UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K

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

or

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

For the fiscal year ended December 31, 2021

Commission File No. 001-36408

PACWEST BANCORP
(Exact name of registrant as specified in its charter)

Delaware	**33-0885320**
(State or other jurisdiction of incorporation or organization)	*(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)*

Securities Registered Pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ☑ Yes ☐ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ☐ Yes ☑ No

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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☑

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

As of June 30, 2021, the aggregate market value of the voting common stock held by non-affiliates of the registrant, computed by reference to the average high and low sales prices on The Nasdaq Global Select Market as of the close of business on June 30, 2021, was approximately $4.8 billion. Registrant does not have any nonvoting common equities.

As of February 16, 2022, there were 117,319,693 shares of registrant's common stock outstanding, excluding 2,313,065 shares of unvested restricted stock.

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Items 10, 11, 12, 13 and 14 of Part III of this Annual Report on Form 10-K will be found in the Company's definitive proxy statement for its 2022 Annual Meeting of Stockholders, to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended, and such information is incorporated herein by this reference.

PACWEST BANCORP
2021 ANNUAL REPORT ON FORM 10-K
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PART I

Forward-Looking Information

This Form 10-K 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 credit 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-K 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. You should not place undue reliance on these statements as they involve risks, uncertainties and contingencies, many of which are beyond our control, which may cause actual results, performance, or achievements to differ materially from those expressed in them. Actual results could differ materially from those anticipated in such forward-looking statements as a result of risks and uncertainties more fully described under "Item 1A. Risk Factors." Factors that might cause such differences include, but are not limited to:

- the ongoing COVID-19 pandemic continues to affect the Company, its employees, customers and third-party service providers, and the ultimate extent of the impacts of the pandemic and related government stimulus programs on its business, financial position, results of operations, liquidity and prospects is still uncertain, due in part to the new variants of COVID-19;
- weaker than expected general business and economic conditions could adversely affect the Company’s revenues, the values of its assets and liabilities and negatively impact loan growth;
- 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 initial public offerings 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 and the current expected credit loss accounting standard on our provision for credit losses and allowance for credit losses;
- our ability to attract deposits and other sources of funding or liquidity;
- our ability to efficiently deploy excess 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;
- impact of the benchmark interest rate reform in the U.S. including the transition away from the U.S. dollar London Inter-bank Offering Rate ("LIBOR") to alternative reference rates;
- reduced demand for our services due to strategic or regulatory reasons or reduced demand for our products due to legislative changes such as new rent control laws;
- 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;
- the impact of climate change, public health issues, natural or man-made disasters such as wildfires, droughts and earthquakes, all of which are particularly common in California;

- 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-K and other documents filed or furnished by PacWest with the SEC.

All forward-looking statements included in this Form 10-K 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.

Available Information

We maintain a website for the Company at *http://www.pacwest.com*. Via the “Investor Relations” link at the Company's website, our Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to such reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, are available, free of charge, as soon as reasonably practicable after such forms are electronically filed with, or furnished to, the SEC. The SEC maintains an Internet website at *http://www.sec.gov* that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. You may obtain copies of the Company’s filings on the SEC website. These documents may also be obtained in print upon request by our stockholders to our Investor Relations Department.

We have adopted a written Code of Business Conduct and Ethics that applies to all directors, officers and employees, including our principal executive officer and senior financial officers, in accordance with Section 406 of the Sarbanes-Oxley Act of 2002 and the rules of the SEC promulgated thereunder and it is available via the "Investor Relations" link at the Bank's website in the section titled “Corporate Governance.” Any changes in, or waivers from, the provisions of this code of ethics that the SEC requires us to disclose are posted on our website in such section. In the Corporate Governance section of our website, we have also posted the charters for our Audit Committee, Compensation, Nominating and Governance Committee, Asset/Liability Management Committee, and Risk Committee, as well as our Corporate Governance Guidelines. In addition, information concerning purchases and sales of our equity securities by our executive officers and directors is posted on our website.

Documents available on the website are available in print to any stockholder who requests them in writing to our Investor Relations Department at PacWest Bancorp, 9701 Wilshire Blvd., Suite 700, Beverly Hills, CA 90212, Attention: Investor Relations, or via e-mail to *investor-relations@pacwest.com.*

All website addresses given in this document are for information only and are not intended to be an active link or to incorporate any website information into this document.

Glossary of Acronyms, Abbreviations, and Terms

The acronyms, abbreviations, and terms listed below are used in various sections of this Form 10-K, including "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Item 8. Financial Statements and Supplementary Data."

ACL	Allowance for Credit Losses	FRBSF	Federal Reserve Bank of San Francisco
AFX	American Financial Exchange	FSOC	Financial Stability Oversight Council
ALLL	Allowance for Loan and Lease Losses	GDP	Gross Domestic Product
ALM	Asset Liability Management	HOA Business	Homeowners Association Services Division of MUFG Union Bank, N.A. (a business acquired on October 8, 2021)
ASC	Accounting Standards Codification	IRR	Interest Rate Risk
ASU	Accounting Standards Update	LIBOR	London Inter-bank Offering Rate
ATM	Automated Teller Machine	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	NAV	Net Asset Value
CARES Act	Coronavirus Aid, Relief, and Economic Security Act	NII	Net Interest Income
CDI	Core Deposit Intangible Assets	NIM	Net Interest Margin
CECL	Current Expected Credit Loss	NSF	Non-Sufficient Funds
CET1	Common Equity Tier 1	OCC	Office of the Comptroller of the Currency
CFPB	Consumer Financial Protection Bureau	OFAC	U.S Treasury Department of Office of Foreign Assets Control
Civic	Civic Financial Services, LLC (a company acquired on February 1, 2021)	OREO	Other Real Estate Owned
CMOs	Collateralized Mortgage Obligations	PPP	Paycheck Protection Program
Core Deposits	Includes noninterest-bearing checking accounts, interest checking accounts, money market accounts, and savings accounts	PRSUs	Performance-Based Restricted Stock Units
COVID-19	Coronavirus Disease	PWAM	Pacific Western Asset Management Inc.
CPI	Consumer Price Index	ROU	Right-of-use
CRA	Community Reinvestment Act	SBA	Small Business Administration
CRI	Customer Relationship Intangible Assets	SBIC	Small Business Investment Company
DFPI	California Department of Financial Protection and Innovation	SEC	Securities and Exchange Commission
DGCL	Delaware General Corporation Law	SNCs	Shared National Credits
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act	SOFR	Secured Overnight Financing Rate
DTAs	Deferred Tax Assets	Tax Equivalent Net Interest Income	Net interest income reflecting adjustments related to tax-exempt interest on certain loans and investment securities
Efficiency Ratio	Noninterest expense (less intangible asset amortization, net foreclosed assets expense (income), goodwill impairment, 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 reflecting adjustments related to tax-exempt interest on certain loans and investment securities
FASB	Financial Accounting Standards Board	TDRs	Troubled Debt Restructurings
FDIA	Federal Deposit Insurance Act	TRSAs	Time-Based Restricted Stock Awards
FDIC	Federal Deposit Insurance Corporation	TruPS	Trust Preferred Securities
FDICIA	Federal Deposit Insurance Corporation Improvement Act	U.S. GAAP	U.S. Generally Accepted Accounting Principles
FHLB	Federal Home Loan Bank of San Francisco	VIE	Variable Interest Entity
FRB	Board of Governors of the Federal Reserve System		

ITEM 1. BUSINESS

General

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 69 full-service branches located in California, one branch located in Durham, North Carolina, one branch located in Denver, Colorado, and numerous loan production offices across the country. The Bank provides community banking products including lending and comprehensive deposit and treasury management services to small and medium-sized businesses conducted primarily through our California-based branch offices and Denver, Colorado branch office. The Bank offers national lending products including asset-based, equipment, and real estate loans and treasury management services to established middle-market businesses on a national basis. The Bank also provides venture banking products including a comprehensive suite of financial services focused on entrepreneurial and venture-backed businesses and their venture capital and private equity investors, with offices located in key innovative hubs across the United States. The Bank also offers financing of business-purpose non-owner-occupied investor properties through Civic, a wholly-owned subsidiary. The Bank also provides a specialized suite of services for the HOA industry. 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 an SEC-registered investment adviser.

PacWest Bancorp was established in October 1999 and has achieved strong market positions by developing and maintaining extensive local relationships in the communities we serve. By leveraging our business model, service-driven focus, and presence in attractive markets, as well as maintaining a highly efficient operating model and robust approach to risk management, we have achieved significant and profitable growth, both organically and through disciplined acquisitions. We have successfully completed 31 acquisitions since 2000, including the Civic acquisition on February 1, 2021 and the HOA Business acquisition on October 8, 2021, which have contributed to our growth and expanded our market presence throughout the United States. For more information regarding the Civic and HOA Business acquisitions, see “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations - *Recent Events*.”

As of December 31, 2021, the Company had total assets of $40.4 billion, total loans and leases, net of deferred fees, of $22.9 billion, total deposits of $35.0 billion, and stockholders’ equity of $4.0 billion.

Our Business Strategy

Our business strategy is to operate a client-focused, well-capitalized and profitable nationwide bank dedicated to providing personal service to our business and individual customers. We believe that stable, long-term growth and profitability are the result of building strong customer relationships while maintaining disciplined credit underwriting standards. We continue to focus on originating high-quality loans and leases and growing our low-cost deposit base through our relationship-based business lending. These principles enable us to maintain operational efficiency, increase profitability, increase core deposits, and grow loans and leases in a sound manner.

Our loan and lease portfolio consists primarily of real estate mortgage loans, real estate construction and land loans, and commercial loans and leases. We pursue attractive growth opportunities to expand and enter new markets aligned with our business model and strategic plans. Additionally, we focus on cultivating strong relationships with venture capital and private equity firms nationwide, many of which are also our clients and/or may invest in our clients.

Our reputation, expertise, and relationship-based business banking model enable us to deepen our relationships with our customers. We leverage our relationships with existing customers by providing access to an array of our products and services, including attracting deposits from and offering cash management solutions to our loan and lease customers. We competitively price our deposit products to meet the needs of our customers with a view to maximizing our share of each customer's financial services business and prudently managing our cost of funds.

Focusing on operational efficiency is critical to our profitability and future growth. We carefully manage our cost structure and continuously refine and implement internal processes and systems to create further efficiencies to enhance our earnings.

Our management team has extensive expertise and a successful track record in evaluating, executing and integrating attractive, franchise-enhancing acquisitions. We have successfully completed 31 acquisitions since 2000, including the Civic acquisition on February 1, 2021 and the HOA Business acquisition on October 8, 2021. We will continue to consider acquisitions that are consistent with our business strategy and financial model as opportunities arise.

Depository Products and Services

Deposits are our primary source of funds to support our interest-earning assets and provide a source of stable low-cost funds and deposit-related fee income. We offer traditional deposit products to businesses and other customers with a variety of rates and terms, including demand, money market, and time deposits. We also provide international banking services, multi-state deposit services, and asset management services. The Bank’s deposits are insured by the FDIC up to statutory limits.

Our branch network allows us to gather deposits, expand our brand presence and service our customers’ banking and cash management needs. We also serve our customers through a wide range of non-branch channels, including online, mobile, remote deposit, and telephone banking platforms, all of which allows us to expand our service area to attract new depositors without a commensurate increase in branch locations or branch traffic.

At December 31, 2021, we had ATMs at 53 of our branches located in California and one ATM at our branch in Denver, Colorado. We are a member of the MoneyPass network that enables our customers to withdraw cash surcharge-free and service charge-free at over 37,000 ATM locations across the country. We provide access to customer accounts via a 24 hour seven-day-a-week, toll-free, automated telephone customer service and secure online banking services.

At December 31, 2021, our total deposits consisted of $32.7 billion in core deposits, $1.4 billion in time deposits, and $890.0 million in non-core non-maturity deposits. Core deposits represented 93% of total deposits at December 31, 2021, and were comprised of $14.5 billion in noninterest-bearing deposits, $10.2 billion in money market accounts, $7.3 billion in interest-bearing checking accounts, and $630.7 million in savings accounts. Our deposit base is also diversified by client type. As of December 31, 2021, no individual depositor represented more than 1.7% of our total deposits, and our top ten depositors represented 11.2% of our total deposits.

We face strong competition in gathering deposits from nationwide, regional, and community banks, credit unions, money market funds, brokerage firms and other non-bank financial services companies that target the same customers as we do. We actively compete for deposits and emphasize solicitation of noninterest-bearing deposits. We seek to provide a higher level of personal service than our larger competitors, many of whom have more assets, capital and resources than we do and who may be able to conduct more intensive and broader based promotional efforts to reach potential customers. Our cost of funds fluctuates with market interest rates and may be affected by higher rates being offered by other financial institutions. In certain interest rate environments, additional significant competition for deposits may be expected to arise from corporate and government debt securities and money market mutual funds. Competition for deposits is also affected by the ease with which customers can transfer deposits from one institution to another.

Client Investment Funds

In addition to deposit products, we also offer select clients non-depository cash investment options through PWAM, our SEC registered investment adviser subsidiary, and third-party money market sweep products. PWAM provides customized investment advisory and asset management solutions. At December 31, 2021, total off-balance sheet client investment funds were $1.4 billion, of which $0.9 billion was managed by PWAM. At December 31, 2020, total off-balance sheet client investment funds were $1.3 billion, of which $1.0 billion was managed by PWAM.

Lending Activities

At December 31, 2021 and 2020, total loans and leases held for investment, net of deferred fees, were $22.9 billion and $19.1 billion. Our lending activities include real estate mortgage loans, real estate construction and land loans, commercial loans and leases, purchased single-family residential mortgage loans, and a small amount of consumer loans. Our commercial real estate loans and real estate construction loans are secured by a variety of property types. Our commercial loans and leases portfolio is diverse and includes various asset-secured loans, equipment-secured loans and leases, venture capital loans to support venture capital firms' operations and the operations of entrepreneurial and venture-backed companies, loans to finance life insurance premiums, and business loans originated through our Community Banking group. The Bank also offers financing of business-purpose non-owner-occupied investor properties through Civic, a wholly-owned subsidiary.

