities before recovery of their amortized cost.

Contractual Maturities of Securities Available-for-Sale

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

	June 30, 2019	
Maturities	**Amortized Cost**	**Fair Value**
	(In thousands)	
Due in one year or less	$ 14,660	$ 14,647
Due after one year through five years	194,493	197,141
Due after five years through ten years	1,028,156	1,054,251
Due after ten years	2,467,959	2,541,205
Total securities available-for-sale	$ 3,705,268	$ 3,807,244

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

Interest Income on Investment Securities

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

	Three Months Ended			Six Months Ended June 30,	
	June 30, 2019	March 31, 2019	June 30, 2018	2019	2018
			(In thousands)		
Taxable interest	$ 20,944	$ 19,742	$ 17,106	$ 40,686	$ 31,705
Non-taxable interest	7,547	9,593	10,276	17,140	21,383
Dividend income	457	345	348	802	780
Total interest income on investment securities	$ 28,948	$ 29,680	$ 27,730	$ 58,628	$ 53,868

NOTE 4. LOANS AND LEASES

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

Loans and Leases Held for Investment

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

	June 30, 2019	December 31, 2018
	(In thousands)	
Real estate mortgage	$ 8,087,586	$ 7,933,859
Real estate construction and land	2,405,073	2,262,710
Commercial	7,593,728	7,428,500
Consumer	446,353	401,296
Total gross loans and leases held for investment	18,532,740	18,026,365
Deferred fees, net	(59,888)	(68,652)
Total loans and leases held for investment, net of deferred fees	18,472,852	17,957,713
Allowance for loan and lease losses	(135,037)	(132,472)
Total loans and leases held for investment, net	$ 18,337,815	$ 17,825,241

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

	June 30, 2019				
	30 - 89 Days Past Due	90 or More Days Past Due	Total Past Due	Current	Total
			(In thousands)		
Real estate mortgage:					
Commercial	$ 4,516	$ 6,632	$ 11,148	$ 4,424,126	$ 4,435,274
Income producing and other residential	3,692	422	4,114	3,636,638	3,640,752
Total real estate mortgage	8,208	7,054	15,262	8,060,764	8,076,026
Real estate construction and land:					
Commercial	—	—	—	972,891	972,891
Residential	4,672	—	4,672	1,398,567	1,403,239
Total real estate construction and land	4,672	—	4,672	2,371,458	2,376,130
Commercial:					
Asset-based	12,382	1,624	14,006	3,592,001	3,606,007
Venture capital	447	—	447	2,194,296	2,194,743
Other commercial	2,329	928	3,257	1,770,307	1,773,564
Total commercial	15,158	2,552	17,710	7,556,604	7,574,314
Consumer	964	169	1,133	445,249	446,382
Total	$ 29,002	$ 9,775	$ 38,777	$ 18,434,075	$ 18,472,852

	December 31, 2018				
	30 - 89 Days Past Due	90 or More Days Past Due	Total Past Due	Current	Total
			(In thousands)		
Real estate mortgage:					
Commercial	$ 3,487	$ 7,541	$ 11,028	$ 4,813,270	$ 4,824,298
Income producing and other residential	1,557	476	2,033	3,091,810	3,093,843
Total real estate mortgage	5,044	8,017	13,061	7,905,080	7,918,141
Real estate construction and land:					
Commercial	—	442	442	912,141	912,583
Residential	1,527	—	1,527	1,319,546	1,321,073
Total real estate construction and land	1,527	442	1,969	2,231,687	2,233,656
Commercial:					
Asset-based	47	646	693	3,304,728	3,305,421
Venture capital	4,705	—	4,705	2,034,043	2,038,748
Other commercial	5,181	1,285	6,466	2,053,960	2,060,426
Total commercial	9,933	1,931	11,864	7,392,731	7,404,595
Consumer	581	333	914	400,407	401,321
Total	$ 17,085	$ 10,723	$ 27,808	$ 17,929,905	$ 17,957,713

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

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

	June 30, 2019			December 31, 2018		
	Nonaccrual	Performing	Total	Nonaccrual	Performing	Total
			(In thousands)			
Real estate mortgage:						
Commercial	$ 17,012	$ 4,418,262	$ 4,435,274	$ 15,321	$ 4,808,977	$ 4,824,298
Income producing and other residential	2,883	3,637,869	3,640,752	2,524	3,091,319	3,093,843
Total real estate mortgage	19,895	8,056,131	8,076,026	17,845	7,900,296	7,918,141
Real estate construction and land:						
Commercial	390	972,501	972,891	442	912,141	912,583
Residential	—	1,403,239	1,403,239	—	1,321,073	1,321,073
Total real estate construction and land	390	2,375,740	2,376,130	442	2,233,214	2,233,656
Commercial:						
Asset-based	32,236	3,573,771	3,606,007	32,324	3,273,097	3,305,421
Venture capital	22,501	2,172,242	2,194,743	20,299	2,018,449	2,038,748
Other commercial	5,799	1,767,765	1,773,564	7,380	2,053,046	2,060,426
Total commercial	60,536	7,513,778	7,574,314	60,003	7,344,592	7,404,595
Consumer	444	445,938	446,382	1,043	400,278	401,321
Total	$ 81,265	$ 18,391,587	$ 18,472,852	$ 79,333	$ 17,878,380	$ 17,957,713

At June 30, 2019, nonaccrual loans and leases totaled $81.3 million and included $9.8 million of loans and leases 90 or more days past due, $3.3 million of loans and leases 30 to 89 days past due, and $68.2 million of loans and leases current with respect to contractual payments that were placed on nonaccrual status based on management's judgment regarding their collectability. Nonaccrual loans and leases totaled $79.3 million at December 31, 2018, including $10.7 million of loans and leases 90 or more days past due, $6.6 million of loans and leases 30 to 89 days past due, and $62.0 million of current loans and leases that were placed on nonaccrual status based on management's judgment regarding their collectability.

As of June 30, 2019, our three largest loan relationships on nonaccrual status had an aggregate carrying value of $45.0 million and represented 55% of total nonaccrual loans and leases.

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

	June 30, 2019			
	Classified	Special Mention	Pass	Total
	(In thousands)			
Real estate mortgage:				
Commercial	$ 32,926	$ 52,477	$ 4,349,871	$ 4,435,274
Income producing and other residential	8,693	355	3,631,704	3,640,752
Total real estate mortgage	41,619	52,832	7,981,575	8,076,026
Real estate construction and land:				
Commercial	390	—	972,501	972,891
Residential	—	5,268	1,397,971	1,403,239
Total real estate construction and land	390	5,268	2,370,472	2,376,130
Commercial:				
Asset-based	41,151	48,324	3,516,532	3,606,007
Venture capital	42,105	68,426	2,084,212	2,194,743
Other commercial	65,139	63,591	1,644,834	1,773,564
Total commercial	148,395	180,341	7,245,578	7,574,314
Consumer	575	863	444,944	446,382
Total	$ 190,979	$ 239,304	$ 18,042,569	$ 18,472,852

	December 31, 2018			
	Classified	Special Mention	Pass	Total
	(In thousands)			
Real estate mortgage:				
Commercial	$ 57,734	$ 74,785	$ 4,691,779	$ 4,824,298
Income producing and other residential	10,521	968	3,082,354	3,093,843
Total real estate mortgage	68,255	75,753	7,774,133	7,918,141
Real estate construction and land:				
Commercial	442	7,041	905,100	912,583
Residential	—	1,527	1,319,546	1,321,073
Total real estate construction and land	442	8,568	2,224,646	2,233,656
Commercial:				
Asset-based	45,957	48,338	3,211,126	3,305,421
Venture capital	28,731	77,588	1,932,429	2,038,748
Other commercial	92,526	50,136	1,917,764	2,060,426
Total commercial	167,214	176,062	7,061,319	7,404,595
Consumer	1,199	1,015	399,107	401,321
Total	$ 237,110	$ 261,398	$ 17,459,205	$ 17,957,713

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

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

	June 30, 2019			December 31, 2018		
	Nonaccrual Loans and Leases	Performing TDRs	Total Impaired Loans and Leases	Nonaccrual Loans and Leases	Performing TDRs	Total Impaired Loans and Leases
	(In thousands)					
Real estate mortgage	$ 19,895	$ 10,457	$ 30,352	$ 17,845	$ 11,484	$ 29,329
Real estate construction and land	390	4,986	5,376	442	5,420	5,862
Commercial	60,536	931	61,467	60,003	692	60,695
Consumer	444	90	534	1,043	105	1,148
Total	$ 81,265	$ 16,464	$ 97,729	$ 79,333	$ 17,701	$ 97,034

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

Impaired Loans and Leases	June 30, 2019 Recorded Investment	June 30, 2019 Unpaid Principal Balance	June 30, 2019 Related Allowance	December 31, 2018 Recorded Investment	December 31, 2018 Unpaid Principal Balance	December 31, 2018 Related Allowance
			(In thousands)			
With An Allowance Recorded:						
Real estate mortgage:						
Commercial	$ 493	$ 493	$ 69	$ 1,736	$ 1,648	$ 170
Income producing and other residential	2,066	2,061	191	2,569	2,563	247
Commercial:						
Asset based	—	—	—	—	—	—
Venture capital	22,265	24,353	4,482	11,621	13,255	3,141
Other commercial	618	618	—	473	482	473
With No Related Allowance Recorded:						
Real estate mortgage:						
Commercial	$ 19,994	$ 34,694		$ 17,783	$ 32,035	
Income producing and other residential	7,799	10,234		7,241	9,425	
Real estate construction and land:						
Commercial	5,376	5,419		5,862	5,870	
Commercial:						
Asset-based	32,236	49,853		32,324	38,100	
Venture capital	237	26,531		8,678	41,335	
Other commercial	6,111	26,562		7,599	25,740	
Consumer	534	702		1,148	1,470	
Total Loans and Leases With and Without an Allowance Recorded:						
Real estate mortgage	$ 30,352	$ 47,482	$ 260	$ 29,329	$ 45,671	$ 417
Real estate construction and land	5,376	5,419	—	5,862	5,870	—
Commercial	61,467	127,917	4,482	60,695	118,912	3,614
Consumer	534	702	—	1,148	1,470	—
Total	$ 97,729	$ 181,520	$ 4,742	$ 97,034	$ 171,923	$ 4,031

	Three Months Ended June 30,			
	2019		2018	
Impaired Loans and Leases	Weighted Average Balance (1)	Interest Income Recognized	Weighted Average Balance (1)	Interest Income Recognized
	(In thousands)			
With An Allowance Recorded:				
Real estate mortgage:				
Commercial	$ 493	$ 8	$ 7,786	$ 103
Income producing and other residential	2,066	15	2,419	21
Commercial:				
Venture capital	19,242	—	18,449	—
Other commercial	619	9	688	—
With No Related Allowance Recorded:				
Real estate mortgage:				
Commercial	$ 16,716	$ 54	$ 58,733	$ 725
Income producing and other residential	7,738	57	8,293	44
Real estate construction and land:				
Commercial	5,376	98	5,549	93
Residential	—	—	10,450	—
Commercial:				
Asset-based	31,148	—	29,677	—
Venture capital	237	—	2,800	—
Other commercial	6,111	20	8,508	335
Consumer	511	1	355	2
Total Loans and Leases With and Without an Allowance Recorded:				
Real estate mortgage	$ 27,013	$ 134	$ 77,231	$ 893
Real estate construction and land	5,376	98	15,999	93
Commercial	57,357	29	60,122	335
Consumer	511	1	355	2
Total	$ 90,257	$ 262	$ 153,707	$ 1,323

(1) For loans and leases reported as impaired at June 30, 2019 and 2018, amounts were calculated based on the period of time such loans and leases were impaired during the reported period.

	Six Months Ended June 30,			
	2019		2018	
Impaired Loans and Leases	Weighted Average Balance[(1)]	Interest Income Recognized	Weighted Average Balance[(1)]	Interest Income Recognized
	(In thousands)			
With An Allowance Recorded:				
Real estate mortgage:				
Commercial	$ 493	$ 16	$ 7,786	$ 204
Income producing and other residential	2,066	29	2,419	42
Commercial:				
Venture capital	15,359	—	15,715	—
Other commercial	619	18	346	—
With No Related Allowance Recorded:				
Real estate mortgage:				
Commercial	$ 16,016	$ 106	$ 55,214	$ 1,378
Income producing and other residential	7,647	110	8,277	88
Real estate construction and land:				
Commercial	5,376	196	5,549	184
Commercial:				
Asset-based	30,881	—	29,677	—
Venture capital	237	—	2,645	—
Other commercial	6,052	51	7,946	1,377
Consumer	485	3	341	4
Total Loans and Leases With and Without an Allowance Recorded:				
Real estate mortgage	$ 26,222	$ 261	$ 73,696	$ 1,712
Real estate construction and land	5,376	196	10,803	184
Commercial	53,148	69	56,329	1,377
Consumer	485	3	341	4
Total	$ 85,231	$ 529	$ 141,169	$ 3,277

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(1) For loans and leases reported as impaired at June 30, 2019 and 2018, amounts were calculated based on the period of time such loans and leases were impaired during the reported period.

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

	Three Months Ended June 30,					
	2019			2018		
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:						
Income producing and other residential	3	$ 456	$ 456	3	$ 1,704	$ 645
Commercial:						
Asset-based	1	620	620	—	—	—
Venture capital	4	13,971	14,972	4	5,236	5,236
Other commercial	3	107	107	2	31	31
Consumer	—	—	—	1	27	27
Total	11	$ 15,154	$ 16,155	10	$ 6,998	$ 5,939

	Six Months Ended June 30,					
	2019			2018		
Troubled Debt Restructurings	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
	(Dollars in thousands)					
Real estate mortgage:						
Commercial	1	$ 37	$ —	—	$ —	$ —
Income producing and other residential	6	1,245	1,245	3	1,704	645
Commercial:						
Asset-based	1	620	620	—	—	—
Venture capital	10	16,076	16,214	4	5,236	5,236
Other commercial	11	692	692	4	11,814	11,814
Consumer	—	—	—	1	27	27
Total	29	$ 18,670	$ 18,771	12	$ 18,781	$ 17,722

During the three months ended June 30, 2019, two venture capital loans totaling $447,000 and one other commercial loan of $81,000 were restructured in the preceding 12-month period and subsequently defaulted after being restructured. During the six months ended June 30, 2019, two venture capital loans totaling $447,000 and three other commercial loans totaling $140,000 were restructured in the preceding 12-month period and subsequently defaulted after being restructured.

During the three months ended June 30, 2018, there were no loans restructured in the preceding 12-month period that subsequently defaulted after being restructured. Due the six months ended June 30, 2018, one other commercial loan of $2.1 million was restructured in the preceding 12-month period and subsequently defaulted after being restructured.

Leases Receivable

We provide equipment financing to our customers primarily with operating and direct financing leases. For direct financing leases, lease receivables are recorded on the balance sheet but the leased equipment is not, although we generally retain legal title to the leased equipment until the end of each lease. Direct financing leases are stated at the net amount of minimum lease payments receivable, plus any unguaranteed residual value, less the amount of unearned income and net acquisition discount at the reporting date. Direct lease origination costs are amortized using the effective interest method over the life of the leases. Direct financing leases are subject to our allowance for loan and lease losses. See Note 8. *Leases* for information regarding operating leases where we are the lessor.

The following table provides the components of leases receivable income for the period indicated:

	Three Months Ended June 30, 2019	Six Months Ended June 30, 2019
	(In thousands)	
Component of leases receivable income:		
Interest income on net investments in leases	$ 2,886	$ 6,026

The following table presents the components of leases receivable as of the date indicated:

	June 30, 2019
	(In thousands)
Net investment in direct financing leases:	
Lease payments receivable	$ 180,179
Unguaranteed residual assets	26,238
Deferred fees and other	849
Aggregate net investment in leases	$ 207,266

The following table presents maturities of leases receivable as of the date indicated:

	June 30, 2019
	(In thousands)
Period Ending December 31,	
2019	$ 35,758
2020	71,453
2021	50,719
2022	19,333
2023	11,265
Thereafter	8,763
Total undiscounted cash flows	197,291
Less: Unearned income	(17,112)
Present value of lease payments	$ 180,179

Allowance for Loan and Lease Losses

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

	Three Months Ended June 30, 2019				
	Real Estate Mortgage	Real Estate Construction and Land	Commercial	Consumer	Total
			(In thousands)		
Allowance for Loan and Lease Losses:					
Balance, beginning of period	$ 45,754	$ 27,208	$ 61,496	$ 1,823	$ 136,281
Charge-offs	(534)	—	(16,927)	(176)	(17,637)
Recoveries	240	—	6,080	73	6,393
Net charge-offs	(294)	—	(10,847)	(103)	(11,244)
Provision (negative provision)	1,366	(830)	8,752	712	10,000
Balance, end of period	$ 46,826	$ 26,378	$ 59,401	$ 2,432	$ 135,037

	Six Months Ended June 30, 2019				
	Real Estate Mortgage	Real Estate Construction and Land	Commercial	Consumer	Total
			(In thousands)		
Allowance for Loan and Lease Losses:					
Balance, beginning of period	$ 46,021	$ 28,209	$ 56,360	$ 1,882	$ 132,472
Charge-offs	(730)	—	(19,930)	(442)	(21,102)
Recoveries	383	—	9,186	98	9,667
Net charge-offs	(347)	—	(10,744)	(344)	(11,435)
Provision (negative provision)	1,152	(1,831)	13,785	894	14,000
Balance, end of period	$ 46,826	$ 26,378	$ 59,401	$ 2,432	$ 135,037
Ending Allowance by Impairment Methodology:					
Individually evaluated for impairment	$ 260	$ —	$ 4,482	$ —	$ 4,742
Collectively evaluated for impairment	$ 46,566	$ 26,378	$ 54,919	$ 2,432	$ 130,295
Ending Loans and Leases by Impairment Methodology:					
Individually evaluated for impairment	$ 27,594	$ 5,376	$ 60,380	$ —	$ 93,350
Collectively evaluated for impairment	8,048,432	2,370,754	7,513,934	446,382	18,379,502
Ending balance	$ 8,076,026	$ 2,376,130	$ 7,574,314	$ 446,382	$ 18,472,852

	Three Months Ended June 30, 2018				
	Real Estate Mortgage	Real Estate Construction and Land	Commercial	Consumer	Total
			(In thousands)		
Allowance for Loan and Lease Losses:					
Balance, beginning of period	$ 40,158	$ 18,190	$ 73,780	$ 2,147	$ 134,275
Charge-offs	(4,747)	—	(13,425)	(63)	(18,235)
Recoveries	120	17	912	50	1,099
Net (charge-offs) recoveries	(4,627)	17	(12,513)	(13)	(17,136)
Provision (negative provision)	9,936	8,003	(2,461)	(478)	15,000
Balance, end of period	$ 45,467	$ 26,210	$ 58,806	$ 1,656	$ 132,139

	Six Months Ended June 30, 2018				
	Real Estate Mortgage	Real Estate Construction and Land	Commercial	Consumer	Total
			(In thousands)		
Allowance for Loan and Lease Losses:					
Balance, beginning of period [(1)]	$ 40,051	$ 13,055	$ 84,022	$ 2,328	$ 139,456
Charge-offs	(7,345)	—	(22,949)	(94)	(30,388)
Recoveries	1,777	26	6,399	95	8,297
Net (charge-offs) recoveries	(5,568)	26	(16,550)	1	(22,091)
Provision (negative provision)	10,984	13,129	(8,666)	(673)	14,774
Balance, end of period	$ 45,467	$ 26,210	$ 58,806	$ 1,656	$ 132,139
Ending Allowance by Impairment Methodology:					
Individually evaluated for impairment	$ 472	$ —	$ 8,480	$ —	$ 8,952
Collectively evaluated for impairment	$ 44,995	$ 26,210	$ 50,326	$ 1,656	$ 123,187
Ending Loans and Leases by Impairment Methodology:					
Individually evaluated for impairment	$ 83,931	$ 15,998	$ 67,228	$ —	$ 167,157
Collectively evaluated for impairment	7,482,443	1,858,028	6,998,884	378,680	16,718,035
Ending balance	$ 7,566,374	$ 1,874,026	$ 7,066,112	$ 378,680	$ 16,885,192

(1) The allowance for loan losses related to PCI loans of $6.4 million as of December 31, 2017 is reflected in the beginning balance of the allowance for loan and lease losses for the six months ended June 30, 2018.

Allowance for Credit Losses

The allowance for credit losses is the combination of the allowance for loan and lease losses and the reserve for unfunded loan commitments. The reserve for unfunded loan commitments is included within "Accrued interest payable and other liabilities" on the condensed consolidated balance sheets. The following tables present a summary of the activity in the allowance for loan and lease losses and reserve for unfunded loan commitments for the periods indicated:

	Three Months Ended June 30, 2019		
	Allowance for Loan and Lease Losses	Reserve for Unfunded Loan Commitments	Total Allowance for Credit Losses
		(In thousands)	
Balance, beginning of period	$ 136,281	$ 36,861	$ 173,142
Charge-offs	(17,637)	—	(17,637)
Recoveries	6,393	—	6,393
Net charge-offs	(11,244)	—	(11,244)
Provision (negative provision)	10,000	(2,000)	8,000
Balance, end of period	$ 135,037	$ 34,861	$ 169,898

	Six Months Ended June 30, 2019		
	Allowance for Loan and Lease Losses	Reserve for Unfunded Loan Commitments	Total Allowance for Credit Losses
		(In thousands)	
Balance, beginning of period	$ 132,472	$ 36,861	$ 169,333
Charge-offs	(21,102)	—	(21,102)
Recoveries	9,667	—	9,667
Net charge-offs	(11,435)	—	(11,435)
Provision (negative provision)	14,000	(2,000)	12,000
Balance, end of period	$ 135,037	$ 34,861	$ 169,898

	Three Months Ended June 30, 2018		
	Allowance for Loan and Lease Losses	Reserve for Unfunded Loan Commitments	Total Allowance for Credit Losses
		(In thousands)	
Balance, beginning of period	$ 134,275	$ 32,861	$ 167,136
Charge-offs	(18,235)	—	(18,235)
Recoveries	1,099	—	1,099
Net charge-offs	(17,136)	—	(17,136)
Provision	15,000	2,500	17,500
Balance, end of period	$ 132,139	$ 35,361	$ 167,500

	Six Months Ended June 30, 2018		
	Allowance for Loan and Lease Losses	Reserve for Unfunded Loan Commitments	Total Allowance for Credit Losses
		(In thousands)	
Balance, beginning of period [1]	$ 139,456	$ 28,635	$ 168,091
Charge-offs	(30,388)	—	(30,388)
Recoveries	8,297	—	8,297
Net charge-offs	(22,091)	—	(22,091)
Provision	14,774	6,726	21,500
Balance, end of period	$ 132,139	$ 35,361	$ 167,500

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(1) The allowance for loan losses related to PCI loans of $6.4 million as of December 31, 2017 is reflected in the beginning balance of the allowance for loan and lease losses for the six months ended June 30, 2018.

NOTE 5. FORECLOSED ASSETS

The following table summarizes foreclosed assets as of the dates indicated:

Property Type	June 30, 2019	December 31, 2018
	(In thousands)	
Commercial real estate	$ 253	$ 2,004
Single-family residence	953	953
Construction and land development	219	219
Multi-family	—	1,059
Total other real estate owned, net	1,425	4,235
Other foreclosed assets	47	1,064
Total foreclosed assets, net	$ 1,472	$ 5,299

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, 2018	$ 5,299
Transfers to foreclosed assets from loans	37
Provision for losses	—
Reductions related to sales	(3,864)
Balance, June 30, 2019	$ 1,472

NOTE 6. GOODWILL AND OTHER INTANGIBLE ASSETS

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

Our other intangible assets with definite lives include CDI and CRI. CDI and CRI are amortized over their respective estimated useful lives and reviewed for impairment at least quarterly. The amortization expense represents the estimated decline in the value of the underlying deposits or customer relationships acquired. The aggregate amortization expense is expected to be $18.7 million for 2019. The estimated aggregate amortization expense related to our current intangible assets for each of the next five years is $14.6 million for 2020, $10.8 million for 2021, $7.5 million for 2022, $3.8 million for 2023, and $1.7 million for 2024.

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, 2019	March 31, 2019	June 30, 2018	June 30, 2019	June 30, 2018
			(In thousands)		
Gross Amount of CDI and CRI:					
Balance, beginning of period	$ 119,497	$ 119,497	$ 119,497	$ 119,497	$ 119,497
Balance, end of period	119,497	119,497	119,497	119,497	119,497
Accumulated Amortization:					
Balance, beginning of period	(67,247)	(62,377)	(46,217)	(62,377)	(39,871)
Amortization	(4,870)	(4,870)	(5,587)	(9,740)	(11,933)
Balance, end of period	(72,117)	(67,247)	(51,804)	(72,117)	(51,804)
Net CDI and CRI, end of period	$ 47,380	$ 52,250	$ 67,693	$ 47,380	$ 67,693

NOTE 7. OTHER ASSETS

The following table presents the detail of our other assets as of the dates indicated:

Other Assets	June 30, 2019	December 31, 2018
	(In thousands)	
Cash surrender value of BOLI	$ 196,745	$ 194,897
Operating lease ROU assets, net	119,086	—
Interest receivable	83,308	88,754
LIHTC investments	63,151	59,507
CRA investments (1)	58,892	59,062
Taxes receivable	28,326	39,096
Prepaid expenses	19,576	18,006
Equity investments without readily determinable fair values	14,827	14,758
Equity warrants	3,931	4,793
Equity investments with readily determinable fair values	3,284	4,891
Other receivables/assets	20,993	39,132
Total other assets	$ 612,119	$ 522,896

(1) Includes equity investments without readily determinable fair values of $14.0 million and $12.5 million at June 30, 2019 and December 31, 2018.

The increase in the operating lease ROU assets in 2019 was due to the adoption of ASU 2016-02 effective January 1, 2019. See Note 8. *Leases* for further details.

Regarding our equity investments without readily determinable fair values, there were no impairments and no upward adjustments during the six months ended June 30, 2019. On a cumulative basis since January 1, 2018 and through June 30, 2019, we recorded impairments of $278,000 and upward adjustments of $286,000 to our equity investments without readily determinable fair values.

NOTE 8. LEASES

The Company adopted ASU 2016-02, "*Leases (Topic 842),*" effective January 1, 2019 and applied the guidance to all leases within the scope of Topic 842 as of that date. We have adopted the guidance using the optional transition method under ASU 2018-11, "*Leases (Topic 842): Targeted Improvements,*" and recognized a cumulative effect adjustment to retained earnings without prior periods restated, effectively applying the requirements of the new standard prospectively.

We determine if an arrangement is a lease at inception by assessing whether there is an identified asset, and whether the contract conveys the right to control the use of the identified asset for a period of time in exchange for consideration. Topic 842 also requires a lessee to classify a lease as either finance or operating. The Company only has operating leases related to our facilities as of June 30, 2019, which consists of 75 full-service branch offices and 76 other offices.

ROU assets represent a lessee's right to use an underlying asset for the lease term and lease liabilities represent a lessee's obligation to make lease payments arising from the lease. On January 1, 2019, ROU assets and operating lease liabilities were initially recognized based on the present value of future minimum lease payments over the remaining lease terms. We used our incremental borrowing rates on January 1, 2019 to determine the present value of future payments. The ROU assets also include any prepaid lease payments and initial direct costs incurred less any lease incentives received. We amortize the operating lease ROU assets and record interest expense on the operating lease liabilities over the lease terms.

Our leases have remaining terms ranging from 1 to 28 years. Short-term leases (initial term of less than 12 months) are not recorded on the balance sheet and lease expense is recognized on a straight-line basis over the lease term. We have lease agreements with lease and non-lease components, which are accounted for as a single lease component. Most leases include one or more options to renew, with renewal terms that can extend the lease from one to ten years. The exercise of lease renewal options is at our sole discretion. Some of our leases also include termination options. We have determined that we do not meet the reasonably certain threshold to exercise any renewal or termination options, therefore our lease terms do not reflect any optional periods. We rent or sublease certain office space to third parties. Our subleases consist of operating leases for offices that we have fully or partially vacated.

Certain of our lease agreements also include rental payments that adjust periodically based on changes in the CPI. We initially measured our lease payments using the index at the lease commencement date. Subsequent increases in the CPI are treated as variable lease payments and recognized in the period in which the obligation for those payments is incurred. The ROU assets and lease liabilities are not re-measured as a result of changes in the CPI. Our lease agreements do not contain any purchase options, residual value guarantees, or restrictive covenants.

Operating Leases as a Lessee

Our lease expense is a component of "Occupancy expense" on our condensed consolidated statements of earnings. The following table presents the components of lease expense for the period indicated:

	Three Months Ended June 30, 2019	Six Months Ended June 30, 2019
	(In thousands)	
Operating lease expense:		
Fixed costs	$ 8,534	$ 16,836
Variable costs	46	70
Short-term lease costs	203	723
Sublease income	(1,054)	(2,180)
Net lease expense	$ 7,729	$ 15,449

The following table presents supplemental cash flow information related to leases for the period indicated:

		Six Months Ended June 30, 2019
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$	16,408
ROU assets obtained in exchange for lease obligations:		
Operating leases	$	149,621

The following table presents supplemental balance sheet and other information related to operating leases as of the date indicated:

		June 30, 2019
		(Dollars in thousands)
Operating leases:		
Operating lease right-of-use assets, net	$	119,086
Operating lease liabilities	$	133,887
Weighted average remaining lease term (in years)		5.6
Weighted average discount rate		2.93%

The following table presents maturities of operating lease liabilities as of the date indicated:

		June 30, 2019
		(In thousands)
Period ending December 31,		
2019	$	16,440
2020		30,764
2021		27,348
2022		21,645
2023		18,735
Thereafter		31,185
Total operating lease liabilities		146,117
Less: Imputed interest		(12,230)
Present value of operating lease liabilities	$	133,887

Operating Leases as a Lessor

We provide equipment financing through operating leases where we facilitate the purchase of equipment leased to our customers. The equipment is on our balance sheet as "Equipment leased to others under operating leases" and is depreciated to its estimated residual value at the end of the lease term, shown as "Leased equipment depreciation" in the condensed consolidated statements of earnings, according to our fixed asset accounting policy. We receive periodic rental income payments under the leases, which are recorded as "Noninterest Income" in the condensed consolidated statements of earnings.

The following table presents the rental payments to be received on operating leases as of the date indicated:

	June 30, 2019
	(In thousands)
Period Ending December 31,	
2019	$ 18,620
2020	35,919
2021	28,199
2022	21,337
2023	18,604
Thereafter	50,214
Total undiscounted cash flows	$ 172,893

NOTE 9. BORROWINGS AND SUBORDINATED DEBENTURES

Borrowings

The following table summarizes our borrowings as of the dates indicated:

	June 30, 2019		December 31, 2018	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate
	(Dollars in thousands)			
Non-recourse debt	$ 59	7.50%	$ 114	7.50%
FHLB secured advances	1,522,000	2.52%	1,040,000	2.56%
FHLB unsecured overnight advance	141,000	2.41%	141,000	2.53%
AFX borrowings	250,000	2.43%	190,000	2.56%
Total borrowings	$ 1,913,059	2.50%	$ 1,371,114	2.56%

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, 2019, this debt had a weighted average remaining maturity of 0.5 years.

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

FHLB Secured Line of Credit. The Bank had secured financing capacity with the FHLB as of June 30, 2019 of $4.2 billion, collateralized by a blanket lien on $6.0 billion of qualifying loans. As of June 30, 2019, the balance outstanding was a $1.5 billion overnight advance. As of December 31, 2018, the balance outstanding was a $1.0 billion overnight advance.

FRBSF Secured Line of Credit. The Bank has a secured line of credit with the FRBSF. As of June 30, 2019, the Bank had secured borrowing capacity of $2.0 billion collateralized by liens covering $2.7 billion of qualifying loans. As of June 30, 2019 and December 31, 2018, there were no balances outstanding.

FHLB Unsecured Line of Credit. The Bank has a $141.0 million unsecured line of credit with the FHLB for the purchase of overnight funds, of which $141.0 million was outstanding at June 30, 2019. At December 31, 2018, the balance outstanding was $141.0 million.

Federal Funds Arrangements with Commercial Banks. As of June 30, 2019, the Bank had unsecured lines of credit of $180.0 million in the aggregate with several 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, 2019 and December 31, 2018, there were no balances outstanding. The Bank is a member of the AFX, through which it may either borrow or lend funds on an overnight or short-term basis with a group of pre-approved commercial banks. The availability of funds changes daily. As of June 30, 2019, the balance outstanding was $250.0 million, which consisted of $240.0 million in overnight borrowings and a $10.0 million one-month borrowing with a maturity date of July 22, 2019. As of December 31, 2018, there was a $190.0 million overnight borrowing outstanding.

Subordinated Debentures

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

	June 30, 2019		December 31, 2018		Date	Maturity	Rate Index
Series	**Amount**	**Rate**	**Amount**	**Rate**	**Issued**	**Date**	**(Quarterly Reset)**
	(Dollars in thousands)						
Trust V	$ 10,310	5.51%	$ 10,310	5.89%	8/15/2003	9/17/2033	3-month LIBOR + 3.10
Trust VI	10,310	5.46%	10,310	5.84%	9/3/2003	9/15/2033	3-month LIBOR + 3.05
Trust CII	5,155	5.36%	5,155	5.74%	9/17/2003	9/17/2033	3-month LIBOR + 2.95
Trust VII	61,856	5.33%	61,856	5.27%	2/5/2004	4/23/2034	3-month LIBOR + 2.75
Trust CIII	20,619	4.10%	20,619	4.48%	8/15/2005	9/15/2035	3-month LIBOR + 1.69
Trust FCCI	16,495	4.01%	16,495	4.39%	1/25/2007	3/15/2037	3-month LIBOR + 1.60
Trust FCBI	10,310	3.96%	10,310	4.34%	9/30/2005	12/15/2035	3-month LIBOR + 1.55
Trust CS 2005-1	82,475	4.36%	82,475	4.74%	11/21/2005	12/15/2035	3-month LIBOR + 1.95
Trust CS 2005-2	128,866	4.53%	128,866	4.47%	12/14/2005	1/30/2036	3-month LIBOR + 1.95
Trust CS 2006-1	51,545	4.53%	51,545	4.47%	2/22/2006	4/30/2036	3-month LIBOR + 1.95
Trust CS 2006-2	51,550	4.53%	51,550	4.47%	9/27/2006	10/30/2036	3-month LIBOR + 1.95
Trust CS 2006-3 [(1)]	29,314	1.74%	29,556	1.73%	9/29/2006	10/30/2036	3-month EURIBOR + 2.05
Trust CS 2006-4	16,470	4.53%	16,470	4.47%	12/5/2006	1/30/2037	3-month LIBOR + 1.95
Trust CS 2006-5	6,650	4.53%	6,650	4.47%	12/19/2006	1/30/2037	3-month LIBOR + 1.95
Trust CS 2007-2	39,177	4.53%	39,177	4.47%	6/13/2007	7/30/2037	3-month LIBOR + 1.95
Gross subordinated debentures	541,102	4.45%	541,344	4.51%			
Unamortized discount [(2)]	(84,990)		(87,498)				
Net subordinated debentures	$ 456,112		$ 453,846				

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(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.

NOTE 10. COMMITMENTS AND CONTINGENCIES

The following table presents a summary of commitments described below as of the dates indicated:

	June 30, 2019	December 31, 2018
	(In thousands)	
Loan commitments to extend credit	$ 7,610,899	$ 7,528,248
Standby letters of credit	387,012	364,210
Commitments to contribute capital to low income housing project partnerships and small business investment companies	109,103	101,991
Commitments to contribute capital to private equity funds	50	50
Total	$ 8,107,064	$ 7,994,499

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. 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 that the Company has in particular classes of financial instruments.

Commitments to extend credit are contractual agreements to lend to our customers when customers are in compliance with their contractual credit agreements and when customers have contractual availability to borrow under such agreements. 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 invests in low income housing project partnerships, which provide income tax credits, and in small business investment companies that call for capital contributions up to an amount specified in the partnership agreements. As of June 30, 2019 and December 31, 2018, we had commitments to contribute capital to these entities totaling $109.1 million and $102.0 million. We also had commitments to contribute up to an additional $50,000 to private equity funds at June 30, 2019 and December 31, 2018.

Legal Matters

In the ordinary course of our business, the Company is party to various legal actions, which we believe are incidental to the operation of our business. The outcome of such legal actions and the timing of ultimate resolution are inherently difficult to predict. In the opinion of management, based upon currently available information, any resulting liability, in addition to amounts already accrued, and taking into consideration insurance which may be applicable, would not have a material adverse effect on the Company’s financial statements or operations.

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

The Company uses 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, CDI, and other long-lived assets.

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

	Fair Value Measurements as of June 30, 2019			
Measured on a Recurring Basis	**Total**	**Level 1**	**Level 2**	**Level 3**
	(In thousands)			
Securities available-for-sale:				
Agency residential CMOs	$ 1,150,474	$ —	$ 1,150,474	$ —
Agency commercial MBS	1,058,846	—	1,058,846	—
Municipal securities	736,570	—	736,570	—
Agency residential MBS	351,360	—	351,360	—
Asset-backed securities	227,121	—	193,624	33,497
Private label residential CMOs	112,037	—	105,138	6,899
Collateralized loan obligations	93,802	—	93,802	—
SBA securities	51,812	—	51,812	—
Corporate debt securities	20,034	—	20,034	—
U.S. Treasury securities	5,188	5,188	—	—
Total securities available-for-sale	3,807,244	5,188	3,761,660	40,396
Equity warrants	3,931	—	—	3,931
Other derivative assets	1,459	—	1,459	—
Equity investments with readily determinable fair values	3,284	3,284	—	—
Total recurring assets	$ 3,815,918	$ 8,472	$ 3,763,119	$ 44,327
Derivative liabilities	$ 317	$ —	$ 317	$ —

Measured on a Recurring Basis	Fair Value Measurements as of December 31, 2018			
	Total	Level 1	Level 2	Level 3
	(In thousands)			
Securities available-for-sale:				
Municipal securities	$ 1,312,194	$ —	$ 1,312,194	$ —
Agency commercial MBS	1,112,704	—	1,112,704	—
Agency residential CMOs	632,850	—	632,850	—
U.S. Treasury securities	403,405	403,405	—	—
Agency residential MBS	281,088	—	281,088	—
Private label residential CMOs	101,205	—	93,917	7,288
Asset-backed securities	81,385	—	41,440	39,945
SBA securities	67,047	—	67,047	—
Corporate debt securities	17,553	—	17,553	—
Total securities available-for-sale	4,009,431	403,405	3,558,793	47,233
Equity warrants	4,793	—	—	4,793
Other derivative assets	3,292	—	3,292	—
Equity investments with readily determinable fair values	4,891	4,891	—	—
Total recurring assets	$ 4,022,407	$ 408,296	$ 3,562,085	$ 52,026
Derivative liabilities	$ 142	$ —	$ 142	$ —

During the six months ended June 30, 2019, there was a $63,000 transfer from Level 3 equity warrants to Level 1 equity investments with readily determinable fair values measured on a recurring basis.

The following table presents information about quantitative inputs and assumptions used to determine the fair values provided by our third party pricing service for our Level 3 private label CMOs and asset-backed securities available-for-sale measured at fair value on a recurring basis as of the date indicated:

	June 30, 2019			
	Private Label CMOs		Asset-Backed Securities	
Unobservable Inputs	Range of Inputs	Weighted Average Input	Input or Range of Inputs	Weighted Average Input
Voluntary annual prepayment speeds	3.6% - 100.0%	11.2%	12.0% - 15.0%	13.7%
Annual default rates (1)	0.4% - 82.0%	1.9%	2.0%	2.0%
Loss severity rates (1)	1.5% - 145.8%	57.8%	60.0%	60.0%
Discount rates	2.5% - 9.3%	6.4%	3.2% - 5.2%	4.3%

(1) The annual default rates and loss severity rates were the same for all of the asset-backed securities.

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

	June 30, 2019
	Equity Warrants
Unobservable Inputs	Weighted Average Input
Volatility	16.7%
Risk-free interest rate	1.7%
Remaining life assumption (in years)	3.36

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

	Private Label CMOs	Asset-Backed Securities	Equity Warrants
		(In thousands)	
Balance, December 31, 2018	$ 7,288	$ 39,945	$ 4,793
Total included in earnings	224	(56)	3,493
Total included in other comprehensive income	(64)	559	—
Issuances	—	—	161
Sales and dispositions [(1)]	—	—	(4,453)
Net settlements	(549)	(6,951)	—
Transfers to Level 1	—	—	(63)
Balance, June 30, 2019	$ 6,899	$ 33,497	$ 3,931

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(1) Includes the exercise of warrants that upon exercise become equity securities in public companies. These are often subject to lock-up restrictions that must be met before the equity security can be sold, during which time they are reported as equity investments with readily determinable fair values.

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, 2019			
Measured on a Non-Recurring Basis	Total	Level 1	Level 2	Level 3
		(In thousands)		
Impaired loans	$ 23,517	$ —	$ —	$ 23,517
Total non-recurring	$ 23,517	$ —	$ —	$ 23,517

	Fair Value Measurement as of December 31, 2018			
Measured on a Non-Recurring Basis	Total	Level 1	Level 2	Level 3
		(In thousands)		
Impaired loans	$ 24,432	$ —	$ 1,800	$ 22,632
OREO	1,136	—	1,136	—
Total non-recurring	$ 25,568	$ —	$ 2,936	$ 22,632

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

Losses on Assets Measured on a Non-Recurring Basis	**Three Months Ended June 30,**		**Six Months Ended June 30,**	
	2019	**2018**	**2019**	**2018**
	(In thousands)			
Impaired loans	$ 1,842	$ 12,076	$ 3,038	$ 15,994
OREO	—	—	—	65
Total losses	$ 1,842	$ 12,076	$ 3,038	$ 16,059

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

	June 30, 2019				
Asset	**Fair Value**	**Valuation Technique**	**Unobservable Inputs**	**Range**	**Weighted Average**
	(In thousands)				
Impaired loans	$ 17,073	Discounted cash flows	Discount rates	3.75% - 8.00%	6.48%
Impaired loans	6,444	Third party appraisals	No discounts		
Total non-recurring Level 3	$ 23,517				

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

	June 30, 2019				
	Carrying Amount	**Estimated Fair Value**			
		Total	**Level 1**	**Level 2**	**Level 3**
			(In thousands)		
Financial Assets:					
Cash and due from banks	$ 185,075	$ 185,075	$ 185,075	$ —	$ —
Interest-earning deposits in financial institutions	422,663	422,663	422,663	—	—
Securities available-for-sale	3,807,244	3,807,244	5,188	3,761,660	40,396
Investment in FHLB stock	43,146	43,146	—	43,146	—
Loans and leases held for investment, net	18,337,815	17,841,445	—	—	17,841,445
Equity warrants	3,931	3,931	—	—	3,931
Other derivative assets	1,459	1,459	—	1,459	—
Equity investments with readily determinable fair values	3,284	3,284	3,284	—	—
Financial Liabilities:					
Core deposits	15,617,488	15,617,488	—	15,617,488	—
Non-core non-maturity deposits	436,833	436,833	—	436,833	—
Time deposits	2,751,435	2,749,828	—	2,749,828	—
Borrowings	1,913,059	1,913,059	1,903,000	10,059	—
Subordinated debentures	456,112	439,635	—	439,635	—
Derivative liabilities	317	317	—	317	—

	December 31, 2018				
	Carrying	Estimated Fair Value			
	Amount	Total	Level 1	Level 2	Level 3
			(*In thousands*)		
Financial Assets:					
Cash and due from banks	$ 175,830	$ 175,830	$ 175,830	$ —	$ —
Interest-earning deposits in financial institutions	209,937	209,937	209,937	—	—
Securities available-for-sale	4,009,431	4,009,431	403,405	3,558,793	47,233
Investment in FHLB stock	32,103	32,103	—	32,103	—
Loans and leases held for investment, net	17,825,241	17,013,860	—	1,800	17,012,060
Equity warrants	4,793	4,793	—	—	4,793
Other derivative assets	3,292	3,292	—	3,292	—
Equity investments with readily determinable fair values	4,891	4,891	4,891	—	—
Financial Liabilities:					
Core deposits	16,346,671	16,346,671	—	16,346,671	—
Non-core non-maturity deposits	518,192	518,192	—	518,192	—
Time deposits	2,005,638	2,017,137	—	2,017,137	—
Borrowings	1,371,114	1,371,114	1,371,000	114	—
Subordinated debentures	453,846	435,251	—	435,251	—
Derivative liabilities	142	142	—	142	—

For information regarding the valuation methodologies used to measure our assets recorded at fair value (under ASC Topic 820), and for estimating fair value for financial instruments not recorded at fair value (under ASC Topic 825, as amended by ASU 2016-01 and ASU 2018-03), see Note 1. *Nature of Operations and Summary of Significant Accounting Policies,* and Note 13. *Fair Value Measurements*, to the Consolidated Financial Statements of the Company's 2018 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, 2019, the amounts that will actually be realized or paid at settlement or maturity of the instruments could be significantly different.