In October 2019, we ceased originating new security monitoring loans and healthcare real estate loans in our National Lending group.

We price loans to preserve our interest spread and maintain our net interest margin. Loan interest rates may be floating, fixed, or a combination thereof ("hybrid") throughout the loan term. The rates on hybrid loans typically are fixed until a "reset" date when the rates then become floating. While we do not actively solicit direct consumer loans, we hold consumer loans, consisting primarily of purchased single-family residential mortgage loans and purchased private student loans for which the servicing is outsourced. We also have an exposure to consumer loans that are collateral for many of our lender finance loans.

Some of our loans are participations in larger loans, and these participations may be considered shared national credits. A SNC is any loan or commitment to extend credit aggregating $100 million or more at origination, committed under a formal lending arrangement, and shared by three or more unaffiliated supervised institutions. The SNC program is governed by an inter-agency agreement among the FRB, the FDIC, and the OCC. These agencies review a selection of SNCs periodically, with such review conducted at the lead or agent bank, and deliver a credit risk rating to the participants holding the loans. At December 31, 2021 and 2020, we had SNC loans held for investment to 21 borrowers that totaled $531 million and to 25 borrowers that totaled $579 million. At December 31, 2021 and 2020, SNC loans held for investment comprised 2.3% and 3.0% of total loans and leases held for investment, net of deferred fees.

Real Estate Mortgage Loans and Real Estate Construction and Land Loans

Our real estate lending activities focus primarily on loans to professional developers and real estate investors for the acquisition, construction, refinancing, renovation, and on-going operation of commercial real estate. We also provide commercial real estate loans to borrowers operating businesses at these sites (owner occupied commercial real estate loans), including loans to municipalities, schools and school districts, and non-profit borrowers as part of our tax-exempt lending business line.

Our real estate secured loans include the following specific lending products:

- ***Commercial real estate mortgage***. Our commercial real estate mortgage loans generally are collateralized by first deeds of trust on specific commercial properties. The most prevalent types of properties securing our commercial real estate loans are office properties, hotels, industrial properties, and retail properties. The properties are typically located in central business districts across the United States with a significant concentration of collateral properties located in California within our branch footprint. Our commercial real estate loans typically either have interest and principal payments due on an amortization schedule ranging from 25 to 30 years with a lump sum balloon payment due in one to ten years or may have an initial interest-only period followed by an amortization schedule with a lump sum balloon payment due in one to ten years. We also provide commercial real estate secured loans under the SBA's 7(a) Program and 504 Program. Compliant SBA 7(a) loans have an SBA guaranty for 75% of the principal balance. SBA 504 loans are first deed of trust mortgage loans on owner occupied commercial real estate which are 50% loan-to-value at origination where a second deed of trust is also provided by a non-profit certified development company. The SBA 7(a) and 504 mortgage loans repay on a twenty-five year amortization schedule.

- ***Income producing and other residential real estate mortgage***. Our income producing and other residential real estate mortgage loans generally are collateralized by first deeds of trust on multi-family and other residential properties. Multi-family properties comprise the majority of our income producing and other residential real estate loans. Other types of properties securing these loans include for-rent and owner-occupied single-family properties and mobile home parks. We directly originate and purchase from other banks multi-family secured real estate mortgage loans. When we purchase multi-family loans from other banks, we re-underwrite the loans at time of purchase. Multi-family loans either repay on a 30-year amortization schedule or may have an initial interest-only period (up to two years) and then repay on a 30-year amortization schedule. We purchase single-family residential mortgage loans that meet our established lending criteria from multiple third-party lenders. Civic, a lending subsidiary, originates business-purpose loans to real estate investors for short-term bridge loans, longer-term loans secured by for-rent residential properties and, to a lesser extent, loans on multi-family properties.
- ***Real estate construction and land***. Our real estate construction and land loans generally are collateralized by first deeds of trust on specific residential and commercial properties. The most prevalent types of properties securing our construction and land loans are multi-family, residential properties undergoing a substantial renovation, and hotel properties. Construction loans typically finance from 60% to 65% of the cost to construct residential and commercial properties. The terms are generally one to three years with short-term, performance-based extension options. Civic, a lending subsidiary, originates business-purpose loans secured by non-owner-occupied residential properties undergoing renovation.

Our real estate portfolio is subject to certain risks including, but not limited to, the following:

- increased competition in pricing and loan structure;
- the economic conditions of the United States and in the markets where we lend;
- decreased demand or decreased values as a result of legislative changes such as new rent control laws, and permanent shifts in corporate work environment such as remote working and consumer behavior such as online retail;
- interest rate increases;
- decreased commercial and residential real estate values in the markets where we lend;
- the borrower's inability to repay our loan due to decreased cash flow or operating losses;
- the borrower’s inability to refinance or payoff our loan upon maturity;
- loss of our loan principal stemming from a collateral foreclosure; and
- various environmental risks, including natural disasters.

In addition to the points above, real estate construction loans are also subject to project-specific risks including, but not limited to, the following:

- construction costs being more than anticipated;
- construction taking longer than anticipated;
- failure by developers and contractors to meet project specifications or timelines;
- disagreement between contractors, subcontractors and developers;
- demand for completed projects being less than anticipated; and
- buyers of the completed projects not being able to secure permanent financing.

Many of the risks outlined above result from market conditions and are not controllable by us. When considering the markets in which to pursue real estate loans, we consider the market conditions, our current loan portfolio concentrations by property type and by market, and our past experiences with the borrower, within the specific market, and with the property type.

When underwriting real estate loans, we seek to mitigate risk by using the following framework:

- requiring borrowers to invest and maintain a meaningful cash equity interest in the properties securing our loans;
- reviewing each loan request and renewal individually;
- using a credit committee approval process for the approval of loan requests (or aggregated credit exposures) over a certain dollar amount;
- adhering to written loan acceptance standards, including among other factors, maximum loan to acquisition or construction cost ratios, maximum loan to as-is or stabilized value ratios, and minimum operating cash flow requirements;
- considering market rental and occupancy rates relative to our underwritten or projected rental and occupancy rates;
- considering the experience of our borrowers and our borrowers’ abilities to operate and manage the properties securing our loans;
- evaluating the supply of comparable real estate and new supply under construction in the collateral's market area;
- obtaining independent third-party appraisals that are reviewed by our appraisal department;
- obtaining environmental risk assessments; and
- obtaining seismic studies where appropriate.

With respect to real estate construction loans, in addition to the points above, we attempt to mitigate project-specific risks by:

- considering the experience of our borrowers and our borrowers’ abilities to manage the properties during construction and into the stabilization periods;
- obtaining project completion guaranties from our borrowers;
- including covenants in our construction loan agreements that require the borrowers to fund costs that exceed the initial construction budgets;
- implementing a controlled disbursement process for loan proceeds in accordance with an agreed upon schedule, which usually results in the borrowers' equity being invested before loan advances commence and which ensures the costs to complete the projects are in balance with our remaining unfunded loan commitments;
- conducting project site visits and using construction consultants who review the progress of the project; and
- monitoring the construction costs compared to the budgeted costs and the remaining costs to complete.

SBA 7(a) and 504 program loans are subject to the risks outlined above and the risk that an SBA 7(a) guaranty may be invalid if specific SBA procedures are not followed. We mitigate this risk by adhering to SBA requirements.

Commercial Loans and Leases

Our commercial loans and leases portfolio is diverse and includes various asset-secured loans, equipment-secured loans and leases, venture capital loans to support venture capital firms' operations and the operations of entrepreneurial and venture-backed companies, loans to finance life insurance premiums, and business loans originated through our Community Banking group.

Our commercial loans and leases include the following specific lending products:

- ***Lender finance***. These are loans to companies used to purchase finance receivables or extend finance receivables to the underlying obligors and are secured primarily by the finance receivables owed to our borrowers. The borrowers include lenders to small businesses, commercial real estate lenders, consumer lenders, and timeshare operators. The primary sources of repayment are the operating incomes of the borrowers and the collection of the finance receivables securing the loans. The loans are typically revolving lines of credit with terms of one to three years with contractual borrowing availability as a percentage of eligible collateral.
- ***Equipment finance***. These are loans and leases used to purchase equipment essential to the operations of our borrowers or lessees. Equipment finance loans are secured by the equipment financed, and we own and lease the equipment to the lessees. The primary source of repayment is the operating income of the borrower or lessee. The loan and lease terms are two to ten years and generally amortize to either a full repayment or residual balance or investment that is expected to be collected through a sale of the equipment to the lessee or a third party.
- ***Other asset-based***. These are loans used for working capital and are secured by trade accounts receivable and/or inventories. The primary sources of repayment are the operating incomes of the borrowers, the collection of the receivables securing the loans, and/or the sale of the inventories securing the loans. The loans are typically revolving lines of credit with terms of one to three years with contractual borrowing availability as a percentage of eligible collateral.
- ***Premium finance***. These are loans used to finance annual life insurance premiums and are fully secured by the corresponding cash surrender values of the life insurance contracts and other collateral. The loans have one year terms and generally renew annually. The primary sources of repayment are the cash flow of the borrowers and guarantors, repayment from our loans being refinanced by other lenders, or the application of cash surrender value proceeds to the loans.
- ***Venture capital***. These are loans directly to venture capital firms or loans to venture-backed companies. Equity fund loans are the loans made directly to venture capital firms, private equity funds, venture capital funds, and venture capital management companies to provide a bridge to the receipt of capital calls and to support the borrowers' working capital needs, such as the cost of raising a new venture fund or leasehold improvements for new office space. The primary sources of repayment are receipt of capital calls, proceeds from sales of portfolio company investments, and management fees. The loan terms are generally one to four years, and the loans are typically secured by a first position lien on the assets of the business, an assignment of capital call rights and/or an assignment of management fees. Loans to venture-backed companies support the borrowers' operations, including operating losses, working capital requirements, and fixed asset acquisitions. The borrowers are at various stages in their development (early, expansion, or late), and are, generally, reporting operating losses. The primary sources of repayment are future additional venture capital equity investments or the sale of the company or its assets. The loan terms are generally one to four years, and the loans are typically secured by a first priority, secured blanket lien on all corporate assets and/or a lien on intellectual property.
- ***Secured business***. These are secured business loans originated through the Community Banking group. The primary source of repayment is the cash flow of the borrowers. The loans can be up to five years and are secured by a specific asset or assets of the borrower.

- ***Security monitoring***. In October 2019, we decided to no longer originate new security monitoring loans. The loans to security monitoring companies are loans to borrowers that provide business and residential security systems and the accompanying alarm monitoring services. Loans to security monitoring companies are secured primarily by the monitoring contracts between the borrowers and their customers. New technology is disrupting the security alarm business, causing increased customer acquisition costs and customer attrition and thereby adversely impacting business models and valuations. At December 31, 2021, loans to security monitoring companies totaled $89.6 million compared to $329.3 million at December 31, 2020.
- ***Other lending***. Loans aggregated into the category of "Other lending" are various commercial loan types including Community Banking group business loans, loans to homeowner associations, loans to municipalities and non-profit borrowers, and SBA 7(a) loans for small business expansion. The primary sources of repayments for the Community Banking group business loans, non-profit borrowers, and SBA 7(a) business expansion loans are the operations of the borrowers. The primary sources of repayment for loans to municipalities are tax collections from their tax jurisdictions.
- ***Paycheck Protection Program***. Loans made under provisions of the CARES Act to assist eligible businesses fund their operating costs during the COVID-19 pandemic. Under this program, the SBA guaranties 100% of the amounts loaned. Originations under this program occurred from March 2020 until May 2021 and totaled $1.65 billion. At December 31, 2021, the outstanding balance of these loans was $156.7 million. The loans have two or five year terms with a 1% loan coupon rate and origination fees that varied generally from 1% to 5% depending on the size of the loan. If the borrower meets certain requirements of the program, the loan can be forgiven by the SBA and the Bank would be paid off by the SBA prior to maturity.

Our portfolio of commercial loans and leases is subject to certain risks including, but not limited to, the following:

- the economic conditions of the United States;
- interest rate increases;
- deterioration of the value of the underlying collateral;
- increased competition in pricing and loan structure;
- denial of the SBA guaranty under the PPP loan program due to a deficiency in the manner a loan was originated or serviced, such as an issue with the eligibility of a borrower under the program;
- the deterioration of a borrower's or guarantor's financial capabilities; and
- various environmental risks, including natural disasters, which can negatively affect a borrower's business.

When underwriting commercial loans and leases, we seek to mitigate risk by using the following framework:

- considering the prospects for the borrower's industry and competition;
- considering our past experience with the borrower and with the collateral type;
- considering our current loan and lease portfolio concentration by loan type and collateral type;
- reviewing each loan request and renewal individually;
- maintaining and adhering to additional policies specific to the PPP loan program;
- using our credit committee approval process for the approval of each loan request (or aggregate credit exposure) over a certain dollar amount; and
- adhering to written loan underwriting policies and procedures including, among other factors, loan structures and covenants.

We actively manage real estate and commercial loans and seek to mitigate credit risk on most loans by using the following framework.

- monitoring the economic conditions in the regions or areas in which our borrowers are operating;
- measuring operating performance of our borrower or collateral and comparing it to our underwriting expectations;
- assessing compliance with financial and operating covenants as set forth in our loan agreements and considering the effects of incidences of noncompliance and taking corrective actions;
- assigning a credit risk rating to each loan and ensuring the accuracy of our credit risk ratings by using an independent credit review function to assess the appropriateness of the credit risk ratings assigned to loans;
- conducting loan portfolio review meetings where senior management and members of credit administration discuss the credit status and related action plans on loans with unfavorable credit risk ratings; and
- subjecting loan modifications and loan renewal requests to underwriting and assessment standards similar to the underwriting and assessment standards applied before closing the loans.