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, 2019	March 31, 2019	June 30, 2018	June 30, 2019	June 30, 2018
	(Dollars in thousands, except per share data)				
Basic Earnings Per Share:					
Net earnings	$ 128,125	$ 112,604	$ 115,735	$ 240,729	$ 234,011
Less: Earnings allocated to unvested restricted stock[(1)]	(1,190)	(1,163)	(1,348)	(2,343)	(2,469)
Net earnings allocated to common shares	$ 126,935	$ 111,441	$ 114,387	$ 238,386	$ 231,542
Weighted-average basic shares and unvested restricted stock outstanding	120,042	122,227	126,082	121,128	126,780
Less: Weighted-average unvested restricted stock outstanding	(1,462)	(1,352)	(1,466)	(1,407)	(1,439)
Weighted-average basic shares outstanding	118,580	120,875	124,616	119,721	125,341
Basic earnings per share	$ 1.07	$ 0.92	$ 0.92	$ 1.99	$ 1.85
Diluted Earnings Per Share:					
Net earnings allocated to common shares	$ 126,935	$ 111,441	$ 114,387	$ 238,386	$ 231,542
Weighted-average basic shares outstanding	118,580	120,875	124,616	119,721	125,341
Diluted earnings per share	$ 1.07	$ 0.92	$ 0.92	$ 1.99	$ 1.85

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

NOTE 13. REVENUE FROM CONTRACTS WITH CUSTOMERS

Disaggregation of Revenue

The following table presents interest income and noninterest income, the components of total revenue, as disclosed in the condensed consolidated statements of earnings and the related amounts which are from contracts with customers within the scope of Topic 606 for the periods indicated. As illustrated here, substantially all of our revenue is specifically excluded from the scope of Topic 606.

	Three Months Ended June 30, 2019		Three Months Ended June 30, 2018	
	Total Recorded Revenue	Revenue from Contracts with Customers	Total Recorded Revenue	Revenue from Contracts with Customers
	(In thousands)			
Total interest income	$ 314,533	$ —	$ 288,514	$ —
Noninterest income:				
Service charges on deposit accounts	3,771	3,771	4,265	4,265
Other commissions and fees	11,590	5,158	11,767	5,101
Leased equipment income	9,182	—	9,790	—
Gain on sale of loans	326	—	106	—
Gain on sale of securities	22,192	—	253	—
Other income	3,832	454	13,457	436
Total noninterest income	50,893	9,383	39,638	9,802
Total revenue	$ 365,426	$ 9,383	$ 328,152	$ 9,802

The following table presents revenue from contracts with customers based on the timing of revenue recognition for the periods indicated:

	Three Months Ended June 30,	
	2019	2018
	(In thousands)	
Products and services transferred at a point in time	$ 4,987	$ 4,930
Products and services transferred over time	4,396	4,872
Total revenue from contracts with customers	$ 9,383	$ 9,802

The following table presents interest income and noninterest income, the components of total revenue, as disclosed in the condensed consolidated statements of earnings and the related amounts which are from contracts with customers within the scope of Topic 606 for the periods indicated:

	Six Months Ended June 30, 2019		Six Months Ended June 30, 2018	
	Total Recorded Revenue	Revenue from Contracts with Customers	Total Recorded Revenue	Revenue from Contracts with Customers
		(In thousands)		
Total interest income	$ 619,092	$ —	$ 566,289	$ —
Noninterest income:				
Service charges on deposit accounts	7,501	7,501	8,439	8,439
Other commissions and fees	22,598	9,696	22,032	9,752
Leased equipment income	18,464	—	19,377	—
Gain on sale of loans	326	—	4,675	—
Gain on sale of securities	24,353	—	6,564	—
Other income	8,715	825	17,110	897
Total noninterest income	81,957	18,022	78,197	19,088
Total revenue	$ 701,049	$ 18,022	$ 644,486	$ 19,088

The following table presents revenue from contracts with customers based on the timing of revenue recognition for the periods indicated:

	Six Months Ended June 30,	
	2019	2018
	(In thousands)	
Products and services transferred at a point in time	$ 9,533	$ 9,591
Products and services transferred over time	8,489	9,497
Total revenue from contracts with customers	$ 18,022	$ 19,088

Contract Balances

The following table provides information about receivables, contract assets, and contract liabilities from contracts with customers:

	June 30, 2019	December 31, 2018
	(In thousands)	
Receivables, which are included in "Other assets"	$ 1,494	$ 1,334
Contract assets, which are included in "Other assets"	$ —	$ —
Contract liabilities, which are included in "Accrued interest payable and other liabilities"	$ 556	$ 621

Contract liabilities relate to advance consideration received from customers for which revenue is recognized over the life of the contract. The change in contract liabilities for the six months ended June 30, 2019 due to revenue recognized that was included in the contract liability balance at the beginning of the period was $65,000.

NOTE 14. STOCK-BASED COMPENSATION

The Company's 2017 Stock Incentive Plan, or the 2017 Plan, permits stock-based compensation awards to officers, directors, employees, and consultants. The 2017 Plan authorized grants of stock-based compensation instruments to purchase or issue up to 4,000,000 shares of Company common stock. As of June 30, 2019, there were 2,438,627 shares available for grant under the 2017 Plan. Though frozen for new issuances, certain awards issued under the 2003 Stock Incentive Plan, or the 2003 Plan, remain outstanding.

Restricted Stock

Restricted stock amortization totaled $6.2 million, $5.8 million, and $6.9 million for the three months ended June 30, 2019, March 31, 2019, and June 30, 2018, and $12.0 million and $14.1 million for the six months ended June 30, 2019 and 2018. Such amounts are included in "Compensation expense" on the condensed consolidated statements of earnings. The amount of unrecognized compensation expense related to unvested TRSAs and PRSUs as of June 30, 2019 totaled $66.5 million.

Time-Based Restricted Stock Awards

At June 30, 2019, there were 1,623,494 shares of unvested TRSAs outstanding pursuant to the Company's 2003 and 2017 Stock Incentive Plans. The TRSAs generally vest ratably over a service period of three or four years from the date of the grant or immediately upon death of an employee. Compensation expense related to TRSAs is based on the fair value of the underlying stock on the award date and is recognized over the vesting period using the straight-line method.

Performance-Based Restricted Stock Units

At June 30, 2019, there were 276,386 unvested PRSUs. The PRSUs will vest only if performance goals with respect to certain financial metrics are met over a three-year performance period. The PRSUs are not considered issued and outstanding until they vest. PRSUs are granted and initially expensed based on a target number. The number of shares that will ultimately vest based on actual performance will range from zero to a maximum of either 150% or 200% of target. Compensation expense related to PRSUs is based on the fair value of the underlying stock on the award date and is amortized over the vesting period using the straight-line method unless it is determined that: (1) attainment of the financial metrics is less than probable, in which case a portion of the amortization is suspended, or (2) attainment of the financial metrics is improbable, in which case a portion of the previously recognized amortization is reversed and also suspended. If it is determined that attainment of a financial measure higher than target is probable, the amortization will increase to up to 150% or 200% of the target amortization amount. Annual PRSU expense may vary during the three-year performance period based upon changes in management's estimate of the number of shares that may ultimately vest. In the case where the performance target for the PRSU is based on a market condition (such as total shareholder return), the amortization is neither reversed nor suspended if it is subsequently determined that the attainment of the performance target is less than probable or improbable and the employee continues to meet the service requirement of the award.

NOTE 15. RECENTLY ISSUED ACCOUNTING STANDARDS

Standard	Description	Effective Date	Effect on the Financial Statements or Other Significant Matters
ASU 2016-13, "*Measurement of Credit Losses on Financial Instruments,*" ASU 2018-19, "*Codification Improvements to Topic 326, Financial Instruments - Credit Losses,*" and ASU 2019-05, "*Financial Instruments - Credit Losses (Topic 326): Targeted Transition Relief*"	**1.** This Update changes the accounting and recognition of credit losses and impairment of financial assets recorded at amortized cost. Under the CECL model, the standard requires immediate recognition of estimated credit losses expected to occur over the remaining life of the asset. The forward-looking concept of CECL requires loss estimates for the remaining estimated life of the financial assets using historical experience, current conditions and reasonable and supportable forecasts. **2.** The Update amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. Receivables arising from operating leases are not within the scope of CECL. **3.** The Update must be applied using the modified retrospective method with a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption. A prospective transition approach is required for available-for-sale debt securities for which an other-than-temporary impairment had been recognized before the adoption date. Early adoption is permitted.	January 1, 2020	**1.** The Company has established a multidisciplinary project team and implementation plan, selected a software solution, reached accounting decisions on various matters, developed a conceptual framework, and developed econometric regression models for the reasonable and supportable ("R&S") forecast period. **2.** The Company continues to test and refine the CECL models and has completed three preliminary calculations with two more scheduled before adoption. The Company continues to perform testing and sensitivity analysis on its modeling assumptions and results. **3.** Our planned approach for estimating expected life-time credit losses include the following key components for all loan portfolio segments: a. The use of a probability of default/loss given default methodology; b. A single scenario based on the consensus forecast from Moody's to develop an economic forecast for the R&S period; c. An initial R&S forecast period of four quarters for all loan portfolio segments, which reflects management's expectation of losses based on forward-looking economic scenarios over that time; d. A post-R&S reversion period of two quarters using a straight-line approach; e. A historical loss period of at least 40 quarters, which represents a full economic credit cycle; and f. Prepayments rates based on our historical experience. **4.** The ultimate impact is influenced by our portfolio characteristics, of which the vast majority is comprised of short-duration commercial loans; the macroeconomic conditions and forecasts at adoption; and other management judgments. **5.** We plan to adopt this new standard on January 1, 2020. The new standard will be significant to the policies, processes, and methodology used to determine credit losses; however, we are not yet in a position to disclose the quantitative effect on the Company's consolidated financial position and results of operations as the calculations and models continue to be evaluated and assumptions are subject to change.

Standard	Description	Effective Date	Effect on the Financial Statements or Other Significant Matters
ASU 2017-04, "*Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*"	**1.** This Update simplifies goodwill impairment testing by eliminating the second step of the analysis under which the implied fair value of goodwill is determined as if the reporting unit were being acquired in a business combination. **2.** The goodwill impairment test is performed by comparing the fair value of a reporting unit with its carrying amount, and an impairment charge would be recognized for any amount by which the carrying amount exceeds the reporting unit's fair value, to the extent that the loss recognized does not exceed the amount of goodwill allocated to that reporting unit. **3.** The Update must be applied prospectively and early adoption is permitted.	January 1, 2020	The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial position or results of operations and we plan to adopt this standard on January 1, 2020.

Standard	Description	Effective Date	Effect on the Financial Statements or Other Significant Matters
ASU 2018-13, "*Fair Value Measurement (Topic 820): Disclosure Framework - Changes to Disclosure Requirements for Fair Value Measurements*"	**1.** This Update modified the disclosure requirements in Topic 820 to add disclosures regarding changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements and the narrative description of measurement uncertainty. **2.** Certain disclosure requirements in Topic 820 are also removed or modified. Certain disclosures in ASU 2018-13 would need to be applied on a retrospective basis and others on a prospective basis and early adoption is permitted.	January 1, 2020	The adoption of this guidance will modify disclosures but will not have an impact on the Company's consolidated financial position or results of operations. The Company has early adopted any removed or modified disclosures effective January 1, 2019 but will defer adoption of the additional disclosures until January 1, 2020 as permitted in the transition guidance of the standard.

Standard	Description	Effective Date	Effect on the Financial Statements or Other Significant Matters
ASU 2019-04, "*Codification Improvements to Topic 326, Financial Instruments - Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments*"	**1.** This Update made clarifications and amendments to five topics: (i) Topic A: Codification Improvements Resulting from the June and November 2018 Credit Losses Transition Resource Group ("TRG") Meetings, (ii) Topic B: Codification Improvements to ASU 2016-13, (iii) Topic C: Codification Improvements to ASU 2017-12, "*Derivatives and Hedging (Topic 815)*" and Other Hedging Items, (iv) Topic D: Codification Improvements to ASU 2016-01, "*Financial Instruments - Overall (Subtopic 825-10)*," and (v) Topic E: Codification Improvements Resulting from the November 2018 Credit Losses TRG Meeting. **2.** In addition to conforming amendments that correct for errors and oversights, the Update in Topics A, B, and E, which impacts CECL implementation, amends or clarifies guidance for accrued interest; transfers between classifications or categories of loans and debt securities; recoveries; effect of prepayments in determining the effective interest rate; estimated costs to sell when foreclosure is probable; vintage disclosure presentation related to line-of-credit arrangements converted to term loans; contractual extensions or renewals; and others. **3.** Transition requirements for the amendments are the same as ASU 2016-13 for the Update in Topics A, B, and E. The Update in Topic C may be applied retrospectively as of the date of initial adoption of ASU 2017-12 or prospectively. The Update in Topic D must be applied on a modified retrospective method with a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption and early adoption is permitted.	January 1, 2020; except for Topic C - January 1, 2019	**1.** Impacts from the adoption of Topics A, B, and E within this Update will be considered in the Company's overall CECL implementation and we plan to adopt this Update concurrent with the adoption of ASU 2016-13. **2.** The adoption of Topic D within this Update is not expected to have a material impact on the Company's consolidated financial position or results of operations and we plan to adopt this standard on January 1, 2020. **3.** Topic C within this Update is not applicable to us and therefore there is no impact on the Company's consolidated financial position or results of operations.

NOTE 16. SUBSEQUENT EVENTS

Common Stock Dividends

On August 1, 2019, the Company announced that the Board of Directors had declared a quarterly cash dividend of $0.60 per common share. The cash dividend is payable on August 30, 2019 to stockholders of record at the close of business on August 20, 2019.

The Company has evaluated events that have occurred subsequent to June 30, 2019 and have concluded there are no other subsequent events that would require recognition in the accompanying consolidated financial statements.

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

Forward-Looking Information

This Form 10-Q contains certain “forward-looking statements” about the Company and its subsidiaries within the meaning of the Private Securities Litigation Reform Act of 1995, including certain plans, strategies, goals, and projections and including statements about our expectations regarding our operating expenses, profitability, allowance for loan and lease losses, net interest margin, net interest income, deposit growth, loan and lease portfolio growth and production, acquisitions, maintaining capital adequacy, liquidity, goodwill, 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 forward” and similar expressions are generally intended to identify forward-looking statements. All forward-looking statements (including statements regarding future financial and operating results and future transactions and their results) involve risks, uncertainties and contingencies, many of which are beyond our control, which may cause actual results, performance, or achievements to differ materially from anticipated results, performance or achievements. Actual results could differ materially from those contained or implied by such forward-looking statements for a variety of factors, including without limitation:

- our ability to complete future acquisitions, and to successfully integrate such acquired entities or achieve expected benefits, synergies and/or operating efficiencies within expected time frames or at all;
- our ability to compete effectively against other financial service providers in our markets;
- the impact of changes in interest rates or levels of market activity, especially on the fair value of our loan and investment portfolios;
- deterioration, weaker than expected improvement, or other changes in the state of the economy or the markets in which we conduct business (including the levels of IPOs and mergers and acquisitions), which may affect the ability of borrowers to repay their loans and the value of real property or other property held as collateral for such loans;
- changes in credit quality and the effect of credit quality on our provision for credit losses and allowance for loan and lease losses;
- our ability to attract deposits and other sources of funding or liquidity;
- the need to retain capital for strategic or regulatory reasons;
- compression of the net interest margin due to changes in the interest rate environment, forward yield curves, loan products offered, spreads on newly originated loans and leases, changes in our asset or liability mix, and/or changes to the cost of deposits and borrowings;
- reduced demand for our services due to strategic or regulatory reasons;
- our ability to successfully execute on initiatives relating to enhancements of our technology infrastructure, including client-facing systems and applications;
- legislative or regulatory requirements or changes, including an increase of capital requirements, and increased political and regulatory uncertainty;
- the impact on our reputation and business from our interactions with business partners, counterparties, service providers and other third parties;
- higher than anticipated increases in operating expenses;
- lower than expected dividends paid from the Bank to the holding company;
- the amount and exact timing of any common stock repurchases will depend upon market conditions and other factors;
- 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;
- the effectiveness of our risk management framework and quantitative models;
- the costs and effects of legal, compliance, and regulatory actions, changes and developments, including the impact of adverse judgments or settlements in litigation, the initiation and resolution of regulatory or other governmental inquiries or investigations, and/or the results of regulatory examinations or reviews;

- the impact of changes made to tax laws or regulations affecting our business, including the disallowance of tax benefits by tax authorities and/or changes in tax filing jurisdictions or entity classifications; and
- our success at managing risks involved in the foregoing items and all other risk factors described in our audited consolidated financial statements, and other risk factors described in this Form 10-Q and other documents filed or furnished by PacWest with the 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, a Delaware corporation, is a bank holding company registered under the BHCA, with our corporate headquarters located in Beverly Hills, California. Our principal business is to serve as the holding company for our wholly-owned subsidiary, Pacific Western Bank. References to "Pacific Western" or the "Bank" refer to Pacific Western Bank together with its wholly-owned subsidiaries. References to "we," "us," or the "Company" refer to PacWest Bancorp together with its subsidiaries on a consolidated basis. When we refer to "PacWest" or to the "holding company," we are referring to PacWest Bancorp, the parent company, on a stand-alone basis.

The Bank is focused on relationship-based business banking to small, middle-market, and venture-backed businesses nationwide. The Bank offers a broad range of loan and lease and deposit products and services through 74 full-service branches located throughout the state of California, one branch located in Durham, North Carolina, and numerous loan production offices across the country through its Community Banking, National Lending and Venture Banking groups. Community Banking provides real estate loans, commercial loans, and comprehensive deposit and treasury management services to small and medium-sized businesses conducted primarily through our California-based branch offices. National Lending provides asset-based, equipment, real estate, and security monitoring cash flow loans and treasury management services to established middle-market businesses on a national basis. Venture Banking offers a comprehensive suite of financial services focused on entrepreneurial businesses and their venture capital and private equity investors, with offices located in key innovation hubs across the United States. In addition, we provide investment advisory and asset management services to select clients through Pacific Western Asset Management Inc., a wholly-owned subsidiary of the Bank and a SEC-registered investment adviser.

Over the last couple of years, one area of focus has been our credit de-risking strategy whereby we made the decision to reduce our exposure in certain lending portfolios while emphasizing growth in loan portfolios with favorable credit performance. These efforts included the decision to exit the healthcare, technology, and general cash flow lending origination businesses by selling $1.5 billion of cash flow loans in 2017 and reducing the portfolio from approximately $2.4 billion at the end of 2016 to approximately $88 million as of June 30, 2019. We also reduced our exposure to healthcare real estate by shrinking this portfolio from approximately $955 million at the end of 2016 to approximately $328 million as of June 30, 2019, while also shifting our Venture Banking strategy to emphasize growth in equity fund loans which, as a percentage of our Venture Banking loan portfolio, has gone from 16% as of the end of 2016 to 51% as of June 30, 2019. These efforts can contribute to lower loan yields as reductions in certain loan portfolios are replaced with loans with lower credit risk, such as multi-family and equity fund loans, thus placing pressure on our net interest margin. However, these efforts have resulted in an improved credit risk profile as evidenced by the reduction in our classified loans from 2.67% of loans at December 31, 2016 to 1.03% as of June 30, 2019, a reduction in nonaccrual loans from 1.11% of loans at December 31, 2016 to 0.44% as of June 30, 2019, and a reduction in our provision for credit losses as a percentage of average loans and leases from 0.42% in 2016 (excluding PCI provision and average loans) to 0.13% annualized for the first six months of 2019.

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 2019, accounted for 86.3% of net revenue (net interest income plus noninterest income).

At June 30, 2019, we had total assets of $26.3 billion, including $18.5 billion of total loans and leases, net of deferred fees, and $3.81 billion of securities available-for-sale, compared to $25.7 billion of total assets, including $18.0 billion of total loans and leases, net of deferred fees, and $4.01 billion of securities available-for-sale at December 31, 2018. The $613.1 million increase in total assets since year-end was due primarily to a $515.1 million increase in loans and leases, a $222.0 million increase in cash and cash equivalents, and an $89.2 million increase in other assets, offset partially by a $202.2 million decrease in securities available-for-sale. The increase in loans and leases was driven mostly by growth of $515.1 million in net loans held for investment. The increase in other assets was due mainly to an operating lease ROU asset recorded in connection with the adoption of ASU 2016-02, "*Leases (Topic 842)*," on January 1, 2019.

At June 30, 2019, we had total liabilities of $21.5 billion, including total deposits of $18.8 billion and borrowings of $1.9 billion, compared to $20.9 billion of total liabilities, including $18.9 billion of total deposits and $1.4 billion of borrowings at December 31, 2018. The $586.6 million increase in total liabilities since year-end was due mainly to a $745.8 million increase in time deposits, a $541.9 million increase in borrowings, primarily short-term FHLB advances, and a $107.2 million increase in accrued interest payable and other liabilities, offset partially by a $729.2 million decrease in core deposits and an $81.4 million decrease in non-core non-maturity deposits. The decrease in core deposits was due primarily to customers seeking out interest-earning accounts in the competitive environment resulting in decreases in noninterest-bearing demand deposits and money market deposits of $589.7 million and $465.8 million, offset partially by an increase in interest checking deposits of $377.9 million. The increase in accrued interest payable and other liabilities was due mainly to an operating lease liability recorded in connection with the adoption of ASU 2016-02. At June 30, 2019, core deposits totaled $15.6 billion, or 83% of total deposits, including $7.3 billion of noninterest-bearing demand deposits, or 39% of total deposits.

At June 30, 2019, we had total stockholders' equity of $4.85 billion compared to $4.83 billion at December 31, 2018. The $26.4 million increase in stockholders' equity since year-end was due mainly to $240.7 million in net earnings and a $79.1 million increase in accumulated other comprehensive income, offset partially by $154.5 million of common stock repurchased under the Stock Repurchase Program and $145.1 million of cash dividends paid. Consolidated capital ratios remained strong with Tier 1 capital and total capital ratios of 9.53% and 12.18% at June 30, 2019.

Recent Events

Stock Repurchase Program

On February 24, 2019, effective upon the maturity of the previous Stock Repurchase Program on February 28, 2019, PacWest's Board of Directors authorized a new Stock Repurchase Program for an aggregate purchase price not to exceed $225 million until February 29, 2020.

The amount and exact timing of any repurchases will depend upon market conditions and other factors but we expect repurchases to subside in the second half of 2019 due to anticipated loan growth. The Stock Repurchase Program may be suspended or discontinued at any time. During the second quarter of 2019, we repurchased 917,269 shares of common stock for a total amount of $34.9 million at an average price of $38.08. During the six months ended June 30, 2019, we repurchased 3,987,945 shares of common stock for a total amount of $154.5 million at an average price of $38.75. All shares repurchased under the Stock Repurchase Program were retired upon settlement. At June 30, 2019, the remaining amount that could be used to repurchase shares under the Stock Repurchase Program was $124.7 million.

Colorado Market Expansion

In the second quarter of 2019, we received approval to open a full-service branch office in Denver, Colorado, which we expect to open in the fourth quarter of 2019.

Key Performance Indicators

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

The Level of Net Interest Income

Net interest income is the excess of interest earned on our interest-earning assets over the interest paid on our interest-bearing liabilities. Net interest margin is net interest income (annualized if related to a quarterly period) expressed as a percentage of average interest-earning assets. Tax equivalent net interest income is net interest income increased by an adjustment for tax-exempt interest on certain loans and investment securities based on a 21% federal statutory tax rate. Tax equivalent net interest margin is calculated as tax equivalent net interest income divided by 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. Our primary interest-earning assets are loans and investment securities, and our primary interest-bearing liabilities are deposits. Contributing to our high net interest margin is our high yield on loans and leases and competitive cost of deposits. While our deposit balances will fluctuate depending on deposit holders' perceptions of alternative yields available in the market, we seek to minimize the impact of these variances by attracting a high percentage of noninterest-bearing deposits.