Consumer Loans

Consumer loans are primarily purchased private student loans originated and serviced by third-parties and not guaranteed by any program of the U.S. Government. These loans refinanced the outstanding student loan debt of borrowers who met certain underwriting criteria, with terms that fully amortize the debt over terms ranging from five to twenty years. Consumer loans internally originated may also include personal loans, auto loans, home equity lines of credit, revolving lines of credit, and other loans typically made by banks to individual borrowers.

Our consumer loan portfolio is subject to certain risks, including, but not limited to, the following:

- the economic conditions of the United States and the levels of unemployment;
- the amount of credit offered to consumers in the market;
- interest rate increases;
- consumer bankruptcy laws which allow consumers to discharge certain debts (excluding student loans);
- compliance with consumer lending regulations;
- additional regulations and oversight by the CFPB; and
- the ability of the sub-servicers of the Bank's student loans to service the loans in accordance with the terms of the loan purchase agreements.

We seek to mitigate the exposure to such risks through the direct approval of all internally originated consumer loans by reviewing each new loan request and each renewal individually and adhering to written credit policies. Each purchased pool of loans must meet thresholds we have established for weighted average credit scores, weighted average borrower annual income, and weighted average borrower monthly free cash flow. For all purchased student loans, we monitor the performance of the originator and the enforcement of our rights under the loan purchase agreement.

Loan Concentrations

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

	December 31,					
	2021		2020		2019	
	Balance	% of Total	Balance	% of Total	Balance	% of Total
	(Dollars in thousands)					
Real estate mortgage:						
Commercial	$ 3,762,299	17 %	$ 4,096,671	21 %	$ 4,202,687	22 %
Income producing and other residential	7,416,421	32 %	3,803,265	20 %	3,770,060	20 %
Total real estate mortgage	11,178,720	49 %	7,899,936	41 %	7,972,747	42 %
Real estate construction and land:						
Commercial	832,591	4 %	1,117,121	6 %	1,082,368	6 %
Residential	2,604,536	11 %	2,243,160	12 %	1,655,434	9 %
Total real estate construction and land (1)	3,437,127	15 %	3,360,281	18 %	2,737,802	15 %
Total real estate	14,615,847	64 %	11,260,217	59 %	10,710,549	57 %
Commercial:						
Asset-based	4,075,477	18 %	3,429,283	18 %	3,748,407	20 %
Venture capital	2,320,593	10 %	1,698,508	9 %	2,179,422	12 %
Other commercial (2)	1,471,981	6 %	2,375,114	12 %	1,767,667	9 %
Total commercial	7,868,051	34 %	7,502,905	39 %	7,695,496	41 %
Consumer	457,650	2 %	320,255	2 %	440,827	2 %
Total loans and leases held for investment, net of deferred fees	$ 22,941,548	100 %	$ 19,083,377	100 %	$ 18,846,872	100 %

(1) Includes land and acquisition and development loans of $151.8 million at December 31, 2021, $167.1 million at December 31, 2020, and $173.4 million at December 31, 2019.
(2) Includes PPP loans of $156.7 million at December 31, 2021 and $1.1 billion at December 31, 2020.

The real estate mortgage loan portfolio is diversified among various property types. At December 31, 2021, the three largest property types securing real estate mortgage loans were multi-family properties, single-family residential properties, and office properties, which comprised 35%, 29%, and 10% of our real estate mortgage loans, respectively. At December 31, 2020, the three largest property types securing real estate mortgage loans were multi-family properties, office properties, and industrial properties, which comprised 45%, 17%, and 9% of our real estate mortgage loans, respectively.

At December 31, 2021 and 2020, 9%, and 13% of the total real estate mortgage loans were owner occupied (where our borrowers were operating businesses on the premises that collateralize our loans).

The real estate construction and land loan portfolio is diversified among various property types. At December 31, 2021, the three largest property types for real estate construction and land loans were multi-family properties, single-family residential construction and renovation properties, and hotel properties, which comprised 50%, 15%, and 9% of our real estate construction and land loans, respectively. At December 31, 2020, the three largest property types for real estate construction and land loans were multi-family properties, hotel properties, and residential condominium properties, which comprised 48%, 16%, and 8% of our real estate construction and land loans, respectively.

At December 31, 2021, commitments secured by real estate construction and land projects totaled $7.7 billion with related outstanding loan balances of $3.4 billion. At December 31, 2020, commitments secured by real estate construction and land projects totaled $6.3 billion with related outstanding loan balances of $3.4 billion. At December 31, 2021, commitments related to construction and land projects in California totaled $3.6 billion or 47% of total real estate construction and land commitments, and commitments related to construction and land projects in New York City totaled $910 million or 12% of total real estate construction and land commitments.

At December 31, 2021, there were 13 individual real estate construction and land commitments greater than or equal to $100 million with the largest commitment being $181 million. At December 31, 2021, these 13 individual commitments totaled $1.6 billion and had an aggregate outstanding balance of $587 million. The projects financed by these commitments are nine multi-family projects, one condominium project, one mixed use property, one life science office property, and one industrial project. For these 13 commitments, the average commitment to budgeted project cost ratio was 56.4%.

At December 31, 2020, there were eight individual real estate construction and land commitments greater than or equal to $100 million with the largest commitment being $135 million. At December 31, 2020, these eight individual commitments totaled $954 million and had an aggregate outstanding balance of $526 million. The projects financed by these commitments were six multi-family projects, one mixed used property, and a hotel. For these eight commitments, the average commitment to budgeted project cost ratio was 51.7%.

At December 31, 2021, we had thirteen individual loan commitments greater than or equal to $150 million that ranged in size from $150 million to $500 million and totaled $3.3 billion and had an aggregate outstanding balance of $1.5 billion. Six of these commitments totaling $1.9 billion were equity fund loans, four of these commitments totaling $854 million were lender finance loans, one of these commitments totaling $181 million was a residential construction loan, one of these commitments totaling $175 million was a loan secured by a multi-family property, and one of these commitments totaling $150 million was a loan secured by a studio office complex.

At December 31, 2020, we had nine individual loan commitments equal to or greater than $150 million that ranged in size from $150 million to $400 million and totaled $1.9 billion and had an aggregate outstanding balance of $760 million. Six of these commitments totaling $1.4 billion were equity fund loans, two of these commitments totaling $350 million were lender finance loans, and one of these commitments totaling $150 million was a commercial construction loan.

Financing

We depend on deposits and external financing sources to fund our operations. We employ a variety of financing arrangements, including term debt, subordinated debt, and equity. As a member of the FHLB, the Bank had secured financing capacity with the FHLB as of December 31, 2021 of $4.0 billion, collateralized by a blanket lien on $6.2 billion of qualifying loans. The Bank also had secured financing capacity with the FRBSF of $1.4 billion as of December 31, 2021 collateralized by liens on $1.8 billion of qualifying loans.

Information Technology Systems

We devote significant financial and management resources to maintain stable, reliable, efficient, secure and scalable information technology systems. Where possible, we utilize third-party software systems that are hosted and supported by nationally recognized vendors. We work with our third-party vendors to monitor and maximize the efficiency of our use of their applications. We use integrated systems to originate and process loans and deposit accounts, which reduces processing time, automates numerous internal controls, improves customer experiences and reduces costs. Most customer records are maintained digitally. We also provide online, mobile, and telephone banking services to further improve the overall client experience.

We use an enterprise data warehouse system in order to aggregate, analyze, and report key metrics associated with our customers and products. Data is collected across multiple systems so that standard and ad hoc reports are available to assist with managing our business.

We maintain an information technology strategic plan. This plan defines the overall innovation and technology agenda and vision, tracks information technology and information security trends and priorities, and provides details on information technology initiatives over the next several years. Through our annual information technology budgeting process, we analyze our infrastructure for capacity planning, detail migration plans to replace aging hardware and software, and resource plan for internal and external information technology staffing needs against planned initiatives.

Protecting our systems to ensure the safety of customer information is critical to our business. We use multiple layers of protection to control access, detect unusual activity and reduce risk. We regularly conduct a variety of audits and vulnerability and penetration tests on our platforms, systems and applications and maintain comprehensive incident response plans to minimize potential risks, including cyber-attacks. To protect our business operations against disasters, we have a backup off-site core processing system and comprehensive recovery plans.

Risk Oversight and Management

We believe risk management is another core competency of our business. We have a comprehensive risk management process that measures, monitors, evaluates, and manages the risks we assume in conducting our activities. Our oversight of this risk management process is conducted by the Company's Board of Directors (the "Board") and its standing committees. The committees each report to the Board and the Board has overall oversight responsibility for risk management.

Our risk framework is structured to guide decisions regarding the appropriate balance between risk and return considerations in our business. Our risk framework is based upon our business strategy, risk appetite, and financial plans approved by our Board. Our risk framework is supported by an enterprise risk management program. Our enterprise risk management program integrates all risk efforts under one common framework. This framework includes risk policies, procedures, measured and reported limits and targets, and reporting. Our Board approves our risk appetite statement, which sets forth the amount and type of risks we are willing to accept in pursuit of achieving our strategic, business, and financial objectives. Our risk appetite statement provides the context for our risk management tools, including, among others, risk policies, delegated authorities, limits, portfolio composition, underwriting standards, and operational processes.

Competition

The banking business is highly competitive. We compete nationwide with other commercial banks and financial services institutions for loans and leases, deposits, and employees. Some of these competitors are larger in total assets and capitalization, with more offices over a wider geographic area and offer a broader range of financial services than our operations. Our most direct competition for loans comes from larger regional and national banks, diversified finance companies, venture debt funds, and community banks that target the same customers as we do. In recent years, competition has increased from institutions not subject to the same regulatory restrictions as domestic banks and bank holding companies. Those competitors include non-bank specialty lenders, insurance companies, private investment funds, investment banks, financial technology companies, and other financial and non-financial institutions.

Competition is based on a number of factors, including interest rates charged on loans and leases and paid on deposits, underwriting standards, loan covenants, required guarantees, the scope and type of banking and financial services offered, convenience of our branch locations, customer service, technological changes, and regulatory constraints. Many of our competitors are large companies that have substantial capital, technological, and marketing resources. Some of our competitors have substantial market positions and have access to a lower cost of capital or a less expensive source of funds. Because of economies of scale, our larger, nationwide competitors may offer loan pricing that is more attractive than what we are willing to offer.

Economic factors, along with legislative and technological changes, will have an ongoing impact on the competitive environment within the financial services industry. We work to anticipate and adapt to dynamic competitive conditions whether it is by developing and marketing innovative products and services, adopting or developing new technologies that differentiate our products and services, cross marketing, or providing highly personalized banking services. We strive to distinguish ourselves from other banks and financial services providers in our marketplace by providing an extremely high level of service to enhance customer loyalty and to attract and retain business.

We differentiate ourselves in the marketplace through the quality of service we provide to borrowers while maintaining competitive interest rates, loan fees and other loan terms. We emphasize personalized relationship banking services and the efficient decision-making of our lending business units. We compete effectively based on our in-depth knowledge of our borrowers' industries and their business needs based upon information received from our borrowers' key decision-makers, analysis by our experienced professionals, and interaction between these two groups; our breadth of loan product offerings and flexible and creative approach to structuring products that meet our borrowers' business and timing needs; and our dedication to superior client service. However, we can provide no assurance as to the effectiveness of these efforts on our future business or results of operations, as to our continued ability to anticipate and adapt to changing conditions, and as to sufficiently improving our services and banking products in order to successfully compete in the marketplace.

Human Capital Management

Our business strategy is to operate a client-focused, well-capitalized and profitable nationwide bank dedicated to providing personal service to our business and individual customers. Our employees are our most important assets and they set the foundation for our ability to achieve our strategic objectives. We believe that we have a competitive advantage in the markets we serve because of our long-standing reputation for providing superior, relationship-based customer service. In order to continue to provide the expertise and customer service for which we are known, it is crucial that we continue to attract, retain, and develop top talent. To facilitate talent attraction and retention, we strive to make the Bank a diverse, inclusive, and safe workplace, with opportunities for our employees to grow and advance in their careers, supported by strong compensation, benefits, and health and wellness programs.

Oversight and Management

We strive to attract, develop, and retain highly qualified employees for each role in the organization. Working under this principle, our Human Resources Department is tasked with managing employment-related matters, including recruiting and hiring, onboarding and training, compensation planning, performance management, and professional development. Our Board of Directors and Board committees provide oversight on certain human capital matters, including our compensation and benefit programs. As noted in its charter, our Compensation, Nominating and Governance Committee is responsible for periodically reviewing employee compensation programs and initiatives to ensure they are competitive and aligned with our stockholders’ long-term interests, including incentives and benefits, as well as our succession planning and strategies. Our Compensation, Nominating and Governance Committee also works closely with the Risk Committee to monitor current and emerging human capital management risks and to mitigate exposure to those risks.

Demographics

At December 31, 2021, we had approximately 2,200 full-time, part-time, and temporary employees, the overwhelming majority of which were full-time employees. None of the Company’s employees are represented by a labor union or by collective bargaining agreements. During 2021, the number of employees increased by approximately 30% due primarily to the Civic and HOA Business acquisitions. During 2021, our employee turnover rate was approximately 15.1%. The average tenure of our full-time employees is 6.9 years.