Loan and Lease Growth

We actively seek new lending opportunities under an array of lending products. Our lending activities include real estate mortgage loans, real estate construction and land loans, commercial loans and leases, and a small amount of consumer lending. Our commercial real estate loans and real estate construction loans are secured by a range of property types. Our commercial loans are diverse and generally include various asset-secured loans, equipment-secured loans and leases, venture capital loans to support venture capital firms' operations and the operations of entrepreneurial companies during the various phases of their early life cycles, secured business loans originated through our Community Banking group, and loans to security alarm monitoring companies. Our loan origination process emphasizes credit quality. To augment our internal loan production, we have historically purchased multi-family loans from other banks. We have also purchased single-family mortgage and construction loans and private student loans from third-party lenders. These loan purchases help us manage the concentrations in our portfolio as they diversify the geographic, interest-rate risk, credit risk, and product composition of our loan portfolio. Achieving net loan growth is subject to many factors, including maintaining strict credit standards, competition from other lenders, and borrowers that opt to prepay loans.

The Magnitude of Credit Losses

We emphasize credit quality in originating and monitoring our loans and leases, and we measure our success by the levels of our classified loans and leases, nonaccrual loans and leases, and net charge-offs. We maintain an allowance for credit losses on loans and leases, which is the sum of our allowance for loan and lease losses and our reserve for unfunded loan commitments. Provisions for credit losses are charged to operations as and when needed for both on and off-balance sheet credit exposures. Loans and leases which are deemed uncollectable are charged off and deducted from the allowance for loan and lease losses. Recoveries on loans and leases previously charged off are added to the allowance for loan and lease losses. The provision for credit losses on the loan and lease portfolio is based on our allowance methodology which considers various credit performance measures such as historical and current net charge-offs, the levels and trends of classified loans and leases, the likelihood of loans defaulting based on the historical degree that similar loans defaulted and the resulting loss severity for these defaulted loans, and the overall level of outstanding loans and leases. For originated and acquired non-impaired loans, a provision for credit losses may be recorded to reflect credit deterioration after the origination date or after the acquisition date, respectively.

We regularly review our loans and leases to determine whether there has been any deterioration in credit quality resulting from borrower operations or changes in collateral value or other factors which may affect collectability of our loans and leases. Changes in economic conditions, such as the rate of economic growth, the unemployment rate, rate of inflation, increases in the general level of interest rates, declines in real estate values, changes in commodity prices, 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 our loans are concentrated in commercial real estate loans.

The Level of Noninterest Expense

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

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

	Three Months Ended			Six Months Ended	
	June 30,	March 31,	June 30,	June 30,	
Efficiency Ratio	**2019**	**2019**	**2018**	**2019**	**2018**
			(Dollars in thousands)		
Noninterest expense	$ 125,427	$ 126,287	$ 126,449	$ 251,714	$ 253,844
Less: Intangible asset amortization	4,870	4,870	5,587	9,740	11,933
Foreclosed assets (income) expense, net	(146)	29	(61)	(117)	(183)
Acquisition, integration and reorganization costs	—	618	—	618	—
Noninterest expense used for efficiency ratio	$ 120,703	$ 120,770	$ 120,923	$ 241,473	$ 242,094
Net interest income (tax equivalent)	$ 261,689	$ 256,052	$ 264,798	$ 517,742	$ 523,270
Noninterest income	50,893	31,064	39,638	81,957	78,197
Net revenues	312,582	287,116	304,436	599,699	601,467
Less: Gain on sale of securities	22,192	2,161	253	24,353	6,564
Net revenues used for efficiency ratio	$ 290,390	$ 284,955	$ 304,183	$ 575,346	$ 594,903
Efficiency ratio	41.6%	42.4%	39.8%	42.0%	40.7%

Critical Accounting Policies and Estimates

Our accounting policies are fundamental to understanding management's discussion and analysis of results of operations and financial condition. We identify critical policies and estimates as those that 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 and estimates relate to the allowance for credit losses on loans and leases held for investment, accounting for business combinations, and the realization of deferred income tax assets and liabilities. For further information, refer to our Annual Report on Form 10-K for the year ended December 31, 2018.

Non-GAAP Measurements

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

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

Return on Average Tangible Equity	**Three Months Ended June 30, 2019**	**Three Months Ended March 31, 2019**	**Three Months Ended June 30, 2018**	**Six Months Ended June 30, 2019**	**Six Months Ended June 30, 2018**
			(Dollars in thousands)		
Net earnings	$ 128,125	$ 112,604	$ 115,735	$ 240,729	$ 234,011
Average stockholders' equity	$ 4,818,889	$ 4,815,965	$ 4,832,480	$ 4,817,435	$ 4,866,654
Less: Average intangible assets	2,598,762	2,603,842	2,619,351	2,601,288	2,622,455
Average tangible common equity	$ 2,220,127	$ 2,212,123	$ 2,213,129	$ 2,216,147	$ 2,244,199
Return on average equity (1)	10.66%	9.48%	9.61%	10.08%	9.70%
Return on average tangible equity (2)	23.15%	20.64%	20.98%	21.91%	21.03%

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

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

Tangible Common Equity Ratio/ Tangible Book Value Per Share	**June 30, 2019**	**December 31, 2018**
	(Dollars in thousands, except per share data)	
Stockholders' equity	$ 4,852,010	$ 4,825,588
Less: Intangible assets	2,596,050	2,605,790
Tangible common equity	$ 2,255,960	$ 2,219,798
Total assets	$ 26,344,414	$ 25,731,354
Less: Intangible assets	2,596,050	2,605,790
Tangible assets	$ 23,748,364	$ 23,125,564
Equity to assets ratio	18.42%	18.75%
Tangible common equity ratio (1)	9.50%	9.60%
Book value per share	$ 40.49	$ 39.17
Tangible book value per share (2)	$ 18.83	$ 18.02
Shares outstanding	119,829,104	123,189,833

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(1) Tangible common equity divided by tangible assets.

(2) Tangible common equity divided by shares outstanding.

Results of Operations

Earnings Performance

The following table presents performance metrics for the periods indicated:

	Three Months Ended			Six Months Ended	
	June 30, 2019	March 31, 2019	June 30, 2018	June 30, 2019	June 30, 2018
	(Dollars in thousands, except per share data)				
Earnings Summary:					
Net interest income	$ 260,898	$ 254,876	$ 262,332	$ 515,774	$ 518,832
Provision for credit losses	(8,000)	(4,000)	(17,500)	(12,000)	(21,500)
Noninterest income	50,893	31,064	39,638	81,957	78,197
Noninterest expense	(125,427)	(126,287)	(126,449)	(251,714)	(253,844)
Earnings before income taxes	178,364	155,653	158,021	334,017	321,685
Income tax expense	(50,239)	(43,049)	(42,286)	(93,288)	(87,674)
Net earnings	$ 128,125	$ 112,604	$ 115,735	$ 240,729	$ 234,011
Performance Measures:					
Diluted earnings per share	$ 1.07	$ 0.92	$ 0.92	$ 1.99	$ 1.85
Annualized return on:					
Average assets	1.99%	1.77%	1.93%	1.88%	1.96%
Average tangible equity (1)(2)	23.15%	20.64%	20.98%	21.91%	21.03%
Net interest margin (tax equivalent)	4.72%	4.69%	5.18%	4.70%	5.15%
Yield on average loans and leases (tax equivalent)	6.26%	6.16%	6.30%	6.21%	6.21%
Cost of average total deposits	0.81%	0.73%	0.37%	0.77%	0.34%
Efficiency ratio	41.6%	42.4%	39.8%	42.0%	40.7%

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(1) Calculation reduces average stockholder's equity by average intangible assets.
(2) See "- Non-GAAP Measurements."

Second Quarter of 2019 Compared to First Quarter of 2019

Net earnings for the second quarter of 2019 were $128.1 million, or $1.07 per diluted share, compared to net earnings for the first quarter of 2019 of $112.6 million, or $0.92 per diluted share. The $15.5 million increase in net earnings from the prior quarter was due primarily to higher noninterest income of $19.8 million, higher net interest income of $6.0 million, and lower noninterest expense of $0.9 million, offset partially by higher provision for credit losses of $4.0 million and higher income tax expense of $7.2 million. Noninterest income increased due mainly to a $20.0 million increase in the gain on sale of securities. Net interest income increased due mostly to a higher yield on average loans and leases, a higher balance of average loans and leases, and one more day in the second quarter of 2019 compared to the first quarter of 2019. Noninterest expense decreased due primarily to a $1.9 million decrease in compensation expense, offset partially by a $1.1 million increase in other expense. The provision for credit losses increased due mainly to higher specific provisions for credit losses on impaired loans during the second quarter of 2019, substantially all of which were charged off during the quarter.

Second Quarter of 2019 Compared to Second Quarter of 2018

Net earnings for the second quarter of 2019 were $128.1 million, or $1.07 per diluted share, compared to net earnings for the second quarter of 2018 of $115.7 million, or $0.92 per diluted share. The $12.4 million increase in net earnings was due primarily to higher noninterest income of $11.3 million, a lower provision for credit losses of $9.5 million, and lower noninterest expense of $1.0 million, offset partially by lower net interest income of $1.4 million and higher income tax expense of $8.0 million. Noninterest income increased due mostly to a higher gain on sale of securities of $21.9 million, offset partially by lower other income of $7.5 million and lower dividends and gains on equity investments of $2.1 million. The provision for credit losses decreased due primarily to higher recoveries and lower provisions for the reserve for unfunded loan commitments during the second quarter of 2019. Noninterest expense declined due mainly to lower insurance and assessments expense of $1.2 million. Net interest income decreased due to interest expense growth of $27.5 million exceeding interest income growth of $26.0 million.

Six Months Ended June 30, 2019 Compared to Six Months Ended June 30, 2018

Net earnings for the six months ended June 30, 2019 were $240.7 million, or $1.99 per diluted share, compared to net earnings for the six months ended June 30, 2018 of $234.0 million, or $1.85 per diluted share. The $6.7 million increase in net earnings was due primarily to a lower provision for credit losses of $9.5 million, higher noninterest income of $3.8 million, and lower noninterest expense of $2.1 million, offset partially by lower net interest income of $3.1 million and higher income tax expense of $5.6 million. The provision for credit losses decreased due primarily to lower provisions for the reserve for unfunded loan commitments during the first six months of 2019. Noninterest income increased due mostly to a higher gain on sale of securities of $17.8 million, offset partially by lower other income of $8.4 million and a lower gain on sale of loans of $4.3 million. Noninterest expense declined due mainly to lower insurance and assessments expense of $2.9 million and lower intangible asset amortization of $2.2 million, offset partially by higher occupancy expense of $2.0 million. Net interest income decreased due to interest expense growth of $55.9 million exceeding interest income growth of $52.8 million.

Net Interest Income

The following tables summarize 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, for the periods indicated:

	Three Months Ended								
	June 30, 2019			March 31, 2019			June 30, 2018		
	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 (1)(2)(3)	$ 18,239,690	$ 284,513	6.26%	$ 18,064,230	$ 274,513	6.16%	$ 16,576,361	$ 260,529	6.30%
Investment securities (2)(4)	3,790,436	29,462	3.12%	3,968,531	30,572	3.12%	3,803,590	29,967	3.16%
Deposits in financial institutions	228,702	1,349	2.37%	111,950	650	2.35%	112,170	484	1.73%
Total interest-earning assets (2)	22,258,828	315,324	5.68%	22,144,711	305,735	5.60%	20,492,121	290,980	5.70%
Other assets	3,590,361			3,631,238			3,507,516		
Total assets	$ 25,849,189			$ 25,775,949			$ 23,999,637		
LIABILITIES AND STOCKHOLDERS' EQUITY:									
Interest checking	$ 3,242,960	10,644	1.32%	$ 3,041,822	9,321	1.24%	$ 2,243,767	3,932	0.70%
Money market	5,046,021	14,604	1.16%	5,274,987	14,908	1.15%	5,013,119	8,072	0.65%
Savings	525,648	227	0.17%	553,032	242	0.18%	656,310	245	0.15%
Time	2,731,156	13,245	1.95%	2,286,932	9,764	1.73%	1,790,415	4,118	0.92%
Total interest-bearing deposits	11,545,785	38,720	1.35%	11,156,773	34,235	1.24%	9,703,611	16,367	0.68%
Borrowings	1,142,223	7,210	2.53%	1,218,319	7,710	2.57%	549,665	2,649	1.93%
Subordinated debentures	454,901	7,705	6.79%	454,203	7,738	6.91%	451,973	7,166	6.36%
Total interest-bearing liabilities	13,142,909	53,635	1.64%	12,829,295	49,683	1.57%	10,705,249	26,182	0.98%
Noninterest-bearing demand deposits	7,544,027			7,783,652			8,253,413		
Other liabilities	343,364			347,037			208,495		
Total liabilities	21,030,300			20,959,984			19,167,157		
Stockholders' equity	4,818,889			4,815,965			4,832,480		
Total liabilities and stockholders' equity	$ 25,849,189			$ 25,775,949			$ 23,999,637		
Net interest income (2)		$ 261,689			$ 256,052			$ 264,798	
Net interest rate spread (2)			4.04%			4.03%			4.72%
Net interest margin (2)			4.72%			4.69%			5.18%
Total deposits (5)	$ 19,089,812	$ 38,720	0.81%	$ 18,940,425	$ 34,235	0.73%	$ 17,957,024	$ 16,367	0.37%

(1) Includes nonaccrual loans and leases and loan fees. Includes tax-equivalent adjustments related to tax-exempt interest on loans.
(2) Tax equivalent.
(3) Includes discount accretion on acquired loans of $3.1 million, $3.0 million, and $8.7 million for the three months ended June 30, 2019, March 31, 2019, and June 30, 2018, respectively.
(4) Includes tax-equivalent adjustments of $0.5 million, $0.9 million, and $2.2 million for the three months ended June 30, 2019, March 31, 2019, and June 30, 2018, respectively, related to tax-exempt income on investment securities. The federal statutory tax rate utilized was 21%.
(5) Total deposits is the sum of total interest-bearing deposits and noninterest-bearing demand deposits. The cost of total deposits is calculated as annualized interest expense on total deposits divided by average total deposits.

	Six Months Ended					
	June 30, 2019			June 30, 2018		
	Average Balance	Interest Income/ Expense	Yields and Rates	Average Balance	Interest Income/ Expense	Yields and Rates
	(Dollars in thousands)					
ASSETS:						
Loans and leases [1][2][3]	$ 18,152,444	$ 559,026	6.21%	$ 16,628,951	$ 511,789	6.21%
Investment securities [2][4]	3,878,991	60,035	3.12%	3,745,870	57,902	3.12%
Deposits in financial institutions	170,649	1,999	2.36%	131,315	1,036	1.59%
Total interest-earning assets [2]	22,202,084	621,060	5.64%	20,506,136	570,727	5.61%
Other assets	3,610,687			3,529,059		
Total assets	$ 25,812,771			$ 24,035,195		
LIABILITIES AND STOCKHOLDERS' EQUITY:						
Interest checking deposits	$ 3,142,946	19,965	1.28%	$ 2,277,689	6,982	0.62%
Money market deposits	5,159,871	29,512	1.15%	5,025,550	14,884	0.60%
Savings deposits	539,264	469	0.18%	670,662	503	0.15%
Time deposits	2,510,271	23,009	1.85%	1,856,820	7,816	0.85%
Total interest-bearing deposits	11,352,352	72,955	1.30%	9,830,721	30,185	0.62%
Borrowings	1,180,060	14,920	2.55%	395,336	3,569	1.82%
Subordinated debentures	454,554	15,443	6.85%	456,784	13,703	6.05%
Total interest-bearing liabilities	12,986,966	103,318	1.60%	10,682,841	47,457	0.90%
Noninterest-bearing demand deposits	7,663,177			8,282,099		
Other liabilities	345,193			203,601		
Total liabilities	20,995,336			19,168,541		
Stockholders' equity	4,817,435			4,866,654		
Total liabilities and stockholders' equity	$ 25,812,771			$ 24,035,195		
Net interest income [2]		$ 517,742			$ 523,270	
Net interest rate spread [2]			4.04%			4.71%
Net interest margin [2]			4.70%			5.15%
Total deposits [5]	$ 19,015,529	$ 72,955	0.77%	$ 18,112,820	$ 30,185	0.34%

(1) Includes nonaccrual loans and leases and loan fees. Includes tax-equivalent adjustments related to tax-exempt interest on loans.
(2) Tax equivalent.
(3) Includes discount accretion on acquired loans of $6.2 million and $16.3 million for the six months ended June 30, 2019 and 2018, respectively.
(4) Includes tax-equivalent adjustments of $1.4 million and $4.0 million for the six months ended June 30, 2019 and 2018, respectively, related to tax-exempt income on investment securities. The federal statutory tax rate utilized was 21%.
(5) Total deposits is the sum of total interest-bearing deposits and noninterest-bearing demand deposits. The cost of total deposits is calculated as annualized interest expense on total deposits divided by average total deposits.

Second Quarter of 2019 Compared to First Quarter of 2019

Net interest income increased by $6.0 million to $260.9 million for the second quarter of 2019 compared to $254.9 million for the first quarter of 2019 due to a higher yield on average loans and leases, a higher balance of average loans and leases, and one more day in the second quarter of 2019, offset partially by higher deposit costs. The tax equivalent yield on average loans and leases was 6.26% for the second quarter of 2019 compared to 6.16% for the first quarter of 2019. The increase in the yield on average loans and leases was due principally to loan prepayment fees being $6.3 million higher in the second quarter compared to the first quarter. The prepayment fees added 14 basis points to the second quarter yield on average loans and leases and were primarily from two loans. Prepayment fees added zero basis points to the loan and lease yield in the first quarter.

The tax equivalent NIM was 4.72% for the second quarter of 2019 compared to 4.69% for the first quarter of 2019. The increase in tax equivalent NIM was due mainly to higher loan prepayment fees, partially offset by higher deposit costs. The prepayment fees added 11 basis points to the second quarter NIM.

The cost of average total deposits increased to 0.81% for the second quarter of 2019 from 0.73% for the first quarter of 2019. The increase was driven primarily by a lower balance of average noninterest-bearing deposits and higher rates paid on deposits.

Second Quarter of 2019 Compared to Second Quarter of 2018

Net interest income decreased by $1.4 million to $260.9 million for the second quarter of 2019 compared to $262.3 million for the second quarter of 2018 due to interest expense growth exceeding interest income growth. Interest expense increased by $27.5 million due mainly to a higher cost and balance of average total deposits, a lower balance of average noninterest-bearing deposits, and a higher cost and balance of average borrowings. Interest income increased by $26.0 million due primarily to a higher balance of average loans and leases. The tax equivalent yield on average loans and leases was 6.26% for the second quarter of 2019 compared to 6.30% for the same quarter of 2018. The decrease in the yield on average loans and leases was due in part to lower discount accretion on acquired loans (seven basis points in the second quarter of 2019 compared to 21 basis points in the second quarter of 2018). The decrease in loan yield was also influenced by the credit de-risking initiatives taken over the last couple of years which has seen the replacement of higher yielding loans, such as cash flow, with lower yielding multi-family and equity fund loans. Partially offsetting these factors were higher loan prepayment fees in the second quarter of 2019 that added 14 basis points to the yield on average loans and leases.

The tax equivalent NIM was 4.72% for the second quarter of 2019 compared to 5.18% for the same quarter last year. The decrease in the tax equivalent NIM was due mostly to higher deposit and borrowing costs, as well as the decrease in the yield on average loans and leases as described above. Total discount accretion on acquired loans contributed six basis points to the NIM for the second quarter of 2019 compared to 17 basis points for the second quarter of 2018. Tax-exempt interest income on investment securities contributed one basis points to the tax equivalent NIM for the second quarter of 2019 and four basis points for the second quarter of 2018.

The cost of average total deposits increased to 0.81% for the second quarter of 2019 from 0.37% for the second quarter of 2018 due mainly to higher rates paid on deposits in conjunction with increased market rates, along with a shift in our deposit mix resulting from increases in average interest-bearing deposits and a decrease in average noninterest-bearing demand deposits.

Six Months Ended June 30, 2019 Compared to Six Months Ended June 30, 2018

Net interest income decreased by $3.1 million to $515.8 million for the six months ended June 30, 2019 compared to $518.8 million for the six months ended June 30, 2018 due to interest expense growth exceeding interest income growth. Interest expense increased by $55.9 million due mainly to a higher cost and balance of average total deposits, a lower balance of average noninterest-bearing deposits, and a higher cost and balance of average borrowings. Interest income increased by $52.8 million due primarily to a higher balance of average loans and leases. The tax equivalent yield on average loans and leases was 6.21% for the six months ended June 30, 2019, unchanged from the same period in 2018. Factors impacting the yield on average loans and leases were lower discount accretion during the six months ended June 30, 2019 and our credit de-risking initiatives taken over the last couple of years that has seen the replacement of higher yielding loans, such as cash flow, with lower yielding multi-family and equity fund loans, offset by higher loan prepayment fees during the six months ended June 30, 2019 and the repricing of variable-rate loans attributable to higher short-term interest rates. Total discount accretion on acquired loans contributed seven basis points to the yield on average loans and leases for the six months ended June 30, 2019 compared to 19 basis points for the six months ended June 30, 2018. Loan prepayment fees added seven basis points to the yield on average loans and leases for the six months ended June 30, 2019.

The tax equivalent NIM for the six months ended June 30, 2019 was 4.70% compared to 5.15% for the same period last year. The decrease in the tax equivalent NIM was due mostly to higher deposit and borrowing costs. Tax-exempt interest income on investment securities contributed one basis point to the tax equivalent NIM for the six months ended June 30, 2019 and four basis points for the six months ended June 30, 2018 due to a decrease in the size of our municipal securities portfolio.

The cost of average total deposits increased to 0.77% for the six months ended June 30, 2019 from 0.34% for the six months ended June 30, 2018 due mainly to higher rates paid on deposits in conjunction with increased market rates, along with a shift in our deposit mix resulting from increases in average interest-bearing deposits and a decrease in average noninterest-bearing demand deposits.