At December 31, 2021, the composition of our workforce was as follows:

Gender	% of Total
Women	57%
Men	43%

Ethnicity	% of Total
Asian	12%
Black or African American	8%
Hispanic or Latino	28%
Native Hawaiian or other Pacific Islander	1%
Two or more races	2%
White	49%

Human Capital Management Objectives

Our key human capital management objectives are to attract, retain, and develop the highest quality talent. To support these objectives, our human resources programs are designed to develop talent to prepare them for critical roles and leadership positions for the future, reward and support employees through competitive pay, benefit, and perquisite programs, enhance the Company's culture through efforts aimed at making the workplace more engaging and inclusive, acquire talent, and facilitate internal talent mobility to create a high-performing, diverse workforce, and evolve and invest in technology, tools and resources to enable employees to effectively and efficiently perform their responsibilities and achieve their full potential.

Some examples of key programs and initiatives that are focused to attract, develop and retain our workforce include:

Compensation and benefits. The philosophy and objectives underlying our compensation programs are to employ and retain talented employees to ensure we execute on our business goals, drive short- and long-term profitable growth of the Company, and create long-term stockholder value. In allocating total compensation, we seek to provide competitive levels of fixed compensation (base salary) and, through annual and long-term incentives, provide for increased total compensation when performance objectives are exceeded and appropriately lower total compensation if performance objectives are not met. Specifically:

- We provide employee wages that are competitive and consistent with employee positions, skill levels, experience, knowledge and geographic location. In 2021, we conducted a review of our starting salaries for our employees and raised our minimum starting wage from $15 per hour to $18 per hour.
- We engage nationally recognized outside compensation and benefits consulting firms to independently evaluate the effectiveness of our compensation and benefit programs and to provide benchmarking against our peers within the industry. This review resulted in our reducing the employee cost of our health insurance for our plans and increasing our 401(k) match to be more in-line with our peers.
- We align our executives' long-term equity compensation with our stockholders' interests by linking realizable pay with Company performance.
- Annual increases and incentive compensation are based on merit, which is communicated to employees at the time of hiring and documented through our talent management process as part of our annual review procedures and upon internal transfer and/or promotion.
- All full-time employees are eligible for health insurance (medical, dental, and vision), paid and unpaid leaves, a 401(k) plan with Company matching and life and disability/accident coverage. We also offer a variety of voluntary benefits that allow employees to select the options that meet their personal and family needs, including health savings and flexible spending accounts, paid parental leave, public transportation reimbursement, employee assistance programs, personalized wellness programs and a tuition reimbursement program.

Health, Safety and Wellness. The health, safety, and wellness of our employees is fundamentally connected to the success of our business. We provide our employees and their families with access to a variety of flexible, convenient and innovative health and wellness programs to help them improve or maintain their physical and mental well-being. The safety of our employees and customers is paramount. We strive to ensure that all employees feel safe in their respective work environment. In response to the COVID-19 pandemic, we implemented significant changes that we determined were in the best interest of our employees, as well as the communities in which we operate, and which comply with government regulations. This includes having the vast majority of our non-branch employees work from home, while implementing additional safety measures and paying special bonuses for employees continuing critical on-site work. In 2021, we introduced an employer-paid mental wellness support benefit provided by a leading external service provider.

Talent Development. We believe that creating an environment which encourages continual learning and development is essential for us to maintain a high level of service and to achieve our goal to have every employee feel that they are a valued member of a successful company. This is why we have implemented a variety of learning and development resources for all levels of employees across the bank. Our first focus area has been on building our leadership talent pipeline. Based on our company-wide succession planning discussions, we implemented a new leadership program called LEAD for our most senior leaders. Facilitated by members of our executive team, this program prepares our future leaders for leadership roles within the bank. In addition to our new LEAD program, managers also have the opportunity to refine their skills through our Leadership Essentials program. This program teaches managers how to effectively manage, engage, and develop their teams. Employees have access to ongoing education that is relevant to the banking industry and their job function within the Company leveraging our new Linkedin Learning Platform and other key educational partnerships. We have a strong partnership with Pacific Coast Banking School and send a cohort of leaders for their graduate certificate in banking each year. Though our talent management processes of goal setting, performance reviews, succession planning and career development we strive to continually develop our people and meet the dynamic needs of our customers.

Diversity and Inclusion. We are committed to creating a culture of inclusion – where differences are both appreciated and respected. We take pride in providing equal employment opportunities and building a workplace culture where all employees feel supported and respected, and have equal access to career and development opportunities without regard to race, religion/creed, color, national origin, age, marital status, ancestry, sex, gender, gender identity/expression, sexual orientation, veteran status, physical or mental disability, medical condition, military status, or any other characteristic protected by federal, state or local laws. To help accomplish this, we have a SVP, Diversity, Equity & Inclusion, who is supported by an Executive/Leadership Diversity Committee and a Diversity, Equity and Inclusion Advisory Council made up of 21 employee representatives from throughout the Company to advance our diversity and inclusion initiatives. We strive to build teams and grow talent that reflects the diversity of the clients and communities we serve and foster an inclusive and equitable culture/workplace.

Financial and Statistical Disclosure

Certain of our statistical information is presented within “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Item 7A. Quantitative and Qualitative Disclosure About Market Risk.” This information should be read in conjunction with the consolidated financial statements contained in “Item 8. Financial Statements and Supplementary Data.”

Supervision and Regulation

General

The Company and Bank are subject to extensive regulation under federal and state banking laws that establish a comprehensive framework for our operations. Such regulation is intended to, among other things, protect the interests of customers, including depositors, and the federal deposit insurance fund, as well as to minimize risk to the banking system as a whole. These regulations are not, however, generally charged with protecting the interests of our stockholders or other creditors. Described below are elements of selected laws and regulations applicable to our Company or the Bank. The descriptions are not intended to be complete and are qualified in their entirety by reference to the full text of the statutes and regulations described. Changes in applicable law or regulations, particularly in the current U.S. political environment, and in their application by regulatory agencies, cannot be predicted, and they may have a material effect on the business, operations, and results of the Company or the Bank.

Bank Holding Company Regulation

As a bank holding company, PacWest is registered with and subject to supervision, regulation, and examination by the FRB under the BHCA, and we are required to file with the FRB periodic reports of our operations and additional information regarding the Company and its subsidiaries as the FRB may require.

The Dodd-Frank Act, which codified the FRB's long-standing "source-of-strength" doctrine, requires the Company to act as a source of financial strength to the Bank including committing resources to support the Bank even at times when the Company may not be in a financial position to do so. Similarly, under the cross-guarantee provisions of the FDIA, the FDIC can hold any FDIC-insured depository institution liable for any loss suffered or anticipated by the FDIC in connection with (i) the default of a commonly controlled FDIC-insured depository institution or (ii) any assistance provided by the FDIC to such a commonly controlled institution.

Pursuant to the BHCA, we are required to obtain the prior approval of the FRB before we acquire all or substantially all of the assets of any bank or the ownership or control of voting shares of any bank if, after giving effect to such acquisition, we would own or control, directly or indirectly, more than 5 percent of the voting shares of such bank. Pursuant to the Bank Merger Act, the prior approval of the FDIC is required for the Bank to merge with another bank or purchase all or substantially all of the assets or assume any of the deposits of another FDIC-insured depository institution. In reviewing certain merger or acquisition transactions, the federal regulators will consider the assessment of the competitive effect and public benefits of the transactions, the capital position and managerial resources of the combined organization, the risks to the stability of the U.S. banking or financial system, our performance record under the CRA, our compliance with fair housing and other consumer protection laws, and the effectiveness of all organizations involved in combating money laundering activities. The ability of any bank holding company to acquire another bank holding company or bank is also significantly impacted by subjective decisions of federal regulators, including political appointees, as to whether any proposed merger would be consistent with national financial institutions policies. These subjective views may have an impact on the ability of any bank holding company to engage in a merger transaction.

Under the BHCA, we may not engage in any business other than managing or controlling banks or furnishing services to our subsidiaries and such other activities that the FRB deems to be so closely related to banking as "to be a proper incident thereto." We are also prohibited, with certain exceptions, from acquiring direct or indirect ownership or control of more than 5 percent of the voting shares of any company unless the company is engaged in banking activities or the FRB determines that the activity is so closely related to banking as to be a proper incident to banking. Generally, the FRB's approval must be obtained before the shares of any such company can be acquired.

The federal regulatory agencies also have general authority to prohibit a banking subsidiary or bank holding company from engaging in an unsafe or unsound banking practice. Depending upon the circumstances, the agencies could take the position that paying a dividend would constitute an unsafe or unsound banking practice. Further, as discussed below under "-*Capital Requirements,*" we are required to maintain minimum ratios of Common Equity Tier 1 capital, Tier 1 capital, and total capital to total risk-weighted assets, and a minimum ratio of Tier 1 capital to total adjusted quarterly average assets as defined in such regulations. The level of our capital ratios may affect our ability to pay dividends or repurchase our shares. See Note 22. *Dividend Availability and Regulatory Matters* of the Notes to Consolidated Financial Statements contained in "Item 8. Financial Statements and Supplementary Data."

The Dodd-Frank Act

The Dodd-Frank Act, which was enacted in July 2010, significantly restructured the financial regulatory landscape in the United States, including the creation of a new systemic risk oversight body, the FSOC. The FSOC oversees and coordinates the efforts of the primary U.S. financial regulatory agencies (including the FRB, SEC, the Commodity Futures Trading Commission and the FDIC) in establishing regulations to address financial stability concerns. The Dodd-Frank Act and the FRB's implementing regulations impose increasingly stringent regulatory requirements on financial institutions as their size and scope of activities increases.

In May 2018, the Economic Growth, Regulatory Relief, and Consumer Protection Act ("EGRRCPA") was enacted. While the EGRRCPA reduced the impact of the Dodd-Frank Act on bank holding companies of our size, including in respect to stress testing, the Dodd-Frank Act nonetheless subjected us to additional significant regulatory requirements. In addition, as a result of the Dodd-Frank Act and our having in excess of $10 billion in total consolidated assets, the Company and the Bank are subject to the examination and supervision of the CFPB with respect to compliance with certain consumer financial laws.

Transactions with Affiliates

Transactions between the Bank and its affiliates are regulated under federal banking law. Subject to certain exceptions set forth in the Federal Reserve Act, a bank may enter into "covered transactions" with its affiliates if the aggregate amount of the covered transactions to any single affiliate does not exceed 10 percent of the Bank's capital stock and surplus or 20 percent of the Bank's capital stock and surplus for covered transaction with all affiliates. Covered transactions include, among other things, extension of credit, the investment in securities, the purchase of assets, the acceptance of collateral or the issuance of a guaranty. The Dodd-Frank Act significantly expanded the coverage and scope of the limitations on affiliate transactions within a banking organization. Additionally, most transactions that the Bank engages in with an affiliate, including where an affiliate performs a service for the Bank, must be on similar terms and conditions as the Bank would get from a non-affiliate.

Dividends and Share Repurchases

The ability of the Company to pay dividends on or to repurchase its common stock, and the ability of the Bank to pay dividends to the Company, may be restricted due to several factors including: (a) the DGCL (in the case of the Company) and applicable California law (in the case of the Bank), (b) covenants contained in our subordinated debt and borrowing agreements, and (c) the regulatory authority of the FRB, the DFPI and the FDIC.

Our ability to pay dividends to our stockholders or to repurchase shares of our common stock is subject to the restrictions set forth in the DGCL. The DGCL provides that a corporation, unless otherwise restricted by its certificate of incorporation, may declare and pay dividends (or repurchase shares) out of its surplus or, if there is no surplus, out of net profits for the fiscal year in which the dividend is declared and/or for the preceding fiscal year, as long as the amount of capital of the corporation is not less than the aggregate amount of the capital represented by the issued and outstanding stock of all classes having a preference upon the distribution of assets. Surplus is defined as the excess of a corporation's net assets (i.e., its total assets minus its total liabilities) over the capital associated with issuances of its common stock. Moreover, the DGCL permits a board of directors to reduce its capital and transfer such amount to its surplus. In determining the amount of surplus of a Delaware corporation, the assets of the corporation, including stock of subsidiaries owned by the corporation, must be valued at their fair market value as determined by the board of directors, regardless of their historical book value.

Our ability to pay cash dividends to our stockholders or to repurchase shares of our common stock may be limited by certain covenants contained in the indentures governing trust preferred securities issued by us or entities that we have acquired, and the debentures underlying the trust preferred securities. Generally the indentures provide that if an Event of Default (as defined in the indentures) has occurred and is continuing, or if we are in default with respect to any obligations under our guarantee agreement which covers payments of the obligations on the trust preferred securities, or if we give notice of any intention to defer payments of interest on the debentures underlying the trust preferred securities, then we may not, among other restrictions, declare or pay any dividends with respect to our common stock or repurchase shares of our common stock.

Notification to the FRB is required prior to our declaring and paying a cash dividend to our stockholders during any period in which our quarterly and/or cumulative twelve-month net earnings are insufficient to fund the dividend amount, among other requirements. Under such circumstances, we may not pay a dividend should the FRB object until such time as we receive approval from the FRB or no longer need to provide notice under applicable regulations. In addition, prior approval of the FRB may be required in certain circumstances prior to our repurchasing shares of our common stock.

In connection with the decision regarding dividends and share repurchase programs, our Board will take into account general business conditions, our financial results, projected cash flows, capital requirements, contractual, legal and regulatory restrictions on the payment of dividends by the Bank to the Company and such other factors as deemed relevant. We can provide no assurance that we will continue to declare dividends on a quarterly basis or otherwise or to repurchase shares of our common stock. The declaration of dividends by the Company is subject to the discretion of our Board.

PacWest's primary source of liquidity is the receipt of cash dividends from the Bank. Various statutes and regulations limit the availability of cash dividends from the Bank. Dividends paid by the Bank are regulated by the DFPI and FDIC 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 DFPI 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 three previous fiscal years less any dividend paid during such period. The Bank had a cumulative net loss of $155.3 million during the three fiscal years of 2021, 2020, and 2019 due to the $1.47 billion goodwill impairment in the first quarter of 2020, compared to dividends of $776.0 million paid by the Bank during that same period. Since the Bank had a retained deficit of $1.5 billion at December 31, 2021, for the foreseeable future, any further cash dividends from the Bank to the Company will continue to require DFPI and FDIC approval.