Provision for Credit Losses

The following table sets forth the details of the provision for credit losses on loans and leases held for investment and information regarding credit quality metrics for the periods indicated:

	Three Months Ended			Six Months Ended	
	June 30, 2019	March 31, 2019	June 30, 2018	June 30, 2019	June 30, 2018
			(Dollars in thousands)		
Provision For Credit Losses:					
Addition to allowance for loan and lease losses	$ 10,000	$ 4,000	$ 15,000	$ 14,000	$ 14,774
(Reduction in) addition to reserve for unfunded loan commitments	(2,000)	—	2,500	(2,000)	6,726
Total provision for credit losses	$ 8,000	$ 4,000	$ 17,500	$ 12,000	$ 21,500
Credit Quality Metrics:					
Net charge-offs on loans and leases held for investment [(1)]	$ 11,244	$ 191	$ 17,136	$ 11,435	$ 22,091
Annualized net charge-offs to average loans and leases	0.25%	—%	0.41%	0.13%	0.27%
At period end:					
Allowance for credit losses	$ 169,898	$ 173,142	$ 167,500		
Allowance for credit losses to loans and leases held for investment	0.92%	0.95%	0.99%		
Allowance for credit losses to nonaccrual loans and leases held for investment	209.1%	195.6%	147.3%		
Nonaccrual loans and leases held for investment	$ 81,265	$ 88,527	$ 113,745		
Performing TDRs held for investment	16,464	17,027	58,148		
Total impaired loans and leases	$ 97,729	$ 105,554	$ 171,893		
Classified loans and leases held for investment	$ 190,979	$ 190,305	$ 236,292		

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(1) See "- Balance Sheet Analysis - *Allowance for Credit Losses on Loans and Leases Held for Investment*" for detail of charge-offs and recoveries by loan portfolio segment, class, and subclass for the periods presented.

Provisions for credit losses are charged to earnings for both on and off-balance sheet credit exposures. The provision for credit losses on our loans and leases held for investment is based on our allowance methodology and is an expense that, in our judgment, is required to maintain an adequate allowance for credit losses.

The allowance for loan and lease losses has a general reserve component for loans and leases with no credit impairment and a specific reserve component for impaired loans and leases. Our allowance methodology for the general reserve component includes both quantitative and qualitative loss factors that are applied against the population of unimpaired loans and leases. The quantitative loss factors consider the likelihood of loans defaulting based on the historical degree that similar loans defaulted and the degree of credit losses based on the historical average degree of loss experienced for these similar loans and leases pooled both by loan or lease type and credit risk rating; loans with more adverse credit risk ratings have higher quantitative loss factors. The qualitative loss factors consider, among other things, current economic trends and forecasts, current collateral values and performance trends, credit performance trends, and the loan portfolio's current composition.

We recorded a provision for credit losses of $8.0 million in the second quarter of 2019, $4.0 million in the first quarter of 2019, and $17.5 million in the second quarter of 2018. The provision for credit losses was $12.0 million for the six months ended June 30, 2019 compared to $21.5 million for the six months ended June 30, 2018.

The $4.0 million increase in the provision for credit losses for the second quarter of 2019 compared to the first quarter of 2019 was due mainly to higher specific provisions for credit losses on impaired loans during the second quarter of 2019, substantially all of which were charged off during the quarter.

The $9.5 million decrease in the provision for credit losses for the second quarter of 2019 compared to the second quarter of 2018 was due mainly to higher recoveries and lower provisions for the reserve for unfunded loan commitments during the second quarter of 2019.

The $9.5 million decrease in the provision for credit losses for the first six months of 2019 compared to the same period last year was due primarily to lower provisions for the reserve for unfunded loan commitments during the first six months of 2019.

Certain circumstances may lead to increased provisions for credit losses in the future. Examples of such circumstances are an increased amount of classified and/or impaired loans and leases, net loan and lease and unfunded commitment growth, and changes in economic conditions. Changes in economic conditions include the rate of economic growth, the unemployment rate, the rate of inflation, 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 Loans and Leases Held for Investment*" contained herein.

Noninterest Income

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

	Three Months Ended			Six Months Ended	
	June 30,	March 31,	June 30,	June 30,	
Noninterest Income	2019	2019	2018	2019	2018
			(In thousands)		
Other commissions and fees	$ 11,590	$ 11,008	$ 11,767	$ 22,598	$ 22,032
Leased equipment income	9,182	9,282	9,790	18,464	19,377
Service charges on deposit accounts	3,771	3,730	4,265	7,501	8,439
Gain on sale of loans and leases	326	—	106	326	4,675
Gain on sale of securities	22,192	2,161	253	24,353	6,564
Other income:					
Dividends and (losses) gains on equity investments	(83)	296	1,992	213	2,243
Warrant income	1,214	2,279	1,225	3,493	1,473
Other	2,701	2,308	10,240	5,009	13,394
Total noninterest income	$ 50,893	$ 31,064	$ 39,638	$ 81,957	$ 78,197

Second Quarter of 2019 Compared to First Quarter of 2019

Noninterest income increased by $19.8 million to $50.9 million for the second quarter of 2019 compared to $31.1 million for the first quarter of 2019 due mainly to a $20.0 million increase in the gain on sale of securities attributable to a net gain of $22.2 million on sales of $980.4 million of securities in the second quarter of 2019 compared to a net gain of $2.2 million on sales of $405.8 million of securities in the first quarter of 2019 as we repositioned a portion of our securities portfolio in the second quarter of 2019 to shorten the duration of the portfolio and to enhance liquidity.

Second Quarter of 2019 Compared to Second Quarter of 2018

Noninterest income increased by $11.3 million to $50.9 million for the second quarter of 2019 compared to $39.6 million for the second quarter of 2018 due mainly to a $21.9 million increase in the gain on sale of securities, offset partially by decreases of $7.5 million in other income and $2.1 million in dividends and gains on equity investments. The increase in gain on sale of securities was attributable to a net gain of $22.2 million on sales of $980.4 million of securities in the second quarter of 2019 compared to a net gain of $0.3 million on sales of $62.3 million of securities in the second quarter of 2018 as we repositioned a portion of our securities portfolio in the second quarter of 2019 to shorten the duration of the portfolio and to enhance liquidity. Other income decreased due primarily to lower gains on early lease terminations in the second quarter of 2019 as compared to the same period in 2018. Dividends and gains on equity investments decreased due primarily to lower gains on the sale of equity investments and lower dividends received in the second quarter of 2019 as compared to the same period in 2018.

Six Months Ended June 30, 2019 Compared to Six Months Ended June 30, 2018

Noninterest income increased by $3.8 million to $82.0 million for the six months ended June 30, 2019 compared to $78.2 million for the six months ended June 30, 2018 due mostly to a higher gain on sale of securities of $17.8 million, offset partially by decreases of $8.4 million in other income, $4.3 million in gain on sale of loans and leases, and $2.0 million in dividends and gains on equity investments. The increase in gain on sale of securities was attributable to a net gain of $24.4 million on sales of $1.4 billion of securities during the six months ended June 30, 2019 compared to a net gain of $6.6 million on sales of $362.2 million of securities during the six months ended June 30, 2018. Other income decreased due primarily to lower gains on early lease terminations in the first six months of 2019 as compared to the same period in 2018. The decrease in gain on sale of loans was attributable to a net gain of $0.3 million on sales of $80.1 million of loans and leases during the six months ended June 30, 2019 compared to a net gain of $4.7 million on sales of $638.6 million of loans and leases during the six months ended June 30, 2018. The loans and leases sold in 2018 include sales in the first quarter of 2018 of our largest nonaccrual loan for a $2.4 million gain and the settlement of our December 31, 2017 loans held for sale of $481.1 million for a $1.3 million gain. Dividends and gains on equity investments decreased due primarily to lower gains on the sale of equity investments and lower dividends received in the first six months of 2019 as compared to the same period in 2018.

Noninterest Expense

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

	Three Months Ended			Six Months Ended	
	June 30,	March 31,	June 30,	June 30,	
Noninterest Expense	2019	2019	2018	2019	2018
			(In thousands)		
Compensation	$ 68,956	$ 70,845	$ 69,913	$ 139,801	$ 140,936
Occupancy	14,457	14,320	13,575	28,777	26,798
Data processing	6,817	6,925	6,896	13,742	13,555
Leased equipment depreciation	5,558	5,651	5,237	11,209	10,612
Intangible asset amortization	4,870	4,870	5,587	9,740	11,933
Other professional services	4,629	4,513	5,257	9,142	9,696
Insurance and assessments	4,098	4,038	5,330	8,136	11,057
Loan expense	3,451	2,885	3,058	6,336	5,329
Acquisition, integration and reorganization costs	—	618	—	618	—
Foreclosed assets (income) expense, net	(146)	29	(61)	(117)	(183)
Other	12,737	11,593	11,657	24,330	24,111
Total noninterest expense	$ 125,427	$ 126,287	$ 126,449	$ 251,714	$ 253,844

Second Quarter of 2019 Compared to First Quarter of 2019

Noninterest expense decreased by $0.9 million to $125.4 million for the second quarter of 2019 compared to $126.3 million for the first quarter of 2019 attributable primarily to a decrease of $1.9 million in compensation expense, offset partially by a $1.1 million increase in other expense. Compensation expense decreased due mainly to lower payroll taxes and higher deferred loan origination costs. Other expense increased primarily due to a loss on the early termination of a lease.

Second Quarter of 2019 Compared to Second Quarter of 2018

Noninterest expense decreased by $1.0 million to $125.4 million for the second quarter of 2019 compared to $126.4 million for the second quarter of 2018 due mainly to decreases of $1.2 million in insurance and assessments expense and $1.0 million in compensation expense, offset partially by an increase of $1.1 million in other expense. Insurance and assessments expense decreased due primarily to the ending in the fourth quarter of 2018 of a 4.5 basis point surcharge on the FDIC insurance assessments of depository institutions with more than $10 billion in total consolidated assets. Compensation expense decreased due primarily to lower stock compensation expense and lower bonus expense, offset partially by higher payroll taxes. Other expense increased due primarily to higher customer-related third party expense.

Six Months Ended June 30, 2019 Compared to Six Months Ended June 30, 2018

Noninterest expense decreased by $2.1 million to $251.7 million for the six months ended June 30, 2019 compared to $253.8 million for the six months ended June 30, 2018 due mainly to decreases of $2.9 million in insurance and assessments expense and $2.2 million in intangible asset amortization, offset partially by increases of $2.0 million in occupancy expense and $1.0 million in loan expense. Insurance and assessments expense decreased due primarily to the ending in the fourth quarter of 2018 of a 4.5 basis point surcharge on the FDIC insurance assessments of depository institutions with more than $10 billion in total consolidated assets. Intangible asset amortization declined due mostly to lower amortization on the Square 1 and CUB intangible assets. Occupancy expense increased due mainly to a greater number of properties leased in 2019 as compared to 2018 and due to operating lease ROU asset impairments recorded in 2019. Loan expense increased due primarily to higher loan servicing expense.

Income Taxes

The effective tax rate for the second quarter of 2019 was 28.2% compared to 27.7% for the first quarter of 2019 and 26.8% for the second quarter of 2018. The effective tax rate was 27.9% and 27.3% for the six months ended June 30, 2019 and 2018. The Company’s blended statutory tax rate for federal and state is 28.3% and the effective tax rate for the full year 2019 is estimated to be in the range of 27-28%.

Balance Sheet Analysis

Securities Available-for-Sale

The following table presents the composition and durations of our securities available-for-sale as of the dates indicated:

Security Type	June 30, 2019 Fair Value	June 30, 2019 % of Total	June 30, 2019 Duration (in years)	March 31, 2019 Fair Value	March 31, 2019 % of Total	March 31, 2019 Duration (in years)	December 31, 2018 Fair Value	December 31, 2018 % of Total	December 31, 2018 Duration (in years)
	(Dollars in thousands)								
Agency residential CMOs	$ 1,150,474	30%	3.5	$ 717,776	18%	4.1	$ 632,850	16%	4.3
Agency commercial MBS	1,058,846	28%	5.0	1,078,911	27%	5.1	1,112,704	28%	4.9
Municipal securities	736,570	19%	7.3	1,185,001	30%	7.1	1,312,194	33%	7.3
Agency residential MBS	351,360	9%	3.4	343,176	9%	3.4	281,088	7%	3.7
Asset-backed securities	227,121	6%	0.9	185,156	5%	0.9	81,385	2%	2.4
Private label residential CMOs	112,037	3%	4.6	123,247	3%	3.5	101,205	2%	4.2
Collateralized loan obligations	93,802	3%	0.1	—	—%	—	—	—%	—
SBA securities	51,812	1%	4.0	52,024	1%	4.1	67,047	2%	3.5
Corporate debt securities	20,034	1%	11.4	18,700	—%	11.0	17,553	—%	11.0
U.S. Treasury securities	5,188	—%	3.6	290,717	7%	2.5	403,405	10%	3.0
Total securities available-for-sale	$ 3,807,244	100%	4.5	$ 3,994,708	100%	5.0	$ 4,009,431	100%	5.2

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, 2019 Fair Value	June 30, 2019 % of Total
	(Dollars in thousands)	
California	$ 183,273	25%
Washington	115,878	16%
Utah	66,599	9%
New York	52,236	7%
Texas	43,117	6%
Idaho	37,974	5%
Florida	29,840	4%
Oregon	26,073	3%
Illinois	24,944	3%
Ohio	19,020	3%
Total of ten largest states	598,954	81%
All other states	137,616	19%
Total municipal securities	$ 736,570	100%

Loans and Leases Held for Investment

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

Loan and Lease Portfolio	June 30, 2019		March 31, 2019		December 31, 2018	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
			(Dollars in thousands)			
Real estate mortgage:						
Healthcare real estate	$ 328,089	2%	$ 415,314	2%	$ 451,776	3%
Hospitality	534,765	3%	587,675	3%	575,516	3%
SBA program	557,070	3%	553,563	3%	559,113	3%
Other commercial real estate	3,015,350	16%	3,083,958	17%	3,237,893	18%
Total commercial real estate mortgage	4,435,274	24%	4,640,510	25%	4,824,298	27%
Income producing and other residential	3,534,999	19%	3,406,373	18%	2,971,213	16%
Other residential real estate	105,753	1%	112,575	1%	122,630	1%
Total income producing and other residential real estate mortgage	3,640,752	20%	3,518,948	19%	3,093,843	17%
Total real estate mortgage	8,076,026	44%	8,159,458	44%	7,918,141	44%
Real estate construction and land:						
Commercial	972,891	5%	943,596	5%	912,583	5%
Residential	1,403,239	8%	1,408,128	8%	1,321,073	8%
Total real estate construction and land	2,376,130	13%	2,351,724	13%	2,233,656	13%
Total real estate	10,452,156	57%	10,511,182	57%	10,151,797	57%
Commercial:						
Lender finance & timeshare	2,021,989	11%	1,860,670	10%	1,780,731	10%
Equipment finance	764,662	4%	749,124	4%	734,331	4%
Other asset-based	407,923	2%	422,623	3%	434,005	2%
Premium finance	411,433	2%	389,785	2%	356,354	2%
Total asset-based	3,606,007	19%	3,422,202	19%	3,305,421	18%
Equity fund loans	1,115,677	6%	871,399	5%	797,500	4%
Early stage	221,274	1%	207,431	1%	225,566	1%
Expansion stage	785,003	4%	858,711	5%	908,047	5%
Late stage	72,789	1%	89,909	—%	107,635	1%
Total venture capital	2,194,743	12%	2,027,450	11%	2,038,748	11%
Secured business loans	557,111	3%	744,179	4%	788,012	4%
Security monitoring	630,210	3%	632,899	3%	643,369	4%
Other lending	498,561	3%	485,936	3%	514,947	3%
Cash flow	87,682	1%	111,688	1%	114,098	1%
Total other commercial	1,773,564	10%	1,974,702	11%	2,060,426	12%
Total commercial	7,574,314	41%	7,424,354	41%	7,404,595	41%
Consumer	446,382	2%	372,161	2%	401,321	2%
Total loans and leases held for investment, net of deferred fees	$ 18,472,852	100%	$ 18,307,697	100%	$ 17,957,713	100%

The following table presents the geographic composition of our real estate loans held for investment, net of deferred fees, by the top 10 states and all other states combined (in the order presented for the current quarter-end) as of the dates indicated:

Real Estate Loans by State	June 30, 2019 Amount	June 30, 2019 % of Total	December 31, 2018 Amount	December 31, 2018 % of Total
	(Dollars in thousands)			
California	$ 6,249,546	60%	$ 5,798,045	57%
New York	747,155	7%	855,644	8%
Florida	451,413	4%	547,054	5%
Texas	336,653	3%	378,834	4%
Washington	305,143	3%	253,545	3%
Oregon	274,567	3%	227,067	2%
Virginia	193,334	2%	206,920	2%
Arizona	185,604	2%	235,425	2%
Illinois	179,592	2%	154,808	2%
New Jersey	158,840	1%	179,045	2%
Total of 10 largest states	9,081,847	87%	8,836,387	87%
All other states	1,370,309	13%	1,315,410	13%
Total real estate loans held for investment, net of deferred fees	$ 10,452,156	100%	$ 10,151,797	100%

The following table presents a roll forward of loans and leases held for investment, net of deferred fees, for the periods indicated:

Roll Forward of Loans and Leases Held for Investment, Net of Deferred Fees (1)	Three Months Ended June 30, 2019	Six Months Ended June 30, 2019
	(Dollars in thousands)	
Balance, beginning of period	$ 18,307,697	$ 17,957,713
Additions:		
Production	1,436,299	2,611,137
Disbursements	1,293,747	2,486,719
Total production and disbursements	2,730,046	5,097,856
Reductions:		
Payoffs	(1,529,213)	(2,462,513)
Paydowns	(979,987)	(2,018,951)
Total payoffs and paydowns	(2,509,200)	(4,481,464)
Sales	(38,054)	(54,990)
Transfers to foreclosed assets	—	(37)
Charge-offs	(17,637)	(21,102)
Transfers to loans held for sale	—	(25,124)
Total reductions	(2,564,891)	(4,582,717)
Balance, end of period	$ 18,472,852	$ 18,472,852
Weighted average rate on production (2)	5.15%	5.13%

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(1) Includes direct financing leases but excludes equipment leased to others under operating leases.

(2) The weighted average rate on production presents contractual rates on a tax equivalent basis and does not include amortized fees. Amortized fees added approximately 32 basis points to loan yields for the six months ended June 30, 2019.

Allowance for Credit Losses on Loans and Leases Held for Investment

The allowance for credit losses on loans and leases held for investment 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" on the condensed consolidated balance sheets. 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 credit 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 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 make payments to us in accordance with contractual terms. 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 has a general reserve component for unimpaired loans and leases and a specific reserve component for impaired loans and leases.

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 and leases 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 or lease based upon the fair value of the underlying collateral if the loan or lease is collateral-dependent or the present value of cash flows, discounted at the effective interest rate, if the loan or lease is not collateral-dependent. To the extent a loan or lease balance exceeds the estimated collectable value, a specific reserve or charge-off is recorded depending upon either the certainty of the estimate of loss or the fair value of the loan’s collateral if the loan is collateral-dependent. Impaired loans and leases with outstanding balances less than or equal to $250,000 may not be individually assessed for impairment but would be assessed with reserves based on the average loss severity on historical impaired loans with similar risk characteristics.

Our allowance methodology for the general reserve component includes both quantitative and qualitative loss factors which are applied to our population of unimpaired loans and leases to estimate our general reserves. The quantitative loss factors consider the likelihood of loans defaulting based on the historical degree that similar loans defaulted and the degree of credit losses based on the historical average degree of loss experienced for these similar loans and leases pooled both by loan or lease type and credit risk rating; loans with more adverse credit risk ratings have higher quantitative loss factors. The qualitative loss factors consider, among other things, current economic trends and forecasts, current collateral values and performance trends, credit performance trends, and the loan portfolio's current composition.

The qualitative criteria we consider when establishing the loss factors include the following:

- current economic trends and forecasts;
- current collateral 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 and leases;
- loan and lease portfolio composition and any loan concentrations;
- current lending policies and the effects of any new policies or policy amendments;
- loan and lease production volume and mix;
- loan and lease portfolio credit performance trends;
- results of our independent credit review; and
- changes in management related to credit administration functions.

We estimate the reserve for unfunded loan commitments using the same loss factors as used for the allowance for loan and lease losses. The reserve for unfunded loan commitments is computed using expected future usage of the unfunded commitments based on historical usage of unfunded commitments for the various loan types.

The allowance for credit losses is directly correlated to the credit risk ratings of our loans. To ensure the accuracy of our credit risk ratings, an independent credit review function assesses the appropriateness of the credit risk ratings assigned to loans on a regular basis. 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 rated as "pass" are not adversely classified and collection and repayment in full are expected.
- *Special Mention*: Loans and leases rated 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 rated 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 rated as "doubtful" have all the weaknesses of those rated 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 with assigned credit risk ratings of "substandard" and "doubtful" together as "classified" loans and leases. For further information on classified loans and leases, see Note 4. *Loans and Leases*, of the Notes to Condensed Consolidated Financial Statements (Unaudited) contained in "Item 1. Condensed Consolidated Financial Statements (Unaudited)."

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

Management believes the allowance for credit losses is appropriate for the known and inherent risks in our loan and lease portfolio and 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 borrower loan defaults, borrowers’ noncompliance with our loan agreements, adverse changes in collateral values, or 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 future losses.

The following table presents information regarding the allowance for credit losses on loans and leases held for investment as of the dates indicated:

Allowance for Credit Losses Data	**June 30, 2019**	**March 31, 2019**	**December 31, 2018**	**June 30, 2018**
		(Dollars in thousands)		
Allowance for loan and lease losses	$ 135,037	$ 136,281	$ 132,472	$ 132,139
Reserve for unfunded loan commitments	34,861	36,861	36,861	35,361
Total allowance for credit losses	$ 169,898	$ 173,142	$ 169,333	$ 167,500
Allowance for credit losses to loans and leases held for investment	0.92%	0.95%	0.94%	0.99%
Allowance for credit losses to nonaccrual loans and leases held for investment	209.1%	195.6%	213.5%	147.3%

The following table presents the changes in our allowance for credit losses on loans and leases held for investment for the periods indicated:

Allowance for Credit Losses Roll Forward	Three Months Ended June 30, 2019	Three Months Ended March 31, 2019	Three Months Ended June 30, 2018	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
			(Dollars in thousands)		
Balance, beginning of period [1]	$ 173,142	$ 169,333	$ 167,136	$ 169,333	$ 168,091
Provision for credit losses:					
Addition to allowance for loan and lease losses	10,000	4,000	15,000	14,000	14,774
(Reduction in) addition to reserve for unfunded loan commitments	(2,000)	—	2,500	(2,000)	6,726
Total provision for credit losses	8,000	4,000	17,500	12,000	21,500
Loans and leases charged off:					
Real estate mortgage	(534)	(196)	(4,747)	(730)	(7,344)
Real estate construction and land	—	—	—	—	—
Commercial	(16,927)	(3,003)	(13,424)	(19,930)	(22,949)
Consumer	(176)	(266)	(64)	(442)	(95)
Total loans and leases charged off	(17,637)	(3,465)	(18,235)	(21,102)	(30,388)
Recoveries on loans charged off:					
Real estate mortgage	240	143	119	383	1,776
Real estate construction and land	—	—	18	—	27
Commercial	6,080	3,106	912	9,186	6,399
Consumer	73	25	50	98	95
Total recoveries on loans charged off	6,393	3,274	1,099	9,667	8,297
Net charge-offs	(11,244)	(191)	(17,136)	(11,435)	(22,091)
Balance, end of period	$ 169,898	$ 173,142	$ 167,500	$ 169,898	$ 167,500
Annualized net charge-offs to average loans and leases	0.25%	—%	0.41%	0.13%	0.27%

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(1) The allowance for credit losses related to PCI loans of $6.4 million as of December 31, 2017 is reflected in the beginning balance for the six months ended June 30, 2018.

The following table presents charge-offs by loan portfolio segment, class, and subclass for the periods indicated:

Allowance for Credit Losses Charge-offs	Three Months Ended June 30, 2019	Three Months Ended March 31, 2019	Three Months Ended June 30, 2018	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
			(In thousands)		
Real estate mortgage:					
Healthcare real estate	$ —	$ —	$ —	$ —	$ —
Hospitality	—	—	—	—	—
SBA program	534	96	111	630	2,126
Other commercial real estate	—	9	4,492	9	5,013
Total commercial real estate mortgage	534	105	4,603	639	7,139
Income producing and other residential	—	—	144	—	144
Other residential real estate	—	91	—	91	61
Total income producing and other residential real estate mortgage	—	91	144	91	205
Total real estate mortgage	534	196	4,747	730	7,344
Real estate construction and land:					
Commercial	—	—	—	—	—
Residential	—	—	—	—	—
Total real estate construction and land	—	—	—	—	—
Commercial:					
Lender finance & timeshare	—	—	—	—	8
Equipment finance	—	—	2,934	—	2,934
Other asset-based	11,800	—	—	11,800	360
Premium finance	—	—	—	—	—
Total asset-based	11,800	—	2,934	11,800	3,302
Expansion stage	1,463	204	2,195	1,667	4,669
Early stage	—	96	3,888	96	3,721
Equity fund loans	—	—	—	—	—
Late stage	—	—	—	—	—
Total venture capital	1,463	300	6,083	1,763	8,390
Security monitoring	—	1,707	—	1,707	—
Secured business loans	100	9	88	109	553
Other lending	1,182	514	78	1,696	764
Cash flow	2,382	473	4,241	2,855	9,940
Total other commercial	3,664	2,703	4,407	6,367	11,257
Total commercial	16,927	3,003	13,424	19,930	22,949
Consumer	176	266	64	442	95
Total charge-offs	$ 17,637	$ 3,465	$ 18,235	$ 21,102	$ 30,388

The following table presents recoveries by portfolio segment, class, and subclass for the periods indicated:

Allowance for Credit Losses Recoveries	Three Months Ended June 30, 2019	Three Months Ended March 31, 2019	Three Months Ended June 30, 2018	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
			(In thousands)		
Real estate mortgage:					
Healthcare real estate	$ —	$ —	$ —	$ —	$ —
Hospitality	—	—	—	—	—
SBA program	88	33	19	121	275
Other commercial real estate	59	72	—	131	162
Total commercial real estate mortgage	147	105	19	252	437
Income producing and other residential	—	—	—	—	1,208
Other residential real estate	93	38	100	131	131
Total income producing and other residential real estate mortgage	93	38	100	131	1,339
Total real estate mortgage	240	143	119	383	1,776
Real estate construction and land:					
Commercial	—	—	11	—	20
Residential	—	—	7	—	7
Total real estate construction and land	—	—	18	—	27
Commercial:					
Lender finance & timeshare	1	1	1	2	1
Equipment finance	—	11	—	11	90
Other asset-based	239	79	69	318	119
Premium finance	—	—	—	—	—
Total asset-based	240	91	70	331	210
Expansion stage	1,961	97	(9)	2,058	4,411
Early stage	2,862	2,155	65	5,017	281
Equity fund loans	—	—	—	—	—
Late stage	—	—	—	—	—
Total venture capital	4,823	2,252	56	7,075	4,692
Security monitoring	—	—	—	—	—
Secured business loans	818	627	241	1,445	393
Other lending	190	125	545	315	1,104
Cash flow	9	11	—	20	—
Total other commercial	1,017	763	786	1,780	1,497
Total commercial	6,080	3,106	912	9,186	6,399
Consumer	73	25	50	98	95
Total recoveries	$ 6,393	$ 3,274	$ 1,099	$ 9,667	$ 8,297

Deposits

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

Deposit Composition	June 30, 2019 Amount	June 30, 2019 % of Total	March 31, 2019 Amount	March 31, 2019 % of Total	December 31, 2018 Amount	December 31, 2018 % of Total
			(Dollars in thousands)			
Noninterest-bearing demand	$ 7,299,213	39%	$ 7,712,409	40%	$ 7,888,915	42%
Interest checking	3,220,353	17%	3,163,228	16%	2,842,463	15%
Money market	4,578,083	24%	4,714,078	25%	5,043,871	27%
Savings	519,839	3%	537,923	3%	571,422	3%
Total core deposits	15,617,488	83%	16,127,638	84%	16,346,671	87%
Non-core non-maturity deposits	436,833	2%	454,277	2%	518,192	3%
Total non-maturity deposits	16,054,321	85%	16,581,915	86%	16,864,863	90%
Time deposits $250,000 and under	2,284,023	12%	2,258,989	12%	1,593,453	8%
Time deposits over $250,000	467,412	3%	445,023	2%	412,185	2%
Total time deposits	2,751,435	15%	2,704,012	14%	2,005,638	10%
Total deposits	$ 18,805,756	100%	$ 19,285,927	100%	$ 18,870,501	100%

Total deposits decreased by $480.2 million during the second quarter to $18.8 billion, due mainly to a decrease in core deposits of $510.2 million and a decrease in non-core non-maturity deposits of $17.4 million offset partially by an increase in time deposits of $47.4 million. The decrease in core deposits was due primarily to decreases in noninterest-bearing demand deposits and money market deposits of $413.2 million and $136.0 million, offset partially by an increase in interest checking deposits of $57.1 million. At June 30, 2019, core deposits totaled $15.6 billion, or 83% of total deposits, including $7.3 billion of noninterest-bearing demand deposits, or 39% of total deposits.

The following table summarizes the maturities of time deposits as of the date indicated:

June 30, 2019	Time Deposits $250,000 and Under	Time Deposits Over $250,000	Total
		(In thousands)	
Maturities:			
Due in three months or less	$ 1,045,315	$ 187,812	$ 1,233,127
Due in over three months through six months	533,849	168,196	702,045
Due in over six months through twelve months	598,434	91,573	690,007
Total due within twelve months	2,177,598	447,581	2,625,179
Due in over 12 months through 24 months	84,045	18,395	102,440
Due in over 24 months	22,380	1,436	23,816
Total	$ 2,284,023	$ 467,412	$ 2,751,435

Client Investment Funds

In addition to deposit products, we also offer select clients non-depository cash investment options through PWAM, our registered investment adviser subsidiary, and third-party money market sweep products. PWAM provides customized investment advisory and asset management solutions. At June 30, 2019, total off-balance sheet client investment funds were $2.0 billion, of which $1.6 billion was managed by PWAM. At December 31, 2018, total off-balance sheet client investment funds were $1.9 billion, of which $1.5 billion was managed by PWAM.

Credit Quality

Nonperforming Assets, Performing TDRs, and Classified Loans and Leases

The following table presents information on our nonperforming assets, performing TDRs, and classified loans and leases as of the dates indicated:

	June 30, 2019	March 31, 2019	December 31, 2018	June 30, 2018
	(Dollars in thousands)			
Nonaccrual loans and leases held for investment	$ 81,265	$ 88,527	$ 79,333	$ 113,745
Accruing loans contractually past due 90 days or more	—	—	—	—
Foreclosed assets, net	1,472	3,291	5,299	2,231
Total nonperforming assets	$ 82,737	$ 91,818	$ 84,632	$ 115,976
Performing TDRs held for investment	$ 16,464	$ 17,027	$ 17,701	$ 58,148
Classified loans and leases held for investment	$ 190,979	$ 190,305	$ 237,110	$ 236,292
Nonaccrual loans and leases held for investment to loans and leases held for investment	0.44%	0.48%	0.44%	0.67%
Nonperforming assets to loans and leases held for investment and foreclosed assets, net	0.45%	0.50%	0.47%	0.69%
Classified loans and leases held for investment to loans and leases held for investment	1.03%	1.04%	1.32%	1.40%

Nonaccrual Loans and Leases Held for Investment

During the second quarter of 2019, nonaccrual loan and leases held for investment decreased by $7.3 million to $81.3 million at June 30, 2019 due mainly to $14.8 million in nonaccrual additions, offset partially by $16.6 million in charge-offs and $5.5 million in principal payments and other reductions. The decrease in nonaccrual loans and leases by loan portfolio class was attributable primarily to an $11.2 million decrease in nonaccrual asset-based loans as a result of an $11.8 million charge-off of a single loan, a $2.8 million decrease in nonaccrual other commercial loans, offset partially by a $4.3 million increase in nonaccrual commercial real estate mortgage loans and a $2.1 million increase in nonaccrual venture capital loans. As of June 30, 2019, the Company's three largest loan relationships on nonaccrual status had an aggregate carrying value of $45.0 million and represented 55% of total nonaccrual loans and leases.

The following table presents our nonaccrual loans and leases held for investment and accruing loans and leases past due between 30 and 89 days by loan portfolio segment and class as of the dates indicated:

	Nonaccrual Loans and Leases				Accruing and 30 - 89 Days Past Due	
	June 30, 2019		March 31, 2019			
	Amount	% of Loan Category	Amount	% of Loan Category	June 30, 2019 Amount	March 31, 2019 Amount
	(Dollars in thousands)					
Real estate mortgage:						
Commercial	$ 17,012	0.4%	$ 12,750	0.3%	$ 3,948	$ 6,863
Income producing and other residential	2,883	0.1%	2,444	0.1%	3,262	1,853
Total real estate mortgage	19,895	0.2%	15,194	0.2%	7,210	8,716
Real estate construction and land:						
Commercial	390	—%	430	—%	—	—
Residential	—	—%	—	—%	4,672	8,949
Total real estate construction and land	390	—%	430	—%	4,672	8,949
Commercial:						
Asset-based	32,236	0.9%	43,406	1.3%	12,382	3,750
Venture capital	22,501	1.0%	20,437	1.0%	—	4,500
Other commercial	5,799	0.3%	8,633	0.4%	439	1,694
Total commercial	60,536	0.8%	72,476	1.0%	12,821	9,944
Consumer	444	0.1%	427	0.1%	964	614
Total held for investment	$ 81,265	0.4%	$ 88,527	0.5%	$ 25,667	$ 28,223

Foreclosed Assets

The following table presents foreclosed assets (primarily OREO) by property type as of the dates indicated:

Property Type	June 30, 2019	March 31, 2019	December 31, 2018	June 30, 2018
	(In thousands)			
Commercial real estate	$ 253	$ 2,041	$ 2,004	$ —
Single-family residence	953	953	953	953
Construction and land development	219	219	219	219
Multi-family	—	—	1,059	1,059
Total OREO, net	1,425	3,213	4,235	2,231
Other foreclosed assets	47	78	1,064	—
Total foreclosed assets	$ 1,472	$ 3,291	$ 5,299	$ 2,231

During the second quarter of 2019, foreclosed assets decreased by $1.8 million to $1.5 million at June 30, 2019 mainly due to sales of $1.8 million.

Performing TDRs Held for Investment

The following table presents our performing TDRs held for investment by loan portfolio segment as of the dates indicated:

	June 30, 2019		March 31, 2019		December 31, 2018	
Performing TDRs	**Amount**	**Number of Loans**	**Amount**	**Number of Loans**	**Amount**	**Numbe of Loans**
			(Dollars in thousands)			
Real estate mortgage	$ 10,457	25	$ 11,355	27	$ 11,484	
Real estate construction and land	4,986	2	5,002	2	5,420	
Commercial	931	8	573	8	692	
Consumer	90	3	97	3	105	
Total performing TDRs held for investment	$ 16,464	38	$ 17,027	40	$ 17,701	

During the second quarter of 2019, performing TDRs held for investment decreased by $0.6 million to $16.5 million at June 30, 2019 attributable primarily to the transfer of performing troubled debt restructured loans to nonaccrual status of $0.4 million and $0.3 million in payoffs and other reductions. The majority of the number of performing TDRs were on accrual status prior to the restructurings and have remained on accrual status after the restructurings due to the borrowers making payments before and after the restructurings.

Classified and Special Mention Loans and Leases Held for Investment

The following table presents the credit risk ratings of our loans and leases held for investment, net of deferred fees, as of the dates indicated:

Loan and Lease Credit Risk Ratings	**June 30, 2019**	**March 31, 2019**	**December 31, 2018**	**June 30, 2018**
		(Dollars in thousands)		
Pass	$ 18,042,569	$ 17,824,612	$ 17,459,205	$ 16,142,052
Special mention	239,304	292,780	261,398	506,848
Classified	190,979	190,305	237,110	236,292
Total loans and leases held for investment, net of deferred fees	$ 18,472,852	$ 18,307,697	$ 17,957,713	$ 16,885,192

Classified and special mention loans and leases fluctuate from period to period as a result of loan repayments and downgrades or upgrades from our ongoing active portfolio monitoring.

During the second quarter of 2019, classified loans and leases increased by $0.7 million to $191.0 million at June 30, 2019. The increase in classified loans and leases by loan portfolio class was comprised of an $8.4 million increase in classified commercial real estate mortgage loans and a $5.4 million increase in classified other commercial loans, offset partially by an $11.4 million decrease in classified asset-based loans and a $1.0 million decrease in classified venture capital loans.

During the second quarter of 2019, special mention loans and leases decreased by $53.5 million to $239.3 million at June 30, 2019. The decrease in special mention loans and leases by loan portfolio class was comprised of a $36.7 million decrease in special mention asset-based loans, a $14.6 million decrease in special mention commercial real estate mortgage loans, and a $10.9 million decrease in special mention other commercial loans, offset partially by a $5.9 million increase in special mention venture capital loans and a $2.8 million increase in special mention residential real estate construction and land loans.

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, 2019, banks 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, 2019, such disallowed amounts were $337,000 for the Company and $36,000 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.

Basel III currently requires all banking organizations to maintain a 2.50% capital conservation buffer above the minimum risk-based capital requirements to avoid certain limitations on capital distributions, stock repurchases and discretionary bonus payments to executive officers. The capital conservation buffer is exclusively comprised of common equity tier 1 capital, and it applies to each of the three risk-based capital ratios but not to the leverage ratio. At June 30, 2019, the Company and Bank were in compliance with the capital conservation buffer requirement. Effective January 1, 2019, the capital conservation buffer increased by 0.625% to its fully phased-in 2.50%, such that the common equity tier 1, tier 1 and total capital ratio minimums inclusive of the capital conservation buffer were 7.00%, 8.50%, and 10.50%.

The following tables present a comparison of our actual capital ratios to the minimum required ratios and well capitalized ratios as of the dates indicated:

		Minimum Required		
	Actual	For Capital Adequacy Purposes	Plus Capital Conservation Buffer Fully Phased-In	For Well Capitalized Requirement
June 30, 2019				
PacWest Bancorp Consolidated				
Tier 1 capital (to average assets)	9.49%	4.00%	4.000%	N/A
CET1 capital (to risk weighted assets)	9.53%	4.50%	7.000%	N/A
Tier 1 capital (to risk weighted assets)	9.53%	6.00%	8.500%	N/A
Total capital (to risk weighted assets)	12.18%	8.00%	10.500%	N/A
Pacific Western Bank				
Tier 1 capital (to average assets)	10.76%	4.00%	4.000%	5.00%
CET1 capital (to risk weighted assets)	10.80%	4.50%	7.000%	6.50%
Tier 1 capital (to risk weighted assets)	10.80%	6.00%	8.500%	8.00%
Total capital (to risk weighted assets)	11.54%	8.00%	10.500%	10.00%

		Minimum Required			
	Actual	For Capital Adequacy Purposes	Plus Capital Conservation Buffer Phase-In (1)	For Well Capitalized Requirement	Plus Capital Conservation Buffer Fully Phased-In
December 31, 2018					
PacWest Bancorp Consolidated					
Tier 1 capital (to average assets)	10.13%	4.00%	4.000%	N/A	4.00%
CET1 capital (to risk weighted assets)	10.01%	4.50%	6.375%	N/A	7.00%
Tier 1 capital (to risk weighted assets)	10.01%	6.00%	7.875%	N/A	8.50%
Total capital (to risk weighted assets)	12.72%	8.00%	9.875%	N/A	10.50%
Pacific Western Bank					
Tier 1 capital (to average assets)	10.80%	4.00%	4.000%	5.00%	4.00%
CET1 capital (to risk weighted assets)	10.68%	4.50%	6.375%	6.50%	7.00%
Tier 1 capital (to risk weighted assets)	10.68%	6.00%	7.875%	8.00%	8.50%
Total capital (to risk weighted assets)	11.44%	8.00%	9.875%	10.00%	10.50%

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(1) Ratios for June 30, 2019 reflect the minimum required plus the fully phased-in capital conservation buffer of 2.50%; ratios for December 31, 2018 reflect the minimum required plus capital conservation buffer phase-in for 2018. The capital conservation buffer increased by 0.625% each year through 2019.

Subordinated Debentures

We issued or assumed through mergers subordinated debentures to trusts that were established by us or entities we previously acquired, which, in turn, issued trust preferred securities. The carrying value of subordinated debentures totaled $456.1 million at June 30, 2019. At June 30, 2019, none of the trust preferred securities were included in the Company's Tier I capital under the phase-out limitations of Basel III, and $442.4 million were included in Tier II capital.

Dividends on Common Stock and Interest on Subordinated Debentures

As a bank holding company, PacWest is required to notify the 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 us 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 have unfunded commitments. We have an Executive Management Asset/Liability Management Committee ("Executive ALM Committee") that is comprised of members of senior management and is responsible for managing 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.

We manage our 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 securities available-for-sale, which we refer to as our primary liquidity. We also maintain available borrowing capacity under secured borrowing lines with the FHLB and the FRBSF, which we refer to as our secondary liquidity.

As a member of the FHLB, the Bank had secured borrowing capacity with the FHLB of $4.2 billion at June 30, 2019, of which $2.7 billion was available on that date. The FHLB secured credit line was collateralized by a blanket lien on $6.0 billion of certain qualifying loans. The Bank also had secured borrowing capacity with the FRBSF of $2.0 billion at June 30, 2019, all of which was available on that date. The FRBSF secured credit line was collateralized by liens on $2.7 billion of qualifying loans.

In addition to its secured lines of credit, the Bank also maintains unsecured lines of credit for the purpose of borrowing overnight funds, subject to availability, of $141.0 million with the FHLB and $180.0 million in the aggregate with several correspondent banks. As of June 30, 2019, there was a $141.0 million balance outstanding related to the FHLB unsecured line of credit. The Bank is a member of the AFX, through which it may either borrow or lend funds on an overnight or short-term basis with a group of pre-approved commercial banks. The availability of funds changes daily. As of June 30, 2019, the Bank had $250.0 million of borrowings outstanding through the AFX.

The following tables provide a summary of the Bank’s primary and secondary liquidity levels at the dates indicated:

Primary Liquidity - On-Balance Sheet	June 30, 2019	March 31, 2019	December 31, 2018
		(Dollars in thousands)	
Cash and due from banks	$ 185,075	$ 224,758	$ 175,830
Interest-earning deposits in financial institutions	422,663	332,124	209,937
Securities available-for-sale	3,807,244	3,994,708	4,009,431
Less: pledged securities	(493,795)	(495,375)	(458,143)
Total primary liquidity	$ 3,921,187	$ 4,056,215	$ 3,937,055
Ratio of primary liquidity to total deposits	20.9%	21.0%	20.9%

Secondary Liquidity - Off-Balance Sheet Available Secured Borrowing Capacity	June 30, 2019	March 31, 2019	December 31, 2018
		(In thousands)	
Secured borrowing capacity with the FHLB	$ 4,236,046	$ 3,966,178	$ 3,746,970
Less: secured advances outstanding	(1,522,000)	(1,090,000)	(1,040,000)
Available secured borrowing capacity with the FHLB	2,714,046	2,876,178	2,706,970
Available secured borrowing capacity with the FRBSF	1,991,861	2,223,695	2,003,269
Total secondary liquidity	$ 4,705,907	$ 5,099,873	$ 4,710,239

During the three months ended June 30, 2019, the Company's primary liquidity decreased by $135.0 million due primarily to a $187.5 million decrease in securities available-for-sale and a $39.7 million decrease in cash and due from banks, offset partially by a $90.5 million increase in interest-earning deposits in financial institutions. The Company's secondary liquidity decreased by $394.0 million during the second quarter of 2019 due to a $432.0 million increase in the amount borrowed from the secured borrowing line with the FHLB and a $231.8 million decrease in the borrowing capacity on the secured credit line with the FRBSF, offset partially by a $269.9 million increase in the borrowing capacity on the secured borrowing line with the FHLB. The decrease in the borrowing capacity with the FRBSF in the second quarter was due mostly to a decrease in loan collateral pledged to the FRBSF resulting mainly from loan payoffs. The increase in the borrowing capacity with the FHLB in the second quarter was due primarily to an increase in loan collateral pledged for the facility.

In addition to our primary liquidity, we generate liquidity from cash flows from our loan and securities portfolios and from our large base of core customer deposits, defined as noninterest-bearing demand, interest checking, savings, and non-brokered money market accounts. At June 30, 2019, core deposits totaled $15.6 billion and represented 83% of the Company's total deposits. These core deposits are normally less volatile, often with customer relationships tied to other products offered by the Bank promoting long-standing relationships and stable funding sources. See "- Balance Sheet Analysis - *Deposits*" for additional information and detail of our core deposits.

Our deposit balances may decrease if interest rates increase significantly or if customers withdraw funds from the Bank. In order to address the Bank’s liquidity risk as deposit balances may fluctuate, the Bank maintains adequate levels of available off-balance sheet liquidity.

We use brokered deposits, the availability of which is uncertain and subject to competitive market forces and regulation, for liquidity management purposes. At June 30, 2019, brokered deposits totaled $1.8 billion, consisting of $1.3 billion of brokered time deposits, $436.8 million of non-maturity brokered accounts, and $2.4 million of other brokered deposits. At December 31, 2018, brokered deposits totaled $1.3 billion, consisting of $729.4 million of brokered time deposits, $518.2 million of non-maturity brokered accounts, and $3.7 million of other brokered deposits.

Our liquidity policy includes guidelines for On-Balance Sheet Liquidity (a measurement of primary liquidity to total deposits plus borrowings), Liquidity Buffer Coverage Ratio (the ratio of cash and unpledged securities to the estimated 30 day cash outflow in a defined stress scenario), Liquidity Stress Test Survival Horizon (the number of days that the Bank’s liquidity buffer plus available secured borrowing capacity is sufficient to offset cumulative cash outflow in a defined stress scenario), Loan to Funding Ratio (measurement of gross loans net of fees divided by deposits plus 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, 2019, we were in compliance with all of our established liquidity guidelines.