See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity - *Holding Company Liquidity*" and Note 22. *Dividend Availability and Regulatory Matters* of the Notes to Consolidated Financial Statements contained in "Item 8. Financial Statements and Supplementary Data" for a discussion of other factors affecting the availability of dividends and limitations on the ability to declare dividends.

Capital Requirements

We are subject to the comprehensive capital framework for U.S. banking organizations known as Basel III. Basel III, among other things, (i) implemented increased capital levels for the Company and the Bank, (ii) introduced a new capital measure called CET1 and related regulatory capital ratio of CET1 to risk-weighted assets, (iii) specified that Tier 1 capital consists of CET1 and "Additional Tier 1 capital" instruments meeting certain revised requirements, (iv) mandated that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital, and (v) expanded the scope of the deductions from and adjustments to capital as compared to existing regulations. Under Basel III, for most banking organizations the most common form of Additional Tier 1 capital is non-cumulative perpetual preferred stock and the most common form of Tier 2 capital is subordinated notes and a portion of the allowance for credit losses, in each case, subject to Basel III specific requirements.

Pursuant to Basel III, the minimum capital ratios are as follows:

- 4.5% CET1 to risk-weighted assets;
- 6.0% Tier 1 capital (that is, CET1 *plus* Additional Tier 1 capital) to risk-weighted assets;
- 8.0% Total capital (that is, Tier 1 capital *plus* Tier 2 capital) to risk-weighted assets; and
- 4% Tier 1 capital to average consolidated assets as reported on regulatory financial statements (known as the "leverage ratio").

Basel III also introduced a new "capital conservation buffer", composed entirely of CET1, on top of the minimum risk-weighted asset ratios. The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of CET1 to risk-weighted assets, Tier 1 to risk-weighted assets or total capital to risk-weighted assets above the minimum but below the capital conservation buffer will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall and the institution's "eligible retained income" (that is, four quarter trailing net income, net of distributions and tax effects not reflected in net income). As of January 1, 2019, the capital conservation buffer is fully phased-in and the Company and the Bank are required to maintain an additional capital conservation buffer of 2.5% of CET1, effectively resulting in minimum ratios of (i) CET1 to risk-weighted assets of at least 7%, (ii) Tier 1 capital to risk-weighted assets of at least 8.5%, and (iii) total capital to risk-weighted assets of at least 10.5%.

Basel III provides for a number of deductions from and adjustments to CET1. These include, for example, the requirement that deferred tax assets arising from temporary differences that could not be realized through net operating loss carrybacks and significant investments in non-consolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such items, in the aggregate, exceed 15% of CET1.

Basel III provides a standardized approach for risk weightings that, depending on the nature of the assets, generally range from 0% for U.S. government and agency securities, to 1,250% for certain trading securitization exposures, resulting in higher risk weights for a variety of asset classes than previous regulations.

The Company has outstanding subordinated debt issued to trusts, which, in turn, issued trust preferred securities. The carrying amount of subordinated debt totaled $863.3 million at December 31, 2021. Under Basel III, $131.0 million of the Company's trust preferred securities were included in Tier 1 capital following a reclassification of such trust preferred securities from Tier 2 capital during the third quarter of 2021, and the remaining $718.2 million of the Company's trust preferred securities continued to be included in Tier 2 capital at December 31, 2021. We believe that, as of December 31, 2021, the Company and the Bank met all capital adequacy requirements under Basel III. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Regulatory Matters - *Capital*" for further information on regulatory capital requirements, capital ratios, and deferred tax asset limits as of December 31, 2021 for the Company and the Bank.

Stress Testing

Though the Company and Bank are no longer required to prepare annual stress tests pursuant to the Dodd-Frank Act, we continue to prepare an annual stress test of our capital, consolidated earnings and losses under adverse economic and market conditions. Our stress test results are considered by the FRB and FDIC in evaluating our capital adequacy and could have a negative impact on our ability to make capital distributions in the form of dividends or share repurchases.

Safety and Soundness Standards

As required by the FDIA, guidelines adopted by the federal bank regulatory agencies establish general standards relating to internal controls and information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth and quality, and compensation, fees and benefits. The agencies have adopted regulations and interagency guidelines which set forth the safety and soundness standards used to identify and address problems at insured depository institutions before capital becomes impaired. If an agency determines that a bank fails to satisfy any standard, it may require the bank to submit an acceptable plan to achieve compliance, consistent with deadlines for the submission and review of such safety and soundness compliance plans. If an institution fails to submit an acceptable compliance plan or fails in any material respect to implement an acceptable compliance plan, the agency must issue an order directing action to correct the deficiency and may issue an order directing other actions of the types to which an undercapitalized institution is subject under the FDIA.

Deposit Insurance

The Bank is a state-chartered, "non-member" bank regulated by the DFPI and the FDIC. The Bank accepts deposits, and those deposits have the benefit of FDIC insurance up to the applicable limits established by law. The applicable statutory limit for FDIC insurance for most types of accounts is $250,000.

Under the FDIC's risk-based deposit premium assessment system, the assessment rates for an insured depository institution are determined by an assessment rate calculator, which is based on a number of elements that measure the risk each institution poses to the Deposit Insurance Fund. The calculated assessment rate is applied to average consolidated assets less the average tangible equity of the insured depository institution during the assessment period to determine the dollar amount of the quarterly assessment. Under the current system, premiums are assessed quarterly and could increase if, for example, criticized loans and leases and/or other higher risk assets increase or balance sheet liquidity decreases. For the year ended December 31, 2021, we incurred $12.0 million of FDIC assessment expense.

Under the FDIA, the FDIC may terminate deposit insurance upon a finding that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC.

Incentive Compensation

In 2010, federal banking regulators issued final joint agency guidance on Sound Incentive Compensation Policies. This guidance applies to executive and non-executive incentive plans administered by the Bank. The guidance notes that incentive compensation programs must (i) provide employees incentives that appropriately balance risk and reward, (ii) be compatible with effective controls and risk management and (iii) be supported by strong corporate governance, including oversight by the Board. The FDIC reviews, as part of its regular examination process, the Bank's incentive compensation programs.

In addition, the Dodd-Frank Act requires the federal bank regulatory agencies and the SEC to establish joint regulations or guidelines prohibiting incentive based payment arrangements at specified regulated entities having at least $1 billion in total assets, such as the Company and the Bank, that encourage inappropriate risks by providing an executive officer, employee, director or principal stockholder with excessive compensation, fees, or benefits that could lead to material financial loss to the entity. In addition, these regulators must establish regulations or guidelines requiring enhanced disclosure of incentive based compensation arrangements to regulators.

The agencies proposed initial regulations in April 2011 and proposed revised regulations during the second quarter of 2016 that would establish general qualitative requirements applicable to all covered entities. The proposed general qualitative requirements include (i) prohibiting incentive arrangements that encourage inappropriate risks by providing excessive compensation; (ii) prohibiting incentive arrangements that encourage inappropriate risks that could lead to a material financial loss; (iii) establishing requirements for performance measures to appropriately balance risk and reward; (iv) requiring board of director oversight of incentive arrangements; and (v) mandating appropriate record-keeping. As of this filing, the agencies have not finalized these proposed regulations.

In August 2015, the SEC adopted final rules implementing the pay ratio provisions of the Dodd-Frank Act by requiring companies to disclose the ratio of the compensation of its chief executive officer to the median compensation of its employees. Under SEC guidance issued in September 2017, companies such as the Company are able to use widely-recognized tests to determine who counts as an employee under the rule, use existing internal records such as payroll and tax information and describe the ratio as an estimate.

Consumer Regulation

We are subject to a number of federal and state consumer protection laws that extensively govern our relationship with our customers. These laws include the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Truth in Lending Act, the Truth in Savings Act, the Electronic Fund Transfer Act, the Expedited Funds Availability Act, the Home Mortgage Disclosure Act, the Fair Housing Act, the Real Estate Settlement Procedures Act, the Fair Debt Collection Practices Act, the Service Members Civil Relief Act and these laws' respective state-law counterparts, as well as state usury laws and laws regarding unfair and deceptive acts and practices. Violations of applicable consumer protection laws can result in significant potential liability from litigation brought by customers, including actual and statutory damages, restitution and attorneys' fees. Federal bank regulators, state attorneys general and state and local consumer protection agencies may also seek to enforce consumer protection requirements and obtain these and other remedies, including regulatory sanctions, customer rescission rights, action by the state attorneys general and local prosecutors in each jurisdiction in which we operate, and civil money penalties. Failure to comply with consumer protection regulations may also result in our failure to obtain any required bank regulatory approval for merger or acquisition transactions we may wish to pursue or our prohibition from engaging in such transactions even if approval is not required.

The CFPB has broad rulemaking, supervisory, and enforcement powers under various federal consumer financial protection laws. The CFPB is also authorized to engage in consumer financial education, track consumer complaints, request data, and promote the availability of financial services to underserved consumers and communities. The Bank is subject to direct oversight and examination by the CFPB with respect to compliance with certain consumer financial laws. The CFPB has broad supervisory, examination, and enforcement authority over various consumer financial products and services, including the ability to require reimbursements and other payments to customers for alleged legal violations and to impose significant penalties, as well as injunctive relief that prohibits lenders from engaging in allegedly unlawful practices. The CFPB also has the authority to obtain cease and desist orders providing for affirmative relief or monetary penalties. State regulation of financial products and potential enforcement actions could also adversely affect our business, financial condition, or results of operations.

USA PATRIOT Act and Anti-Money Laundering

The USA PATRIOT Act, designed to deny terrorists and others the ability to obtain access to the United States financial system, has significant implications for depository institutions, brokers, dealers and other businesses involved in the transfer of money. The USA PATRIOT Act, as implemented by various federal regulatory agencies, requires the Company and the Bank to establish and implement policies and procedures with respect to, among other matters, anti-money laundering, compliance, suspicious activity and currency transaction reporting and due diligence on customers and prospective customers. The USA PATRIOT Act and its underlying regulations permit information sharing for counter-terrorism purposes between federal law enforcement agencies and financial institutions, as well as among financial institutions, subject to certain conditions, and require the FRB, the FDIC and other federal banking agencies to evaluate the effectiveness of an applicant in combating money laundering activities when considering a bank holding company acquisition and/or a bank merger act application.

The U.S. Department of the Treasury's Financial Crimes Enforcement Network ("FinCEN") drafts regulations implementing the USA PATRIOT Act and other anti-money laundering and Bank Secrecy Act legislation.

We regularly evaluate and continue to enhance our systems and procedures to continue to comply with the USA PATRIOT Act and other anti-money laundering initiatives. Failure of a financial institution to maintain and implement adequate programs to combat money laundering and terrorist financing, or to comply with all of the relevant laws or regulations, could have serious legal, strategic, and reputational consequences for the institution and result in material fines and sanctions.

Office of Foreign Assets Control Regulation

The United States has imposed economic sanctions that affect transactions with designated foreign countries, designated nationals and others. These rules are promulgated and administered by OFAC. The OFAC-administered sanctions targeting designated countries take many different forms. Generally, however, they contain one or more of the following elements: (i) restrictions on trade with or investment in a sanctioned country, including prohibitions against direct or indirect imports from and exports to a sanctioned country and prohibitions on “U.S. persons” engaging in financial transactions relating to making investments in, or providing investment-related advice or assistance to, a sanctioned country; and (ii) a blocking of assets in which the government or specially designated nationals of the sanctioned country have an interest, by prohibiting transfers of property subject to U.S. jurisdiction (including property in the possession or control of U.S. persons). These sanctions that are applicable to countries and individuals are also imposed against some non-governmental organizations, associations, or other criminal networks. Blocked assets (e.g., property and bank deposits) cannot be paid out, withdrawn, set off or transferred in any manner without a license from OFAC. Failure to comply with these sanctions could have serious legal, strategic, and reputational consequences, and result in civil money penalties against the Company and the Bank.

Community Reinvestment Act ("CRA")

The CRA generally requires the Bank to identify the communities it serves and to make loans and investments, offer products, make donations in, and provide services designed to meet the credit needs of these communities. The CRA also requires the Bank to maintain comprehensive records of its CRA activities to demonstrate how we are meeting the credit needs of our communities. These documents are subject to periodic examination by the FDIC. During these examinations, the FDIC rates such institutions’ compliance with CRA as “Outstanding,” “Satisfactory,” “Needs to Improve” or “Substantial Noncompliance.” The CRA requires the FDIC to take into account the record of a bank in meeting the credit needs of all of the communities served, including low-and moderate-income neighborhoods, in determining such rating. Failure of an institution to receive at least a “Satisfactory” rating could inhibit such institution or its holding company from undertaking certain activities, including acquisitions. The Bank received a CRA rating of “Outstanding” as of its most recent examination. In the case of a bank holding company, such as the Company, when applying to acquire a bank, savings association, or a bank holding company, the FRB will assess the CRA record of each depository institution of the applicant bank holding company in considering the application.

In April 2018, the U.S. Department of Treasury issued a memorandum to the federal banking regulators recommending changes to the CRA’s regulations to reduce their complexity and associated burden on banks. In 2019 and 2020, the federal banking regulators proposed for public comment rules to modernize the agencies’ regulations under the CRA. In July 2021, the FRB, FDIC, and the Office of the Comptroller of the Currency issued an interagency statement committing to joint agency action on CRA. In December 2021, the Office of the Comptroller of the Currency adopted final CRA rules that were based largely on CRA rules issued jointly by the federal banking regulators in 1995 and subsequently revised, which the Office of the Comptroller of the Currency believed was an important step to the interagency process because it reestablished generally uniform rules that apply to all insured depository institutions. These recent actions may signal that additional joint regulatory action on this issue could be forthcoming in 2022. We will continue to evaluate the impact of any changes to the CRA regulations.