Holding Company Liquidity

PacWest acts a source of financial strength for the Bank which can also include being a source of liquidity. The primary sources of liquidity for the holding company include dividends from the Bank, intercompany tax payments from the Bank, and PacWest's ability to raise capital, issue subordinated debt, and secure outside borrowings. Our ability to obtain funds for the payment of dividends to our stockholders, the repurchase of shares of common stock, and 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 California state-chartered banks are regulated by the FDIC and the DBO under their general supervisory authority as it relates to a bank’s capital requirements. The Bank may declare a dividend without the approval of the DBO and FDIC as long as the total dividends declared in a calendar year do not exceed either the retained earnings or the total of net earnings for the three previous fiscal years less any dividends paid during such period. Dividends paid by the Bank during the three previous fiscal years exceeded the Bank's net earnings during that same period by $28.5 million. During the three and six months ended June 30, 2019, PacWest received $99.0 million and $179.0 million in dividends from the Bank. Since the Bank had an accumulated deficit of $567.1 million at June 30, 2019, for the foreseeable future any dividends from the Bank to the holding company will continue to require DBO and FDIC approval.

At June 30, 2019, PacWest had $101.2 million in cash and due from banks, of which substantially all is on deposit at the Bank. We believe this amount of cash, along with anticipated future dividends from the Bank, will be sufficient to fund the holding company's cash flow needs over the next 12 months, including any stock repurchases pursuant to the Company's Stock Repurchase Program, which terminates on February 29, 2020. See "- Recent Events - *Stock Repurchase Program*" for additional information.

Contractual Obligations

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

	June 30, 2019				
	Due Within One Year	Due After One Year Through Three Years	Due After Three Years Through Five Years	Due After Five Years	Total
			(In thousands)		
Time deposits	$ 2,625,179	$ 120,782	$ 5,474	$ —	$ 2,751,435
Short-term borrowings	1,913,000	—	—	—	1,913,000
Long-term debt obligations [1]	59	—	—	541,102	541,161
Contractual interest [2]	19,917	2,954	150	—	23,021
Operating lease obligations	32,843	55,690	38,753	29,701	156,987
Other contractual obligations	58,834	58,354	14,520	26,014	157,722
Total	$ 4,649,832	$ 237,780	$ 58,897	$ 596,817	$ 5,543,326

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(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 and Subordinated Debentures*, 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, 2018. The other contractual obligations relate to our minimum liability associated with our data and item processing contract with a third-party provider, commitments to contribute capital to investments in low income housing project partnerships and private equity funds, and commitments under deferred compensation arrangements.

We believe that we will be able to meet our contractual obligations as they come due through the maintenance of adequate liquidity levels. We expect to maintain adequate liquidity levels through profitability, loan and lease payoffs, securities repayments and maturities, and continued deposit gathering activities. We also 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 commitments, of which only a portion is expected to be funded, and standby letters of credit. At June 30, 2019, our loan commitments and standby letters of credit were $7.6 billion and $387.0 million. The loan commitments, a portion of which result in funded loans, increase our profitability through net interest income when drawn. We manage our overall liquidity taking into consideration funded and unfunded commitments as a percentage of our liquidity sources. Our liquidity sources, as described in "- Liquidity - *Liquidity Management*," have been and are expected to be sufficient to meet the cash requirements of our lending activities. For further information on loan commitments, see Note 10. *Commitments and Contingencies*, of the Notes to Condensed Consolidated Financial Statements (Unaudited) contained in "Item 1. Condensed Consolidated Financial Statements (Unaudited)."

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

This analysis should be read in conjunction with text under the caption "Quantitative and Qualitative Disclosures About Market Risk" in our Annual Report on Form 10-K for the year ended December 31, 2018, 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.

Market Risk - Foreign Currency Exchange

We enter into foreign exchange contracts with our clients and counterparty banks primarily for the purpose of offsetting or hedging clients' foreign currency exposures arising out of commercial transactions, and we enter into cross currency swaps and forward contracts to hedge exposures to loans and debt instruments denominated in foreign currencies. We have experienced and will continue to experience fluctuations in our net earnings 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, and the derivatives that hedge those exposures. As of June 30, 2019, the U.S. Dollar notional amounts of loans receivable and subordinated debentures payable denominated in foreign currencies were $49.4 million and $29.3 million, and the U.S. Dollar notional amounts of derivatives outstanding to hedge these foreign currency exposures were $51.0 million and $29.2 million. We recognized a foreign currency translation net gain of $57,000 for the six months ended June 30, 2019 and a foreign currency translation net gain of $57,000 for the six months ended June 30, 2018.

Asset/Liability Management and Interest Rate Sensitivity

Interest Rate Risk

We measure our IRR position on a monthly basis using two methods: (i) NII simulation analysis; and (ii) MVE 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 NII simulation model and MVE model prepared as of June 30, 2019, the results of which are presented below. Our NII simulation and MVE model indicate 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 NII and MVE, while a liability-sensitive profile would suggest that these amounts would decrease.

Net Interest Income Simulation

We used a NII simulation model to measure the estimated changes in NII that would result over the next 12 months from immediate and sustained changes in interest rates as of June 30, 2019. 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 or changes in the product mix of 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 NII forecasted using both increasing and decreasing interest rate scenarios using the forward yield curve at June 30, 2019. In order to arrive at the base case, we extend our balance sheet at June 30, 2019 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, 2019. Based on such repricing, we calculate an estimated NII and NIM for each rate scenario.

The NII simulation model is dependent upon numerous assumptions. For example, the majority of our loans are variable rate, which are assumed to reprice in accordance with their contractual terms. Some loans and investment securities include the opportunity of prepayment (embedded options) and the simulation model uses prepayment assumptions to estimate these prepayments and reinvest these proceeds at current simulated yields. Our interest-bearing deposits reprice at our discretion and are assumed to reprice at a rate less than the change in market rates. The 12-month NII simulation model as of June 30, 2019 assumes interest-bearing deposits reprice at 40% of the change in market rates (this is commonly referred to as the "deposit beta"). The effects of certain balance sheet attributes, such as fixed-rate loans, variable-rate loans that have reached their floors, and the volume of noninterest-bearing deposits as a percentage of earning assets, impact our assumptions and consequently the results of our NII simulation model. Changes that could vary significantly from our assumptions include loan and deposit growth or contraction, loan and deposit pricing, changes in the mix of 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 forecasted net interest income and net interest margin for the next 12 months using the static balance sheet and forward yield curve as the base scenario, with immediate and sustained parallel upward and downward movements in interest rates of 100, 200 and 300 basis points as of the date indicated:

June 30, 2019	Forecasted Net Interest Income (Tax Equivalent)	Percentage Change From Base	Forecasted Net Interest Margin (Tax Equivalent)	Forecasted Net Interest Margin Change From Base
	(Dollars in millions)			
Interest Rate Scenario:				
Up 300 basis points	$ 1,074.7	12.3%	4.82%	0.49%
Up 200 basis points	$ 1,030.2	7.6%	4.65%	0.32%
Up 100 basis points	$ 984.6	2.9%	4.47%	0.14%
BASE CASE	$ 957.2	—	4.33%	—
Down 100 basis points	$ 910.8	(4.8)%	4.18%	(0.15)%
Down 200 basis points	$ 872.7	(8.8)%	4.17%	(0.16)%
Down 300 basis points	$ 872.1	(8.9)%	4.08%	(0.25)%

Total base case year 1 tax equivalent NII was $957.2 million at June 30, 2019 compared to $1.03 billion at March 31, 2019. The $74.5 million decrease in year 1 tax equivalent NII was attributable to the flattening of the forward curve and lower forecasted new loan yields.

In addition to parallel interest rate shock scenarios, we also model various alternative rate vectors that are viewed as more likely to occur in a typical monetary policy tightening cycle. The most favorable alternate rate vector that we model is the “Bear Flattener” scenario, when short-term rates increase faster than long-term rates, and the least favorable alternate rate vector that we model is the “Bull Steepener,” when short-term rates fall faster than long-term rates. In the “Bear Flattener” scenario, Year 1 tax equivalent NII increases by 2.7%, and in the “Bull Steepener” scenario, Year 1 tax equivalent NII decreases by 0.8%.

Of the $18.5 billion of total loans at June 30, 2019, $11.1 billion have variable interest rate terms (excluding hybrid loans discussed below). Approximately $7.4 billion, or 66%, of the variable interest rate loans as of June 30, 2019 contained interest rate floor provisions, of which approximately $950 million were "in-the-money," meaning the loan coupon will not adjust down if there are future decreases to the index interest rate. The cumulative amount of loans with "in-the-money" floors for assumed additional market rate decreases are as follows:

June 30, 2019		
Basis Points of Rate Decreases	Total Amount of Loans With "In-the-Money" Loan Floors	
(Dollars in millions)		
50 bps	$	1,892
100 bps	$	3,210
150 bps	$	5,180
200 bps	$	6,479
250 bps	$	7,372

Additionally, approximately $3.8 billion of variable-rate hybrid loans do not immediately reprice because the loans contain an initial fixed-rate period before they become variable. The cumulative amounts of hybrid loans that would switch from being fixed-rate to variable-rate because the initial fixed-rate term would expire were approximately $941 million, $1.3 billion, and $1.7 billion in the next one, two, and three years.

LIBOR is expected to be phased out after 2021, as such the Company is assessing the impacts of this transition and exploring alternatives to use in place of LIBOR. The business processes impacted relate primarily to our variable-rate loans and our subordinated debentures, both of which are indexed to LIBOR.

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 our MVE 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 include various assumptions regarding cash flows and interest rates and are by their nature forward-looking and inherently uncertain.

The MVE 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, 2019.

The following table shows the projected change in the market value of equity for the set of rate scenarios presented as of the date indicated:

June 30, 2019		Projected Market Value of Equity		Dollar Change From Base	Percentage Change From Base	Percentage of Total Assets	Ratio of Projected Market Value to Book Value
		(Dollars in millions)					
Interest Rate Scenario:							
Up 300 basis points	$	5,681.2	$	40.2	0.7 %	21.6%	117.1%
Up 200 basis points	$	5,664.2	$	23.3	0.4 %	21.5%	116.7%
Up 100 basis points	$	5,651.1	$	10.1	0.2 %	21.5%	116.5%
BASE CASE	$	5,641.0	$	—	— %	21.4%	116.3%
Down 100 basis points	$	5,659.4	$	18.5	0.3 %	21.5%	116.6%
Down 200 basis points	$	5,533.1	$	(107.9)	(1.9)%	21.0%	114.0%
Down 300 basis points	$	5,319.5	$	(321.5)	(5.7)%	20.2%	109.6%

Total base case projected market value of equity was $5.6 billion at June 30, 2019 compared to $5.7 billion at March 31, 2019. The projected market value of equity decreased by $104 million, while the overall MVE sensitivity has shifted to be slightly asset-sensitive. The decrease in base case market value of equity was due primarily to: (1) a $48 million decrease in the mark-to-market adjustment for loans and leases resulting from higher credit spreads used in the loan value calculation, and (2) a $117 million increase in the mark-to-market adjustment for total deposits due to the decrease in market interest rates during the second quarter, offset partially by (3) a $61 million increase in the book value of stockholders' equity due mainly to $128 million of net earnings and a $36 million increase in accumulated other comprehensive income, offset partially by $35 million of stock repurchases under the Stock Repurchase Program and $72 million of cash dividends paid.

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

The information set forth in Note 10. *Commitments and Contingencies* in the Notes to Condensed Consolidated Financial Statements (Unaudited) is incorporated herein by reference.

In addition, 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, and 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, 2018. See also "Forward-Looking Information" disclosed in Part I, Item 2 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 2019:

Purchase Dates	Total Number of Shares Purchased [1]	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Program [2]	Maximum Dollar Value of Shares That May Yet Be Purchased Under the Program [2]
				(In thousands)
April 1 – April 30, 2019	126,574	$ 38.95	126,574	$ 154,707
May 1 – May 31, 2019	599,610	$ 38.00	525,181	$ 134,707
June 1 – June 30, 2019	265,514	$ 37.66	265,514	$ 124,707
Total	991,698	$ 38.03	917,269	

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(1) Includes shares repurchased pursuant to net settlement by employees in satisfaction of income tax withholding obligations incurred through the vesting of Company stock awards, and shares repurchased pursuant to the Company's publicly announced Stock Repurchase Program, described in (2) below.

(2) On February 24, 2019, effective upon the maturity of the current Stock Repurchase Program on February 28, 2019, PacWest's Board of Directors authorized a new Stock Repurchase Program to purchase shares of its common stock for an aggregate purchase price not to exceed $225 million until February 29, 2020. All shares repurchased under the Stock Repurchase Program were retired upon settlement.

ITEM 6. INDEX TO EXHIBITS

Exhibit Number	Description
2.4	Agreement and Plan of Merger dated April 5, 2017 between PacWest Bancorp and CU Bancorp (Exhibit 2.1 to Form 8-K filed on April 6, 2017 and incorporated herein by 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).
3.5	Amended and Restated Bylaws of PacWest Bancorp, a Delaware corporation, dated November 5, 2014 (Exhibit 3.5 to Form 10-Q filed on November 10, 2014 and incorporated herein by this reference).
10.1	PacWest Bancorp 2003 Stock Incentive Plan, as amended and restated, dated May 16, 2016 (Exhibit 10.1 to Form 8-K filed on May 18, 2016 and incorporated herein by this reference).
10.2	Form of Stock Award Agreement pursuant to the Company's 2003 Stock Incentive Plan, as amended and restated (Exhibit 10.2 to Form 10-Q filed on November 7, 2016 and incorporated herein by this reference).
10.3	Form of Stock Unit Award Agreement pursuant to the Company's 2003 Stock Incentive Plan, as amended and restated (Exhibit 10.3 to Form 10-Q filed on November 7, 2016 and incorporated herein by this reference).
10.4	PacWest Bancorp 2017 Stock Incentive Plan, as amended, dated May 15, 2017 (Exhibit 10.1 to Form S-8 filed on May 15, 2017 and incorporated herein by this reference).
10.5	Form of Stock Unit Award Agreement and Grant Notice pursuant to the Company's 2017 Stock Incentive Plan, as amended (Exhibit 10.2 to Form 8-K filed on May 18, 2017 and incorporated herein by reference).
10.6	Form of Stock Award Agreement and Grant Notice pursuant to the Company's 2017 Stock Incentive Plan, as amended (Exhibit 10.3 to Form 8-K filed on May 18, 2017 and incorporated herein by reference).
10.7	Form of Stock Unit Award Agreement and Grant Notice pursuant to the Company's Stock Incentive Plan, as amended (Filed herewith).
10.8	Form of Stock Award Agreement and Grant Notice pursuant to the Company's Stock Incentive Plan, as amended (Filed herewith).
31.1	Section 302 Certification of Chief Executive Officer (Filed herewith).
31.2	Section 302 Certification of Chief Financial Officer (Filed herewith).
32.1	Section 906 Certification of Chief Executive Officer (Filed herewith).
32.2	Section 906 Certification of Chief Financial Officer (Filed herewith).
101	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Condensed Consolidated Balance Sheets as of June 30, 2019 and December 31, 2018, (ii) the Condensed Consolidated Statements of Earnings for the three months ended June 30, 2019, March 31, 2019, and June 30, 2018, and six months ended June 30, 2019 and 2018, (iii) the Condensed Consolidated Statements of Comprehensive Income for the three months ended June 30, 2019, March 31, 2019, and June 30, 2018, and six months ended June 30, 2019 and 2018, (iv) the Condensed Consolidated Statements of Changes in Stockholders' Equity for the six months ended June 30, 2019 and 2018, (v) the Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2019 and 2018, 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, 2019	/s/ Bart R. Olson
	Bart R. Olson
	Executive Vice President and Chief Accounting Officer

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Section 2: EX-10.7 (EXHIBIT 10.7)

PACWEST BANCORP
STOCK INCENTIVE PLAN
STOCK UNIT AWARD AGREEMENT

[insert date]

1. *Definitions*. Unless otherwise defined herein, the terms defined in the PacWest Bancorp 2017 Stock Incentive Plan, as amended (the "Plan") shall have the same defined meanings in this Stock Unit Award Agreement ("Agreement") and the Notice of Stock Unit Award Grant attached hereto as **Appendix A**.

2. *Grant of Stock Unit Award*. Pursuant to the terms and conditions set forth in the Notice of Stock Unit Award Grant, this Agreement, and the Plan, PacWest Bancorp (the "Company") grants to the grantee named in the Notice of Stock Unit Award Grant ("Grantee") on the date of grant set forth in the Notice of Stock Unit Award Grant ("Date of Grant") the number of Units set forth in the Notice of Stock Unit Award Grant. This Stock Unit Award is intended to be a Performance Stock Unit Award, and each "Unit" shall represent an unfunded, unsecure promise by the Company to deliver you one share of Common Stock for each Unit that vests.

3. *Vesting*. The Grantee shall vest in the Units in accordance with the vesting schedule provided for in the Notice of Stock Unit Award Grant; provided, however, that the Grantee shall cease vesting in the Units on the Grantee's Termination Date or the date on which the Compensation Committee of the Company's Board of Directors (the "Administrator") determines that the performance goals provided for in the Notice of Stock Unit Award Grant were not satisfied during the designated period of time. Notwithstanding the foregoing, upon the occurrence of a Vesting Event, the Grantee shall become 100% vested in the Units that are outstanding on the date of the Vesting Event, provided, however, that in the event of the death of a Participant, any outstanding Units (1) shall be deemed earned at the target level with respect to all open performance periods if death occurs during the performance period, and (2) shall be deemed earned at the actual performance level achieved if death occurs after the end of the performance period.

4. *Risk of Forfeiture*.

(a) *General Rule*. The Units shall initially be subject to a Risk of Forfeiture. The Units subject to a Risk of Forfeiture shall be referred to herein as "Restricted Share Units".

(b) *Lapse of Risk of Forfeiture*. The Risk of Forfeiture shall lapse as the Grantee vests in the Units.

(c) *Forfeiture of Units*. The Restricted Share Units shall automatically be forfeited without payment or consideration on the Grantee's Termination Date or the date on which the Administrator determines that the performance goals provided for in the Notice of Stock Unit Award Grant were not satisfied during the designated period of time.

(d) *Adjustments*. The Units will be subject to adjustment in accordance with the terms of Section 11(a) of the Plan.

(e) *Clawback*. In consideration of this grant of Units, the Grantee agrees that the Agreement and any Units hereunder (and/or other consideration awarded in settlement of the Units) will be subject to forfeiture and/or repayment to the extent provided for in the PacWest Bancorp Clawback Policy, as in effect from time to time, if it is determined in accordance with the policy that a Clawback Event (as defined in such policy) has occurred.

5. *Rights as a Stockholder*. The Grantee will not be paid any dividends during the performance period and instead any dividends paid by the Company during the performance period that would have been paid upon any Shares in respect of your Stock Unit Award had such Shares been issued at the time dividends were paid will be paid out at the time the Shares are delivered based on the actual number of Shares delivered. Grantee shall not be deemed to be the holder of Shares underlying the Stock Unit Award, and shall not have any of the rights of a stockholders with respect to such Shares underlying the Stock Unit Award unless and until the Company shall have issued and delivered Shares to the Grantee and the Grantee's name shall have been entered as a stockholder of record on the books of the Company.

6. *Non-transferability of Stock Unit Award*. Except as otherwise provided for in the Plan, this Stock Unit Award may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent and distribution and any Stock Unit Award rights may be exercised, during the lifetime of the Grantee, only by the Grantee. If the Grantee transfers all or part of this Stock Unit Award pursuant to the previous sentence, then the terms of this Agreement, the Plan and the Notice of Stock Unit Award shall apply to the transferee to the same extent as to the Grantee.

7. *Regulatory Compliance*. The issuance of Common Stock pursuant to this Agreement shall be subject to full compliance with all then applicable requirements of law and the requirements of any stock exchange or interdealer quotation system upon which the Common Stock may be listed or traded.

8. *Modification and Termination*. The rights of the Grantee are subject to modification and termination in certain events, as provided in the Plan.

9. *Withholding Tax*. The Company's obligation to deliver Shares under the Plan shall be subject to the satisfaction of all applicable federal, state and local income and employment tax withholding requirements. The Grantee shall pay to the Company an amount equal to the withholding amount (or the Company may withhold such amount from the Grantee's salary) in cash or, to the extent permitted under Section 402 of the Sarbanes-Oxley Act of 2002 and the regulations adopted pursuant thereto, with Shares (including previously vested stock) with an aggregate fair market value equal to the withholding amount calculated using the maximum statutory withholding amount permitted to be withheld under applicable tax rules.

10. *Nondisclosure*. Grantee acknowledges that the grant and terms of this Stock Unit Award are confidential and may not be disclosed by Grantee to any other person, including other employees of the Company and other participants in the Plan, without the express written consent of the Company's Chief Executive Officer. Notwithstanding the foregoing, the Grantee may disclose the grant and terms of this Stock Unit Award to the Grantee's family member, financial advisor, and attorney and as may be required by law or regulation. Any breach of this provision will be deemed to be a material breach of this Agreement.

11. *Governing Law*. This Agreement shall be governed by and interpreted in accordance with the internal laws of the State of California without regard to principles of conflict of laws.

12. *Successors*. This Agreement shall inure to the benefit of and be binding upon the parties hereto and their legal representatives, heirs, and permitted transferees, successors and assigns.

13. *Plan*. This Agreement and the Notice of Stock Unit Award Grant are subject to all of the terms and provisions of the Plan, receipt of a copy of which is hereby acknowledged by the Grantee. The Grantee hereby agrees to accept as binding, conclusive, and final all decisions and interpretations of the Administrator upon any questions arising under the Plan, this Agreement, and the Notice of Stock Unit Award Grant.

14. *Rights to Future Employment*. This Stock Unit Award does not confer upon the Grantee any right to continue in the Service of the Company or any Affiliate, nor does it limit the right of the Company to terminate the Service of the Grantee at any time.

15. *Restrictive Covenants*. The Grantee hereby agrees to be bound by the restrictive covenants set forth in **Annex A**.

16. *Entire Agreement*. The Notice of Stock Unit Award Grant, this Agreement, and the Plan constitute the entire contract between the parties hereto with regard to the subject matter hereof. They supersede any other agreements, representations or understandings (whether oral or written and whether express or implied) between the parties which relate to the subject matter hereof.

By your signature and the signature of the Company's representative below, you and the Company agree that this Stock Unit Award is granted under and governed by the terms and conditions of this Agreement and the Plan and the Notice of Stock Unit Award Grant, both of which are attached and incorporated herein by reference. This Stock Unit Award is of no force and effect until this Agreement is signed by you and the Company's representative, the Notice of Stock Unit Award Grant is signed by you.

GRANTEE:	**PACWEST BANCORP**
By: ______________________________	By: ______________________________
Name: ______________________________	

APPENDIX A

PACWEST BANCORP
STOCK INCENTIVE PLAN
NOTICE OF STOCK AWARD GRANT

This Notice of Stock Award Grant is part of the Stock Award Agreement between Grantee and the Company dated [insert date] and is of no force and effect until the Stock Award Agreement is signed by Grantee and the Company's representative, this Notice of Stock Award Grant is signed by Grantee.

You have been granted the following Stock Award:

Name of Grantee:	
Total Number of Shares Granted: ("Granted Stock")	
Type of Stock Award:	[Restricted] [Performance] Stock Award
Date of Grant:	[insert date]
Vesting Schedule:	

[Insert for Restricted Stock]

[The Granted Stock shall vest in full over [•] years. The first [•] of the Granted Stock shall vest on the date the Grantee completes [•] year(s) of continuous Service after the Vesting Commencement Date. An additional [•] of the Granted Stock shall vest on the date the Grantee completes each year of continuous Service thereafter until Grantee is 100% vested in the Restricted Stock on the [•] year anniversary of the Vesting Commencement Date.]