Customer Information Privacy and Cybersecurity

The FRB and other bank regulatory agencies have adopted guidelines for safeguarding confidential, personal, non-public customer information. These guidelines require each financial institution, under the supervision and ongoing oversight of its board of directors or an appropriate committee thereof, to create, implement, and maintain a comprehensive written information security program designed to ensure the security and confidentiality of customer information, protect against any anticipated threats or hazard to the security or integrity of such information, and protect against unauthorized access to or use of such information that could result in substantial harm or inconvenience to any customer. We have adopted a customer information security program to comply with these requirements.

The Gramm‑Leach‑Bliley Act of 1999 (the “GLBA”) requires financial institutions to implement policies and procedures regarding the disclosure of non-public personal information about consumers to non‑affiliated third parties. The GLBA requires disclosures to consumers on policies and procedures regarding the disclosure of such non-public personal information and, except as otherwise required by law, prohibit disclosing such information except as provided in the Bank’s policies and procedures. We have implemented privacy policies addressing these restrictions that are distributed regularly to all existing and new customers of the Bank.

In March 2015, federal regulators issued two related statements regarding cybersecurity. One statement indicates that financial institutions should design multiple layers of security controls to establish lines of defense and to ensure that their risk management processes also address the risk posed by compromised customer credentials, including security measures to reliably authenticate customers accessing Internet-based services of the financial institution. The other statement indicates that a financial institution’s management is expected to maintain sufficient business continuity planning processes to ensure the rapid recovery, resumption and maintenance of the institution’s operations after a cyber-attack involving destructive malware. A financial institution is also expected to develop appropriate processes to enable recovery of data and business operations and address rebuilding network capabilities and restoring data if the institution or its critical service providers fall victim to this type of cyber-attack. If we fail to observe the regulatory guidance, we could be subject to various regulatory sanctions, including financial penalties.

In November 2021, the federal bank regulatory agencies issued a joint rule establishing computer-security incident notification requirements for banking organizations and their service providers. This rule requires new notification requirements where a banking organization experiences a computer-security incident. This rule has an effective date of April 1, 2022, and a compliance date of May 1, 2022.

State regulators have been increasingly active in implementing privacy and cybersecurity standards and regulations. Several states have adopted regulations requiring certain financial institutions to implement cybersecurity programs and providing detailed requirements with respect to these programs, including data encryption requirements. Many states have implemented or modified their data breach notification and data privacy requirements, and California and Colorado, which are two states in which we have branch offices, have enacted comprehensive data privacy legislation. In June 2018, the California legislature passed the California Consumer Privacy Act of 2018 (the “CCPA”), which took effect on January 1, 2020. In November 2020, California voters approved the California Privacy Rights Act of 2020, which takes effect on January 1, 2023. Together, these California acts, which cover businesses that obtain or access personal information on California resident consumers, grant consumers enhanced privacy rights and control over their personal information and imposes significant requirements on covered companies with respect to consumer data privacy rights. In July 2021, Colorado became the third state – behind California and Virginia – to enact comprehensive data privacy legislation, commonly referred to as the Colorado Privacy Act, which is set to take effect on July 1, 2023. The Colorado Privacy Act is modeled in part off of the CCPA. We expect this trend of state-level activity to continue, and are continually monitoring developments in the states in which we operate. For a further discussion of risks related to privacy and cybersecurity, see "Item 1A. Risk Factors" included in this Form 10-K.

Regulation of Certain Subsidiaries

PWAM is registered with the SEC under the Investment Advisers Act of 1940, as amended, and is subject to its rules and regulations. Following the completion of various studies on investment advisers and broker-dealers required by the Dodd-Frank Act, the SEC has, among other things, recommended to Congress that it consider various means to enhance the SEC’s examination authority over investment advisers, which may have an impact on PWAM that we cannot currently assess.

ITEM 1A. RISK FACTORS

In the course of conducting our business operations, we are exposed to a variety of risks, some of which are inherent in the financial services industry and others of which are more specific to our own businesses. The COVID-19 pandemic has heightened, and in some cases manifested, certain of the risks we normally face in operating our business. The discussion below addresses the most significant factors, of which we are currently aware, that could affect our businesses, results of operations and financial condition. Additional factors that could affect our businesses, results of operations and financial condition are discussed in "Item 1. Business - Forward-Looking Information." However, other factors not discussed below or elsewhere in this Annual Report on Form 10-K could adversely affect our businesses, results of operations and financial condition. Therefore, the Risk Factors below should not be considered a complete list of potential risks we may face.

Any Risk Factor described in this Annual Report on Form 10-K or in any of our other SEC filings could by itself, or together with other factors, materially adversely affect our liquidity, cash flows, competitive position, business, reputation, results of operations, capital position or financial condition, including materially increasing our expenses or decreasing our revenues, which could result in material losses.

General Economic and Market Conditions Risk

The ongoing COVID-19 pandemic and resulting substantial disruption to global and domestic economies could adversely impact our business operations, asset valuations, and financial results.

The ongoing COVID-19 pandemic has created global and domestic economic and financial disruptions that adversely affected our business operations, asset valuations and financial results in 2020 and could adversely affect our business operations, asset valuations, and financial results in the future. The pandemic has negatively impacted the global and domestic economies, disrupted supply chains, lowered some equity market valuations, and created significant volatility and disruption in financial markets. Certain industries have been particularly hard hit by the pandemic, including the travel and hospitality industry, the restaurant industry and the retail industry.

As the pandemic unfolded in March 2020, the credit status of some of our borrowers was adversely affected. We immediately enhanced the monitoring of our loan and lease portfolio with particular emphasis on certain loan and lease portfolios that we expected to be most impacted by the pandemic, such as the hotel, retail, commercial aviation, restaurant, and oil services loan and lease portfolios. We responded by constructively working with affected borrowers, allowing for the deferral of loan payments and the extension of maturity dates, and amending our agreements with them when appropriate and warranted. We continue to closely monitor all of our portfolios, although with the increase in oil prices, the credit risk in the oil services portfolio has diminished. During 2021, we heightened our monitoring of real estate loans secured by office properties because of the risk tenants' may reduce the office space they lease as some portion of the workforce continues to work remotely. Even with our actions to assist our borrowers coping with the pandemic, we may not collect all amounts contractually owed to us as noted under "*Credit Risk*" below.

In addition, the pandemic has resulted in remote working environments, travel restrictions, business entry requirements, and proposed return-to-office vaccination and testing requirements. Should economic impacts of COVID-19 persist or further deteriorate, this macroeconomic environment could have an adverse impact on our business, financial condition, and results of operations.

The pandemic could also influence the recognition of the provision for credit losses in our loan portfolios and could increase our allowance for credit losses, depending on the duration of the pandemic, the ongoing impact of government stimulus and the ongoing impact on the overall economy. The provision for credit losses reflects estimates of future credit losses, however the actual credit losses that our loan portfolio may experience remains uncertain since the economic cycle is not complete, particularly as businesses remain closed and as more customers may draw on their lines of credit or seek additional loans to help finance their businesses.

Similarly, because of changing economic and market conditions affecting issuers, the securities we hold may lose value. The volatility in the equity markets, particularly early in the pandemic, has impacted our asset valuations, as evidenced by our goodwill impairment charge in the first quarter of 2020, and asset valuations of goodwill or other assets could be further impacted depending on future developments caused by COVID-19.

As an essential service, our business operations have continued during the pandemic, however they may be disrupted if significant portions of our workforce are unable to work effectively, including because of illness, quarantines, government actions, or other restrictions in connection with the pandemic. To protect the health and safety of our employees and communities, most of our employees in non-client facing roles continue to work remotely. Employees who enter Company branches and offices comply with indoor mask mandates as applicable under state and local guidance. Our branch locations are also prepared to respond to evolving pandemic risks through various actions depending on the circumstances, such as closing lobbies if a drive thru is available, temporarily closing if located within close proximity to another branch or at certain times reducing hours of operation. We may also experience operational difficulties, including increased cybersecurity risk, due to the remote working environments of our employees. We may also experience additional operational risk due to difficulties experienced by our third-party service providers.

Because there have been no comparable recent global pandemics that resulted in a similar global impact, the full extent to which the COVID-19 pandemic will impact our business operations, asset valuations and financial results will depend on future developments which remain uncertain and cannot be predicted. These include the scope and duration of the pandemic, including new strains of the virus, the efficacy and distribution of, and participation in, vaccination programs, the continued effectiveness of our business continuity plan, the direct and indirect impact of the pandemic on our employees, customers and third-party service providers, as well as other market participants, and the effectiveness of actions taken by governmental authorities and other third parties in response to the pandemic. If the pandemic continues to spread, morph or otherwise results in a continuation or worsening of the current economic and commercial environments, our business, financial condition, results of operations, cash flows, and ability to pay dividends, as well as our regulatory capital and liquidity ratios could be materially adversely affected.

Our business is adversely affected by unfavorable economic, market, and political conditions.

In the event of an economic recession, our operating results could be adversely affected because we could experience higher loan and lease charge-offs and higher operating costs. Global economic conditions also affect our operating results because global economic conditions directly influence the U.S. economic conditions. Sources of global economic and market instability include, but are not limited to, the potential economic slowdown in United Kingdom, Europe and the United States, the impact of trade negotiations, economic conditions in China, including the global economic impacts of the Chinese economy, China’s regulation of commerce, escalating military tensions in Europe as a result of Russia's invasion of Ukraine, and the effects of the pandemic or other health crises. Various market conditions also affect our operating results. Certain changes in interest rates, inflation, or the financial markets could affect demand for our products. Real estate market conditions directly affect performance of our loans secured by real estate. Debt markets affect the availability of credit which impacts the rates and terms at which we offer loans and leases. Stock market downturns often signal broader economic deterioration and/or a downward trend in business earnings which may adversely affect businesses’ ability to raise capital and/or service their debts. Political and electoral changes, developments, conflicts, and conditions have in the past introduced, and may in the future introduce, additional uncertainty which may also affect our operating results.

An economic recession or a downturn in various markets could have one or more of the following adverse effects on our business:

- a decrease in the demand for our loans and leases and other products and services offered by us;
- a decrease in our deposit balances due to overall reductions in the accounts of customers;
- a decrease in the value of collateral securing our loans and leases;
- an increase in the level of nonperforming and classified loans and leases;
- an increase in provisions for credit losses and loan and lease charge-offs;
- a decrease in net interest income derived from our lending and deposit gathering activities;
- a decrease in the Company's stock price;
- a decrease in our ability to access the capital markets; or
- an increase in our operating expenses associated with attending to the effects of certain circumstances listed above.

Credit Risk

Credit Risk is the Risk of Loss Arising from the Inability or Failure of a Borrower or Counterparty to Meet Its Obligation.

We may not collect all amounts that are contractually owed to us by our borrowers.

We are dependent on the collection of loan and lease principal, interest, and fees to partially fund our operations. A shortfall in collections and proceeds may impair our ability to fund our operations or to repay our existing debt.

When we loan money, commit to loan money or enter into a letter of credit or other contract with a counterparty, we incur credit risk. The credit quality of our portfolio can have a significant impact on our earnings. We expect to experience charge-offs and delinquencies on our loans and leases in the future. Many borrowers have been negatively impacted by the COVID-19 pandemic and related economic consequences, and may continue to be similarly or more severely affected in the future. Our borrowers' actual operating results may be worse than our underwriting indicated when we originated the loans and leases, and in these circumstances, if timely corrective actions are not taken, we could incur substantial impairment or loss of the value on these loans and leases. We may fail to identify problems because our borrower did not report them in a timely manner or, even if the borrower did report the problem, we may fail to address it quickly enough or at all. Even if borrowers provide us with full and accurate disclosure of all material information concerning their businesses, we may misinterpret or incorrectly analyze this information. Mistakes may cause us to make loans and leases that we otherwise would not have made or to fund advances that we otherwise would not have funded, either of which could result in losses on loans and leases, or necessitate that we significantly increase our allowance for loan and lease losses. As a result, we could suffer loan losses and have nonperforming loans and leases, which could have a material adverse effect on our net earnings and results of operations and financial condition, to the extent the losses exceed our allowance for loan and lease losses.

Some of our loans and leases are secured by a lien on specified collateral of the borrower and we may not obtain or properly perfect our liens or the value of the collateral securing any particular loan may not protect us from suffering a partial or complete loss if the loan becomes nonperforming and we proceed to foreclose on or repossess the collateral. In such event, we could suffer loan losses, which could have a material adverse effect on our net earnings, allowance for loan and lease losses, financial condition, and results of operations.

Additionally, loans to venture-backed companies support the borrowers’ operations, including operating losses, working capital requirements and fixed asset acquisitions. Venture-backed borrowers are at various stages in their development and are, generally, reporting operating losses. The primary sources of repayment are future additional venture capital equity investments or the sale of the company or its assets. Our venture-backed borrowers’ business plans may fail, increasing the likelihood for credit losses related to loans to venture-backed companies.

In accordance with U.S. GAAP, we maintain an allowance for loan and lease losses to provide for loan defaults and non-performance. Our allowance for loan and lease losses allocable to loans to venture-backed borrowers may not be adequate to absorb actual credit losses arising from these loans, and future provisions for credit losses could materially and adversely affect our operating results.

Our allowance for credit losses may not be adequate to cover actual losses.

Effective January 1, 2020, we adopted the Financial Accounting Standards Board (“FASB”) Accounting Standards Update 2016-13, “*Financial Instruments-Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments*,” commonly referred to as the “Current Expected Credit Losses” standard, or “CECL.” CECL changed the allowance for credit losses methodology from an incurred loss concept to an expected loss concept, which is more dependent on future economic forecasts, assumptions, and models than the previous accounting standards and could result in increases and add volatility to our allowance for credit losses and future provisions for loan losses. These forecasts, assumptions, and models are inherently uncertain and are based upon management’s reasonable judgment in light of information currently available. Our allowance for credit losses may not be adequate to absorb actual credit losses, and future provisions for credit losses could materially and adversely affect our operating results.

Our federal and state regulators, as an integral part of their examination process, review our loans and leases and allowance for credit losses. While we believe our allowance for credit losses is appropriate for the risk identified in our loan and lease portfolio, we cannot provide assurance that we will not further increase the allowance for credit losses, that it will be sufficient to address losses, or that regulators will not require us to increase this allowance. We also cannot be certain that actual results will be consistent with forecasts and assumptions used in our CECL modeling. Any of these occurrences could materially and adversely affect our financial condition and results of operations. For more information, see Note 1(i). *Nature of Operations and Summary of Significant Accounting Policies - Allowance for Credit Losses on Loans and Leases Held for Investment* of the Notes to Consolidated Financial Statements contained in "Item 8. Financial Statements and Supplementary Data."

Our loans and leases are concentrated by location, collateral value, and borrower type which could exacerbate credit losses if certain markets or industries were to experience economic difficulties or operating issues.

Real estate mortgage loans and real estate construction and land loans comprised 64% of our total loans and leases at December 31, 2021. Of total loans and leases, 39% are secured by real estate collateral located in California, 25% are secured by multi-family properties, and 4% are secured by commercial real estate construction projects.

For real estate mortgage loans, the respective primary and secondary sources of loan repayments are the net operating incomes of the properties and the proceeds from the sales or refinancing of the properties. For real estate construction and land loans, the primary source of loan repayments is the proceeds from the sales or refinancing of the properties following the completion of construction and the stabilization/attainment of sufficient debt service coverage. As such, our commercial real estate borrowers generally are required to refinance the loans with us or another lender or sell the properties to repay our loans. A portion of our real estate loans are secured by residential properties. Decreases in residential property values could lead to increased credit losses for these loans.

We have a number of large credit relationships and individual commitments.

At December 31, 2021, there were 13 individual real estate construction and land commitments greater than or equal to $100 million with the largest commitment being $181 million. At December 31, 2021, these 13 individual commitments totaled $1.6 billion and had an aggregate outstanding balance of $587 million. The projects financed by these commitments are nine multi-family projects, one condominium project, one mixed use property, one life science office property, and one industrial project. For these 13 commitments, the average commitment to budgeted project cost ratio was 56.4%.

At December 31, 2021, we had 13 individual loan commitments greater than or equal to $150 million that ranged in size from $150 million to $500 million and totaled $3.3 billion and had an aggregate outstanding balance of $1.5 billion. Six of these commitments totaling $1.9 billion were equity fund loans, four of these commitments totaling $854 million were lender finance loans, one of these commitments totaling $181 million was a residential construction loan, one of these commitments totaling $175 million was a loan secured by a multi-family property, and one of these commitments totaling $150 million was a loan secured by a studio office complex.

A significant loss related to one of our large lending relationships or individual commitments could have a material adverse effect on our financial condition and results of operations.

A slowdown in venture capital investment levels may reduce the market for venture capital investment for our venture banking clients, which could adversely affect our business, results of operations, or financial condition.

Part of our strategy is focused on providing banking products and credit to entrepreneurial and venture-backed businesses, including companies that receive financial support from sophisticated investors, including venture capital or private equity firms, and corporate investors. We derive a significant portion of deposits, including large deposits, from these companies and provide them with loans as well as other banking products and services. In many cases, our credit decisions are based on our analysis of the likelihood that our venture capital-backed clients will receive additional rounds of equity capital from investors. If the amount of capital available to such companies decreases, we could suffer loan losses, which could have a material adverse effect on our deposit balances, net earnings, allowance for loan and lease losses, financial condition, and results of operations.

Market Risk

Market Risk Is the Risk That Market Conditions May Adversely Impact the Value of Assets or Liabilities or Otherwise Negatively Impact Earnings. Market Risk Is Inherent To the Financial Instruments Associated with Our Operations, Including Loans, Deposits, Securities, Short-term Borrowings, Long-term Debt, and Derivatives.

Our business is subject to interest rate risk, and variations in interest rates may materially and adversely affect our financial performance.

Changes in the interest rate environment may reduce our profits. It is expected that we will continue to realize income from the differential or "spread" between the interest earned on loans, securities and other interest-earning assets, and interest paid on deposits, borrowings and other interest-bearing liabilities. Net interest spreads are affected by the difference between the maturities and repricing characteristics of interest-earning assets and interest-bearing liabilities. Changes in market interest rates generally affect loan volume, loan yields, funding sources and funding costs. Our net interest spread depends on many factors that are partly or completely out of our control, including competition, general economic conditions, and federal economic monetary and fiscal policies, and in particular, the Federal Reserve Board. After steadily increasing the target federal funds rate in 2017 and 2018, the Federal Reserve Board in 2019 decreased the target federal funds rate by 75 basis points, and in response to the COVID-19 pandemic in March 2020, an additional 150 basis point decrease to a range of 0.00% to 0.25% as of March 31, 2020 where it has remained. A prolonged low interest rate environment could negatively impact our net interest margin as assets reprice that are not subject to interest rate floors. The Federal Reserve Board has signaled that an increase in rates is coming but the exact timing and extent remain unknown and are largely subject to economic conditions.

While an increase in interest rates may increase our loan yield, it may adversely affect the ability of certain borrowers with variable-rate loans to pay the contractual interest and principal due to us. Following an increase in interest rates, our ability to maintain a positive net interest spread is dependent on our ability to increase our loan offering rates, replace loans that mature and repay or that prepay before maturity with new originations, minimize increases on our deposit rates, and maintain an acceptable level and composition of funding. We cannot provide assurances that we will be able to increase our loan offering rates and continue to originate loans due to the competitive landscape in which we operate. Additionally, we cannot provide assurances that we can minimize the increases in our deposit rates while maintaining an acceptable level of deposits. Finally, we cannot provide any assurances that we can maintain our current levels of noninterest-bearing deposits as customers may seek higher-yielding products when interest rates increase.

Accordingly, changes in levels of interest rates could materially and adversely affect our net interest margin, asset quality, loan origination volume, average loan portfolio balance, deposit balances, liquidity, and overall profitability.

We may be adversely impacted by the transition from LIBOR as a reference rate.

In 2017, the Financial Conduct Authority announced that after 2021 it will no longer compel banks to submit the rates required to calculate LIBOR. In November 2020, the administrator of LIBOR announced it will consult on its intention to extend the retirement date of certain offered rates whereby the publication of the one week and two month LIBOR offered rates will cease after December 31, 2021; but, the publication of the remaining LIBOR offered rates will continue until June 30, 2023. Given consumer protection, litigation, and reputation risks, the bank regulatory agencies have indicated that entering into new contracts that use LIBOR as a reference rate after December 31, 2021 would create safety and soundness risks and that they will examine bank practices accordingly. Therefore, the agencies encouraged banks to cease entering into new contracts that use LIBOR as a reference rate as soon as practicable and in any event by December 31, 2021.

To identify a successor rate for LIBOR in the United States, the Alternative Reference Rates Committee (“ARRC”), a U.S.-based group convened by the Federal Reserve Board and the Federal Reserve Bank of New York, was formed. The ARRC has identified SOFR as its preferred alternative rate for LIBOR. SOFR is a measure of the cost of borrowing cash overnight, collateralized by U.S. Treasury securities, and is based on directly observable U.S. Treasury-backed repurchase transactions. On July 29, 2021, the ARCC formally recommended SOFR as its preferred alternative replacement rate for LIBOR.

Starting in August 2019, we began including fallback language in our new loan agreements that would allow us to substitute an alternative reference rate in the event LIBOR became unavailable as a published reference rate. As of December 31, 2021, we permanently ceased originating any new loans or entering into any transaction that would increase our LIBOR based exposure. For all variable-rate loans, the Company primarily offers Prime and SOFR as the variable rate index, but may consider alternative rates such as the American Interbank Offered Rate (“Ameribor”) and others based on market condition and/or the type of loan or financial instrument. Nonetheless, we have significant legacy portfolios of loans, securities, and TruPS borrowings that are either directly or indirectly dependent on LIBOR. As of December 31, 2021, we had $7.6 billion of outstanding loans for which the repricing index rate was tied to LIBOR, of which $5.6 billion had maturity dates after June 30, 2023.

The transition from LIBOR could create considerable costs and additional risk. Although the administrator of LIBOR has announced its intention to extend the publication of most tenors of LIBOR for U.S. dollars through June 30, 2023, we cannot predict whether or when LIBOR will actually cease to be available, whether SOFR will become the widely-accepted market benchmark in its place or what impact such a transition may have on our business, financial condition and results of operations. The uncertainty as to the nature and effect of the discontinuance of LIBOR may adversely affect the value of, the return on or the expenses associated with our financial assets and liabilities that are based on or are linked to LIBOR, may require extensive changes to the contracts that govern these LIBOR-based products as well as our systems and processes, and could impact our pricing and interest rate risk models, our loan product structures, our funding costs, our valuation tools and result in increased compliance and operational costs. In addition, the market transition away from LIBOR to an alternative reference rate could prompt inquiries or other actions from regulators in respect of our preparation and readiness for the replacement of LIBOR with an alternative reference rate, and result in disputes, litigation or other actions with counterparties regarding the interpretation and enforceability of certain fallback language in LIBOR-based financial instruments. Furthermore, failure to adequately manage this transition process with our customers could adversely impact our reputation.

Although we are currently unable to assess the ultimate impact of the transition from LIBOR, the failure to adequately manage the transition could have a material adverse effect on our business, financial condition and results of operations.

The value of our securities in our investment portfolio may decline in the future.

The fair market value of our investment securities may be adversely affected by general economic and market conditions, including changes in interest rates, credit spreads, and the occurrence of any events adversely affecting the issuer of particular securities in our investments portfolio or any given market segment or industry in which we are invested. We analyze our securities, all of which are classified as available-for-sale, on a quarterly basis to measure currently expected credit losses. The process for determining currently expected credit losses usually requires complex, subjective judgments about the future financial performance of the issuer in order to assess the probability of receiving principal and interest payments sufficient to recover our amortized cost of the security. Because of changing economic and market conditions affecting issuers, we may be required to recognize credit losses in future periods, which could have a material adverse effect on our business, financial condition, or results of operations.

Capital and Liquidity Risk

Capital and Liquidity Risk Is the Risk of Loss Resulting from Insufficient Capital Levels or Inadequate Liquid Assets That Could Impair Our Ability to Operate Free of Regulatory Enforcement Actions and to Meet Our Contractual and Contingent Financial Obligations, On- or Off-Balance Sheet, as They Become Due.

We are subject to capital adequacy standards and liquidity rules, and a failure to meet these standards could adversely affect our financial condition.

The Company and the Bank are each subject to capital adequacy and liquidity rules and other regulatory requirements specifying minimum amounts and types of capital that must be maintained. From time to time, the regulators implement changes to these regulatory capital adequacy and liquidity guidelines. If we fail to meet these minimum capital and liquidity guidelines and other regulatory requirements, we may be restricted in the types of activities we may conduct and may be prohibited from taking certain capital actions, such as making TruPS payments or paying executive bonuses or dividends, and repurchasing or redeeming capital securities.

We may need to raise additional capital in the future and such capital may not be available when needed or at all.

We are required by federal and state regulators to maintain adequate levels of capital. We may need to raise additional capital in the future to meet regulatory or other internal requirements. As a publicly traded company, a likely source of additional funds is the capital markets, accomplished generally through the issuance of equity, both common and preferred stock, and the issuance of subordinated debt. Our ability to raise additional capital, if needed, will depend on, among other things, conditions in the capital markets at that time, which are outside of our control, and our financial performance.

We cannot provide any assurance that access to such capital will be available to us on acceptable terms or at all. Any occurrence that may limit our access to the capital markets, such as a decline in the confidence of debt purchasers or counter-parties participating in the capital markets, may materially and adversely affect our capital costs and our ability to raise capital and, in turn, our liquidity. Further, if we need to raise capital in the future, we may have to do so when many other financial institutions are also seeking to raise capital and would then have to compete with those institutions for investors. The inability to raise additional capital on acceptable terms when needed could have a materially adverse effect on our business, financial condition, or results of operations.

We are subject to liquidity risk, which could adversely affect our financial condition and results of operations.

Effective liquidity management is essential for the operation of our business. Although we have implemented strategies to maintain sufficient and diverse sources of funding to accommodate planned, as well as unanticipated, changes in assets, liabilities, and off-balance sheet commitments under various economic conditions, an inability to raise funds through deposits, borrowings, the sale of investment securities and other sources could have a material adverse effect on our liquidity. Our access to funding sources in amounts adequate to finance our activities could be impaired by factors that affect us specifically or the financial services industry in general. Factors that could detrimentally impact our access to liquidity sources include a decrease in the level of our business activity due to a market disruption, a decrease in the borrowing capacity assigned to our pledged assets by our secured creditors, or adverse regulatory action against us. Deterioration in economic conditions and the loss of confidence in financial institutions may increase our cost of funding and limit our access to some of our customary sources of liquidity, including, but not limited to, inter-bank borrowings and borrowings from the FRBSF and FHLB. Our ability to acquire deposits or borrow could also be impaired by factors that are not specific to us, such as a severe disruption of the financial markets or negative views and expectations about the prospects for the financial services industry generally as a result of conditions faced by banking organizations in the domestic and international credit markets.

Regulatory, Compliance and Legal Risk

Regulatory, Compliance and Legal Risk Is the Risk of Loss Related to Violations of Laws, Rules, or Regulations, or from Non-Conformance with Prescribed Practices, Internal Policies and Procedures, Contractual Obligations and Other Legal and Ethical Standards.