[Insert for Performance Stock]

[The Performance Goal established for 100% vesting of the Granted Stock is [insert performance measure] of [insert performance target]. [•] percent of the Granted Stock shall vest on the date the Compensation, Nominating and Governance Committee of the Board of Directors of the Company (the "Administrator") determines that the Company achieved [insert performance measure] of [insert performance target]. [The remaining percent will vest on the date the Administrator determines the Company achieved [insert performance measure] of [insert performance target].

Vesting Commencement Date: The date that is the last day of the month in which the Grant is made.

Please sign below to acknowledge the terms and conditions of this Stock Award.

ACKNOWLEDGED BY GRANTEE:

By: ____

Name: ____

ANNEX A

RESTRICTIVE COVENANTS

The Restrictive Covenants set forth in this Annex A to the Stock Unit Award Agreement (the “Agreement”) limit the ability of the Grantee to engage in certain practices during and following employment with the Company and is an integral part of the Agreement, without which the Company would not have granted the opportunity to earn the Stock Unit Award.

1. Confidential Information. During your employment and thereafter, you shall hold in a fiduciary capacity for the benefit of the Company all trade secrets and Confidential Information relating to the Company and its businesses and investments, which will have been obtained by you during your employment by the Company and which is not generally available public knowledge (other than by acts by you in violation of this Agreement). Except as may be required or appropriate in connection with your carrying out your duties as an employee, you will not, without the prior written consent of the Company or as may otherwise be required by law or any legal process, any statutory obligation or order of any court or statutory tribunal of competent jurisdiction, or as is necessary in connection with any adversarial proceeding against the Company (in which case you will use your reasonable best efforts in cooperating with the Company in obtaining a protective order against disclosure by a court of competent jurisdiction), communicate or divulge any such trade secrets or Confidential Information to anyone other than the Company and those designated by the Company or on behalf of the Company in the furtherance of its business or to perform duties hereunder. Notwithstanding anything to the contrary in this Agreement or otherwise, nothing shall limit your rights under applicable law to provide truthful information to any governmental entity or to file a charge with or participate in an investigation conducted by any governmental entity. You are hereby notified that the immunity provisions in Section 1833 of title 18 of the United States Code provide that an individual cannot be held criminally or civilly liable under any federal or state trade secret law for any disclosure of a trade secret that is made (1) in confidence to federal, state or local government officials, either directly or indirectly, or to an attorney, and is solely for the purpose of reporting or investigating a suspected violation of the law, (2) under seal in a complaint or other document filed in a lawsuit or other proceeding, or (3) to your attorney in connection with a lawsuit for retaliation for reporting a suspected violation of law (and the trade secret may be used in the court proceedings for such lawsuit) as long as any document containing the trade secret is filed under seal and the trade secret is not disclosed except pursuant to court order.

2. Non-Solicitation of Employees. You agree that during your employment, and for a six month period following the termination of your employment for any reason, you will not take any action, directly or indirectly (without the prior written consent of the Company), that causes or could reasonably be expected to cause any person who is then an employee of the Company or its Affiliates to resign from the Company or its Affiliates or to apply for or accept employment with any other business or enterprise.

3. Non-Solicitation of Customers. You agree that during your employment, and for a six month period following the termination of your employment for any reason, you will not, in any manner, directly or indirectly (without the prior written consent of the Company): (1) take any action that causes or could reasonably be expected to cause any customer or prospective customer of the Company or its Affiliates to whom you provided services or with whom you otherwise had contact to become a customer of or transact any business with a Competitive Business or reduce or refrain from doing any business with the Company or its Affiliates, (2) transact business with any customer or prospective customer that would cause you to be a Competitive Business, or (3) interfere with or damage any relationship between the Company and a customer or prospective customer.

4. Reasonableness of Covenant. You agree that the covenants contained herein are reasonable and necessary to protect the confidentiality of the customer lists, the terms, conditions and nature of customer relationships, and other trade secrets and Confidential Information concerning the Company and its Affiliates, acquired by you and to avoid actual or apparent conflicts of interest.

5. Validity. The terms and provisions of this Annex A are intended to be separate and divisible provisions and if, for any reason, any one or more of them is held to be invalid or unenforceable, neither the validity nor the enforceability of any other provision set forth herein thereby be affected. If for any reason any court of competent jurisdiction will find any provisions of this Annex A unreasonable in duration or geographic scope or otherwise, you and the Company agree that the restrictions and prohibitions contained herein will be effective to the fullest extent allowed under applicable law in such jurisdiction.

6. Injunctive Relief. Without limiting any remedies available to the Company, you acknowledge and agree that a breach of the covenants contained in Sections 1 through 3 of this Annex A will result in injury to the Company and its Affiliates for which there is no adequate remedy at law and that it will not be possible to measure damages for such injuries precisely. Therefore, you agree that, in the event of such a breach or threat thereof, the Company will be entitled to seek a temporary restraining order and a preliminary and permanent injunction, without bond or other security, restraining you from engaging in activities prohibited by Sections 1 through 3 of this Annex A or such other relief as may be required specifically to enforce any of the covenants in Sections 1 through 3 of this Annex A.

7. Definitions. For purposes of these covenants, the following terms will have the following meanings:

(a) "Competitive Business" means any business enterprise that either (i) engages in any activity that competes with the business of the Company or its Affiliates or (ii) holds a 5% or greater equity, voting or profit participation interest in any enterprise that engages in such a competitive activity.

(b) "Confidential Information" means any information concerning the business or affairs of the Company or any of its Affiliates which is not generally known to the public and includes, but is not limited to, any file, document, book, account, list (including without limitation customer lists), process, patent, specification, drawing, design, computer program or file, computer disk, method of operation, recommendation, report, plan, survey, data, manual, strategy, financial data, client information or data (including the terms and conditions of any business relationships between clients and the Company or its Affiliates), or contract which comes to your knowledge in the course of your employment or which is generated by you in the course of performing your obligations to the Company whether alone or with others.

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Section 3: EX-10.8 (EXHIBIT 10.8)

PACWEST BANCORP
STOCK INCENTIVE PLAN
STOCK AWARD AGREEMENT

[insert date]

1. *Definitions*. Unless otherwise defined herein, the terms defined in the PacWest Bancorp 2017 Stock Incentive Plan, as amended (the "Plan") shall have the same defined meanings in this Stock Award Agreement ("Agreement") and the Notice of Stock Award Grant attached hereto as **Appendix A**.

2. *Grant of Stock Award*. Pursuant to the terms and conditions set forth in the Notice of Stock Award Grant, this Agreement, and the Plan, PacWest Bancorp (the "Company") grants to the grantee named in the Notice of Stock Award Grant ("Grantee") on the date of grant set forth in the Notice of Stock Award Grant ("Date of Grant") the number of Shares set forth in the Notice of Stock Award Grant. This Stock Award is intended to be a Restricted Stock Award or a Performance Stock Award, as provided in the Notice of Stock Award Grant.

3. *Vesting*. The Grantee shall vest in the Granted Stock in accordance with the vesting schedule provided for in the Notice of Stock Award

Grant; provided, however, that the Grantee shall cease vesting in the Granted Stock on the Grantee's Termination Date or the date on which the Compensation Committee of the Company's Board of Directors (the "Administrator") determines that the performance goals, if any, provided for in the Notice of Stock Award Grant were not satisfied during the designated period of time. Notwithstanding the foregoing, upon the occurrence of a Vesting Event, the Grantee shall become 100% vested in those shares of Granted Stock that are outstanding on the date of the Vesting Event.

4. *Risk of Forfeiture*.

(a) *General Rule*. The Granted Stock shall initially be subject to a Risk of Forfeiture. The Shares subject to a Risk of Forfeiture shall be referred to herein as "Restricted Shares".

(b) *Lapse of Risk of Forfeiture*. The Risk of Forfeiture shall lapse as the Grantee vests in the Granted Stock.

(c) *Forfeiture of Granted Stock; [Clawback]*. The Restricted Shares shall automatically be forfeited and immediately returned to the Company on the Grantee's Termination Date or the date on which the Administrator determines that the performance goals, if any, provided for in the Notice of Stock Award Grant were not satisfied during the designated period of time. [In consideration of the grant of this Stock Award, the Grantee agrees that this Stock Award and any Restricted Shares and Granted Stock hereunder (and/or other consideration awarded in settlement of this Stock Award) will be subject to forfeiture and/or repayment to the extent provided for in the PacWest Bancorp Clawback Policy, as in effect from time to time, if it is determined in accordance with the policy that a Clawback Event (as defined in such policy) has occurred.]

(d) *Additional Shares or Substituted Securities*. In the event of a stock split, reverse stock split, stock dividend, recapitalization, combination or reclassification of the Common Stock or any other increase or decrease in the number of issued and outstanding Shares effected without receipt of consideration by the Company, any new, substituted or additional securities or other property (including money paid other than as an ordinary cash dividend) which are by reason of such transaction distributed with respect to any Restricted Shares or into which such Restricted Shares thereby become convertible shall immediately be subject to a Risk of Forfeiture, which Risk of Forfeiture shall lapse at the same time and in the same manner as the Risk of Forfeiture to which the corresponding Restricted Share is subject.

(e) *Escrow*. Upon issuance, the stock certificates for Granted Stock shall be deposited in escrow with the Company to be held in accordance with the provisions of this Agreement. Any new, substituted or additional securities or other property described in Subsection (d) above shall immediately be delivered to the Company to be held in escrow, but only to the extent the shares of Granted Stock are at the time Restricted Shares. All regular cash dividends on Restricted Shares (or other securities at the time held in escrow) shall be paid directly to the Grantee and shall not be held in escrow (such distributions may, however, be delivered to an address at the Company for delivery to the Grantee). Restricted Shares, together with any other assets or securities held in escrow hereunder, shall be (i) surrendered to the Company for cancellation upon forfeiture of the Restricted Shares; or (ii) released to the Grantee upon the Grantee's request to the Administrator on or after the date the shares of Granted Stock are no longer Restricted Shares. Grantee agrees not to make a request to the Company's transfer agent for delivery of any share certificates representing any shares of Granted Stock so long as such shares are Restricted Shares.

5. *Rights as a Stockholder*. The Grantee shall have the rights of a stockholder with respect to the dividends paid by the Company. Grantee shall not be entitled to vote any unvested shares of Granted Stock. Upon the vesting of any portion of the Stock Award, the Grantee shall have the voting rights with respect to any such vested shares of Granted Stock.

6. *Non-transferability of Stock Award*. Except as otherwise provided for in the Plan, this Stock Award may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent and distribution and may be exercised, during the lifetime of the Grantee, only by the Grantee. If the Grantee transfers all or part of this Stock Award pursuant to the previous sentence, then the terms of this Agreement, the Plan and the Notice of Stock Award shall apply to the transferee to the same extent as to the Grantee.

7. *Regulatory Compliance*. The issuance of Common Stock pursuant to this Agreement shall be subject to full compliance with all then applicable requirements of law and the requirements of any stock exchange or interdealer quotation system upon which the Common Stock may be listed or traded.

8. *Modification and Termination*. The rights of the Grantee are subject to modification and termination in certain events, as provided in the Plan.

9. *Withholding Tax*. The Company's obligation to deliver Shares or remove any restrictive legends upon vesting of such Shares under the Plan shall be subject to the satisfaction of all applicable federal, state and local income and employment tax withholding requirements. The Grantee shall pay to the Company an amount equal to the withholding amount (or the Company may withhold such amount from the Grantee's salary) in cash or, to the extent permitted under Section 402 of the Sarbanes-Oxley Act of 2002 and the regulations adopted pursuant thereto, with Shares (including previously vested Granted Stock) with an aggregate fair market value equal to the withholding amount calculated using the maximum statutory withholding amount permitted to be withheld under applicable tax rules.

10. *Nondisclosure*. Grantee acknowledges that the grant and terms of this Stock Award are confidential and may not be disclosed by Grantee to any other person, including other employees of the Company and other participants in the Plan, without the express written consent of the Company's Chief Executive Officer. Notwithstanding the foregoing, the Grantee may disclose the grant and terms of this Stock Award to the Grantee's family member, financial advisor, and attorney and as may be required by law or regulation. Any breach of this provision will be deemed to be a material breach of this Agreement.

11. *Governing Law*. This Agreement shall be governed by and interpreted in accordance with the internal laws of the State of California without regard to principles of conflict of laws.

12. *Successors*. This Agreement shall inure to the benefit of and be binding upon the parties hereto and their legal representatives, heirs, and permitted transferees, successors and assigns.

13. *Plan*. This Agreement and the Notice of Stock Award Grant are subject to all of the terms and provisions of the Plan, receipt of a copy of which is hereby acknowledged by the Grantee. The Grantee hereby agrees to accept as binding, conclusive, and final all decisions and interpretations of the Administrator upon any questions arising under the Plan, this Agreement, and the Notice of Stock Award Grant.

14. *Rights to Future Employment*. This Stock Award does not confer upon the Grantee any right to continue in the Service of the Company or any Affiliate, nor does it limit the right of the Company to terminate the Service of the Grantee at any time.

15. *Restrictive Covenants.* The Grantee hereby agrees to be bound by the restrictive covenants set forth in **Annex A**.

16. *Entire Agreement*. The Notice of Stock Award Grant, this Agreement, and the Plan constitute the entire contract between the parties hereto with regard to the subject matter hereof. They supersede any other agreements, representations or understandings (whether oral or written and whether express or implied) between the parties which relate to the subject matter hereof.

By your signature and the signature of the Company's representative below, you and the Company agree that this Stock Award is granted under and governed by the terms and conditions of this Agreement and the Plan and the Notice of Stock Award Grant, both of which are attached and incorporated herein by reference. This Stock Award is of no force and effect until this Agreement is signed by you and the Company’s representative, the Notice of Stock Award Grant is signed by you.

GRANTEE:	**PACWEST BANCORP**
By: ______________________________	By: ______________________________
Name: ______________________________	
______________________________	
Social Security Number	
Address:	
______________________________	
______________________________	

APPENDIX A

PACWEST BANCORP
STOCK INCENTIVE PLAN
NOTICE OF STOCK AWARD GRANT

This Notice of Stock Award Grant is part of the Stock Award Agreement between Grantee and the Company dated [insert date] and is of no force and effect until the Stock Award Agreement is signed by Grantee and the Company's representative, this Notice of Stock Award Grant is signed by Grantee.

You have been granted the following Stock Award:	
Name of Grantee:	
Total Number of Shares Granted: ("Granted Stock")	
Type of Stock Award:	[Restricted] [Performance] Stock Award
Date of Grant:	[insert date]
Vesting Schedule:	

[Insert for Restricted Stock]

[The Granted Stock shall vest in full over [•] years. The first [•] of the Granted Stock shall vest on the date the Grantee completes [•] year(s) of continuous Service after the Vesting Commencement Date. An additional [•] of the Granted Stock shall vest on the date the Grantee completes each year of continuous Service thereafter until Grantee is 100% vested in the Restricted Stock on the [•] year anniversary of the Vesting Commencement Date.]

[Insert for Performance Stock]

[The Performance Goal established for 100% vesting of the Granted Stock is [insert performance measure] of [insert performance target]. [•] percent of the Granted Stock shall vest on the date the Compensation, Nominating and Governance Committee of the Board of Directors of the Company (the "Administrator") determines that the Company achieved [insert performance measure] of [insert performance target]. [The remaining percent will vest on the date the Administrator determines the Company achieved [insert performance measure] of [insert performance target].

Vesting Commencement Date: The date that is the last day of the month in which the Grant is made.

Please sign below to acknowledge the terms and conditions of this Stock Award.

ACKNOWLEDGED BY GRANTEE:

By: ____

Name: ____

ANNEX A

RESTRICTIVE COVENANTS

The Restrictive Covenants set forth in this Annex A to the Restricted Stock Award Agreement (the "Agreement") limit the ability of the Grantee to engage in certain practices during and following employment with the Company and is an integral part of the Agreement, without which the Company would not have granted the opportunity to earn the Restricted Stock Award.

1. Confidential Information. During your employment and thereafter, you shall hold in a fiduciary capacity for the benefit of the Company all trade secrets and Confidential Information relating to the Company and its businesses and investments, which will have been obtained by you during your employment by the Company and which is not generally available public knowledge (other than by acts by you in violation of this Agreement). Except as may be required or appropriate in connection with your carrying out your duties as an employee, you will not, without the prior written consent of the Company or as may otherwise be required by law or any legal process, any statutory obligation or order of any court or statutory tribunal of competent jurisdiction, or as is necessary in connection with any adversarial proceeding against the Company (in which case you will use your reasonable best efforts in cooperating with the Company in obtaining a protective order against disclosure by a court of competent jurisdiction), communicate or divulge any such trade secrets or Confidential Information to anyone other than the Company and those designated by the Company or on behalf of the Company in the furtherance of its business or to perform duties hereunder. Notwithstanding anything to the contrary in this Agreement or otherwise, nothing shall limit your rights under applicable law to provide truthful information to any governmental entity or to file a charge with or participate in an investigation conducted by any governmental entity. You are hereby notified that the immunity provisions in Section 1833 of title 18 of the United States Code provide that an individual cannot be held criminally or civilly liable under any federal or state trade secret law for any disclosure of a trade secret that is made (1) in confidence to federal, state or local government officials, either directly or indirectly, or to an attorney, and is solely for the purpose of reporting or investigating a suspected violation of the law, (2) under seal in a complaint or other document filed in a lawsuit or other proceeding, or (3) to your attorney in connection with a lawsuit for retaliation for reporting a suspected violation of law (and the trade secret may be used in the court proceedings for such lawsuit) as long as any document containing the trade secret is filed under seal and the trade secret is not disclosed except pursuant to court order.

2. Non-Solicitation of Employees. You agree that during your employment, and for a six month period following the termination of your employment for any reason, you will not take any action, directly or indirectly (without the prior written consent of the Company), that causes or could reasonably be expected to cause any person who is then an employee of the Company or its Affiliates to resign from the Company or its Affiliates or to apply for or accept employment with any other business or enterprise.

3. Non-Solicitation of Customers. You agree that during your employment, and for a six month period following the termination of your employment for any reason, you will not, in any manner, directly or indirectly (without the prior written consent of the Company): (1) take any action that causes or could reasonably be expected to cause any customer or prospective customer of the Company or its Affiliates to whom you provided services or with whom you otherwise had contact to become a customer of or transact any business with a Competitive Business or reduce or refrain from doing any business with the Company or its Affiliates, (2) transact business with any customer or prospective customer that would cause you to be a Competitive Business, or (3) interfere with or damage any relationship between the Company and a customer or prospective customer.

4. Reasonableness of Covenant. You agree that the covenants contained herein are reasonable and necessary to protect the confidentiality of the customer lists, the terms, conditions and nature of customer relationships, and other trade secrets and Confidential Information concerning the Company and its Affiliates, acquired by you and to avoid actual or apparent conflicts of interest.

5. Validity. The terms and provisions of this Annex A are intended to be separate and divisible provisions and if, for any reason, any one or more of them is held to be invalid or unenforceable, neither the validity nor the enforceability of any other provision set forth herein thereby be affected. If for any reason any court of competent jurisdiction will find any provisions of this Annex A unreasonable in duration or geographic scope or otherwise, you and the Company agree that the restrictions and prohibitions contained herein will be effective to the fullest extent allowed under applicable law in such jurisdiction.

6. Injunctive Relief. Without limiting any remedies available to the Company, you acknowledge and agree that a breach of the covenants contained in Sections 1 through 3 of this Annex A will result in injury to the Company and its Affiliates for which there is no adequate remedy at law and that it will not be possible to measure damages for such injuries precisely. Therefore, you agree that, in the event of such a breach or threat thereof, the Company will be entitled to seek a temporary restraining order and a preliminary and permanent injunction, without bond or other security, restraining you from engaging in activities prohibited by Sections 1 through 3 of this Annex A or such other relief as may be required specifically to enforce any of the covenants in Sections 1 through 3 of this Annex A.

7. Definitions. For purposes of these covenants, the following terms will have the following meanings:

(a) "Competitive Business" means any business enterprise that either (i) engages in any activity that competes with the business of the Company or its Affiliates or (ii) holds a 5% or greater equity, voting or profit participation interest in any enterprise that engages in such a competitive activity.

(b) "Confidential Information" means any information concerning the business or affairs of the Company or any of its Affiliates which is not generally known to the public and includes, but is not limited to, any file, document, book, account, list (including without limitation customer lists), process, patent, specification, drawing, design, computer program or file, computer disk, method of operation, recommendation, report, plan, survey, data, manual, strategy, financial data, client information or data (including the terms and conditions of any business relationships between clients and the Company or its Affiliates), or contract which comes to your knowledge in the course of your employment or which is generated by you in the course of performing your obligations to the Company whether alone or with others.

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Section 4: EX-31.1 (EXHIBIT 31.1)

Exhibit 31.1

Certification
Pursuant to Section 302 of the
Sarbanes-Oxley Act of 2002

I, Matthew P. Wagner, certify that:

1. I have reviewed this report on Form 10-Q for the quarterly period ended June 30, 2019 of PacWest Bancorp;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 7, 2019

/s/ Matthew P. Wagner

Matthew P. Wagner
Chief Executive Officer

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Section 5: EX-31.2 (EXHIBIT 31.2)

Exhibit 31.2

Certification
Pursuant to Section 302 of the
Sarbanes-Oxley Act of 2002

I, Patrick J. Rusnak, certify that:

1. I have reviewed this report on Form 10-Q for the quarterly period ended June 30, 2019 of PacWest Bancorp;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 7, 2019

/s/ Patrick J. Rusnak

Patrick J. Rusnak
Executive Vice President and Chief Financial Officer

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Section 6: EX-32.1 (EXHIBIT 32.1)

Exhibit 32.1

**Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted
Pursuant to Section 906 of the
Sarbanes-Oxley Act of 2002**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350), the undersigned officer of PacWest Bancorp (the "Company") hereby certifies that the Company's Annual Report on Form 10-Q for the quarterly period ended June 30, 2019 (the "Report") fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 7, 2019

/s/ Matthew P. Wagner

Matthew P. Wagner
Chief Executive Officer

The foregoing certification is being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350) and is not being filed as part of the Report or as a separate disclosure document.

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Section 7: EX-32.2 (EXHIBIT 32.2)

Exhibit 32.2

**Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted
Pursuant to Section 906 of the
Sarbanes-Oxley Act of 2002**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350), the undersigned officer of PacWest Bancorp (the "Company") hereby certifies that the Company's Annual Report on Form 10-Q for the quarterly period June 30, 2019 (the "Report") fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date:	August 7, 2019	/s/ Patrick J. Rusnak
		Patrick J. Rusnak *Executive Vice President and Chief Financial Officer*

The foregoing certification is being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350) and is not being filed as part of the Report or as a separate disclosure document.

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