Our participation in the SBA PPP loan program exposes us to risks related to noncompliance with the PPP, as well as litigation risk related to our administration of the PPP loan program, which could have a material adverse impact on our business, financial condition, and results of operations.

The Company is a participating lender in the PPP, a loan program administered through the SBA, that was created to help eligible businesses, organizations and self-employed persons fund their operational costs during the COVID-19 pandemic. Under this program, the SBA guarantees 100% of the amounts loaned under the PPP.

The PPP opened on April 3, 2020; however, because of the short window between the passing of the CARES Act and the opening of the PPP, there was some ambiguity in the laws, rules and guidance regarding the operation of the PPP. Subsequent rounds of legislation and associated agency guidance have not provided necessary clarity and have created potential additional inconsistencies and ambiguities. Accordingly, the Company is exposed to risks relating to noncompliance with the PPP.

Additionally, since the launch of the PPP, several larger banks have been subject to litigation regarding the process and procedures that such banks used in processing applications for the PPP, as well as litigation regarding the alleged nonpayment of fees that may be due to certain agents who facilitated PPP loan applications. The Company may be exposed to the risk of litigation, from both customers and non-customers that approached the Bank regarding PPP loans, regarding its process and procedures used in processing applications for the PPP. If any such litigation is filed against the Company and is not resolved in a manner favorable to the Company, it may result in significant financial liability or adversely affect the Company’s reputation. Regardless of outcome, litigation can be costly and distracting. Any financial liability, litigation costs or reputational damage caused by PPP-related litigation could have a material adverse impact on our business, financial condition and results of operations.

PPP loans are fixed, low interest rate loans that are guaranteed by the SBA and subject to numerous other regulatory requirements, and a borrower may apply to have all or a portion of the loan forgiven. If PPP borrowers fail to qualify for loan forgiveness, we face a heightened risk of holding these loans at unfavorable interest rates for an extended period of time. While the PPP loans are guaranteed by the SBA, various regulatory requirements will apply to our ability to seek recourse under the guarantees, and related procedures are currently subject to uncertainty.

In addition, the Company may be exposed to credit risk on PPP loans if a determination is made by the SBA that there is a deficiency in the manner in which the loan was originated, funded, or serviced, such as an issue with the eligibility of borrower to receive a PPP loan, which may or may not be related to the ambiguity in the laws, rules and guidance regarding the operations of the PPP. If a deficiency is identified, the SBA may deny its liability under the guaranty, reduce the amount of the guaranty, or, if it has already paid under the guaranty, seek recovery of any loss related to the deficiency from the Company.

We are subject to extensive regulation, which could materially and adversely affect our business.

The banking industry is extensively regulated and supervised under both federal and state laws and regulations that are intended primarily for the protection of depositors, customers, federal deposit insurance funds and the banking system as a whole, not for the protection of our stockholders and creditors. The Company is subject to regulation and supervision by the FRB, and the Bank is subject to regulation and supervision by the FDIC, DFPI and CFPB. The laws and regulations applicable to us govern a variety of matters, including, but not limited to, permissible types, amounts and terms of loans and investments we make, the maximum interest rate that may be charged, consumer disclosures on the products and services we offer, the amount of reserves we must hold against our customers' deposits, the types of deposits we may accept and the rates we may pay on such deposits, the establishment of new branch offices by the Bank, maintenance of adequate capital and liquidity, restrictions on dividends, and stock repurchases. We must obtain approval from our regulators before engaging in certain activities, including certain acquisitions, and there can be no assurance that any regulatory approvals we may require will be obtained, or obtained without conditions, either in a timely manner or at all. Our regulators have the ability to compel us to, or restrict us from, taking certain actions entirely, such as actions that our regulators deem to constitute unsafe or unsound banking practice. While we have policies and procedures designed to prevent violations of the extensive federal and state regulations, any failure to comply with any applicable laws or regulations, or regulatory policies and interpretations of such laws and regulations, could result in regulatory enforcement actions, civil monetary penalties, or damage to our reputation, all of which could have a material adverse effect on our business, financial condition, or results of operation.

Regulations affecting banks and other financial institutions are undergoing continuous review and frequently change. The ultimate effect of such changes cannot be predicted. Because our business is highly regulated, compliance with such regulations and laws may increase our costs and limit our ability to pursue business opportunities. There can be no assurance that laws, rules, and regulations, including any future government stabilization program, will not be proposed or adopted in the future, which could (i) subject us to additional restrictions, (ii) make compliance much more difficult or expensive, (iii) restrict our ability to originate, broker, or sell loans or accept certain deposits, (iv) further limit or restrict the amount of commissions, interest, or other charges earned on loans originated or sold, or (v) otherwise materially and adversely affect our business or prospects for business. While new legislation in 2018 scaled back portions of the Dodd-Frank Act, the new administration in the United States may adopt, enhance or modify bank regulation, and any such new, enhanced or modified regulations could adversely affect our financial condition or results of operations.

Though the Company and Bank are no longer required to prepare annual stress tests pursuant to the Dodd-Frank Act, we continue to prepare an annual internal capital stress test under adverse economic and market conditions. Our stress test results are considered by the FRB and FDIC in evaluating our capital adequacy and could have a negative impact on our ability to make capital distributions in the form of dividends or share repurchases.

The Company and its subsidiaries are subject to changes in federal and state tax laws, interpretation of existing laws, and examinations and challenges by taxing authorities.

Our financial performance is impacted by federal and state tax laws. Given the current economic and political environment, and ongoing budgetary pressures, the enactment of new federal or state tax legislation or new interpretations of existing tax laws could occur. The enactment of such legislation, or changes in the interpretation of existing law, including provisions impacting income tax rates, apportionment, consolidation or combination, income, expenses, and credits, may have a material adverse effect on our financial condition, results of operations, and liquidity.

In the normal course of business, we are routinely subjected to examinations and audits from federal, state, and local taxing authorities regarding tax positions taken by us and the determination of the amount of taxes due. These examinations may relate to income, franchise, gross receipts, payroll, property, sales and use, or other tax returns. The challenges made by taxing authorities may result in adjustments to the amount of taxes due, and may result in the imposition of penalties and interest. If any such challenges are not resolved in our favor, they could have a material adverse effect on our financial condition, results of operations, and liquidity.

We are subject to claims and litigation which could adversely affect our cash flows, financial condition, and results of operations, or cause us significant reputational harm.

We and certain of our directors, officers, and subsidiaries may be involved, from time to time, in reviews, investigations, litigation, and other proceedings pertaining to our business activities. If claims or legal actions, whether founded or unfounded, are not resolved in a favorable manner to us, they may result in significant financial liability. Although we establish accruals for legal matters when and as required by U.S. GAAP and certain expenses and liabilities in connection with such matters may be covered by insurance, the amount of loss ultimately incurred in relation to those matters may be substantially higher than the amounts accrued and/or insured. Substantial legal liability could adversely affect our business, financial condition, results of operations, and reputation.

Regulations relating to privacy, information security, and data protection could increase our costs, affect or limit how we collect and use personal information, and adversely affect our business opportunities.

We are subject to various privacy, information security and data protection laws, such as the Gramm-Leach-Bliley Act, which among other things requires privacy disclosures, and maintenance of a robust security program that are increasingly subject to change which could have a significant impact on our current and planned privacy, data protection and information security-related practices, our collection, use, sharing, retention and safeguarding of consumer or employee information, and some of our current or planned business activities.

Additionally, many states have implemented or modified their data breach notification and data privacy requirements, and California and Colorado, which are two states in which we have branch offices, have enacted comprehensive data privacy legislation. The California legislature passed the California Consumer Privacy Act of 2018 ("CCPA"), which came into effect on January 1, 2020, and the California Privacy Rights Act of 2020, which takes effect on January 1, 2023. Together, these California acts, which cover businesses that obtain or access personal information on California resident consumers, grant consumers enhanced privacy rights and control over their personal information and imposes significant requirements on covered companies with respect to consumer data privacy rights. Additionally, Colorado became the third state – behind California and Virginia – to enact comprehensive data privacy legislation, commonly referred to as the Colorado Privacy Act, which is set to take effect on July 1, 2023. The Colorado Privacy Act is modeled in part off of the CCPA. Our regulators also hold us responsible for privacy and data protection obligations performed by our third-party service providers while providing services to us.

New or changes to existing laws could increase our costs of compliance and business operations and could reduce income from certain business initiatives, including increased privacy-related enforcement activity, higher compliance and technology costs and could restrict our ability to provide certain products and services. Our failure to comply with privacy, data protection and information security laws could result in potentially significant regulatory or governmental investigations or actions, litigation, fines, sanctions and damage to our reputation, which could have a material adverse effect on our business, financial condition or results of operations.

Risk of the Competitive Environment in which We Operate

Our ability to attract and retain qualified employees is critical to our success.

Our employees are our most important resource, and in many areas of the financial services industry, competition for qualified personnel is intense. We endeavor to attract talented and diverse new employees and retain and motivate our existing employees to assist in executing our growth, acquisition, and business strategies. We also seek to retain proven, experienced senior employees with superior talent, augmented from time to time by external hires, to provide continuity of succession of our executive management team. In addition, the Company's Board oversees succession planning, including review of the succession plans for the Chief Executive Officer and other members of executive management. Losses of or changes in our current executive officers or other key personnel, or the inability to recruit and retain qualified personnel in the future could materially and adversely affect our financial condition and results of operations.

We face strong competition from financial services companies and other companies that offer banking services, which could materially and adversely affect our business.

The financial services industry has become even more competitive as a result of legislative, regulatory and technological changes and continued banking consolidation, which may increase in connection with current economic, market and political conditions. We face substantial competition in all phases of our operations from a variety of competitors, including national banks, regional banks, community banks and, more recently, financial technology (or "fintech") companies. Many of our competitors offer the same banking services that we offer and our success depends on our ability to adapt our products and services to evolving industry standards. Increased competition in our market may result in reduced new loan and lease production and/or decreased deposit balances or less favorable terms on loans and leases and/or deposit accounts. We also face competition from many other types of financial institutions, including without limitation, non-bank specialty lenders, insurance companies, private investment funds, investment banks, and other financial intermediaries. While there are a limited number of direct competitors in the venture banking market, some of our competitors have long-standing relationships with venture firms and the companies that are funded by such firms. Many of our competitors have significantly greater resources, established customer bases, more locations, and longer operating histories.

Should competition in the financial services industry intensify, our ability to market our products and services may be adversely affected. If we are unable to attract and retain banking customers, we may be unable to grow or maintain the levels of our loans and deposits and our results of operations and financial condition may be adversely affected as a result. Ultimately, we may not be able to compete successfully against current and future competitors.

Failure to keep pace with technological change could adversely affect our business.

The financial services industry experiences continuous technological change with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. Our future success depends, in part, upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in our operations. Many of our competitors, however, have substantially greater resources to invest in technological improvements or are technology focused start-ups with internally developed cloud-native systems that offer improved user interfaces and experiences. We may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our customers. In addition, we depend on internal and outsourced technology to support all aspects of our business operations. Interruption or failure of these systems creates a risk of business loss as a result of adverse customer experiences and possible diminishing of our reputation, damage claims or civil fines. Failure to successfully keep pace with technological change affecting the financial services industry or to successfully implement core processing strategies could have a material adverse impact on our business and, in turn, our financial condition and results of operations.

Our ability to maintain, attract and retain customer relationships and investors is highly dependent on our reputation.

Damage to our reputation could undermine the confidence of our current and potential customers and investors in our ability to provide high-quality financial services. Such damage could also impair the confidence of our counterparties and vendors and ultimately affect our ability to effect transactions. Maintenance of our reputation depends not only on our success in maintaining our service-focused culture and controlling and mitigating the various risks described herein, but also on our success in identifying and appropriately addressing issues that may arise in areas such as potential conflicts of interest, anti-money laundering, client personal information and privacy issues, customer and other third-party fraud, record-keeping, technology-related issues including but not limited to cyber fraud, regulatory investigations and any litigation that may arise from the failure or perceived failure to comply with legal and regulatory requirements. Defense of our reputation, trademarks, and other intellectual property, including through litigation, also could result in costs that could have a material adverse effect on our business, financial condition, or results of operations.

Risks Related to Risk Management

Risks Related to Risk Management Is the Risk of Loss Resulting from Unknown Risks and Our Inability to Timely and Adequately Identify, Monitor and Manage Key Risks That May Affect Our Business.

Our acquisitions may subject us to unknown risks.

As an active acquirer having successfully completed 31 acquisitions since 2000, including two acquisitions in 2021, certain events may arise after the date of an acquisition, or we may learn of certain facts, events or circumstances after the closing of an acquisition, that may affect our financial condition or performance or subject us to risk of loss. These events include, but are not limited to: litigation resulting from circumstances occurring at the acquired entity prior to the date of acquisition; loan downgrades and credit loss provisions resulting from deterioration in the credit quality of the acquired loans; personnel changes that cause instability within a department; delays in implementing new policies or procedures or the failure to apply new policies or procedures; and other events relating to the performance of our business. Acquisitions involve inherent uncertainty and we cannot determine all potential events, facts and circumstances that could result in loss or increased costs or give assurances that our due diligence or mitigation efforts will be sufficient to protect against any such loss or increased costs.

Our ability to execute our strategic initiatives successfully will depend on a variety of factors. These factors likely will vary based on the nature of the initiative but may include our success in integrating the operations, services, products, personnel and systems of an acquired company into our business, operating effectively with any partner with whom we elect to do business, retaining key employees, achieving anticipated synergies, meeting expectations and otherwise realizing the undertaking's anticipated benefits. Our ability to address these matters successfully cannot be assured. In addition, our strategic initiatives may divert resources or management's attention from ongoing business operations and may subject us to additional regulatory scrutiny. If we do not successfully execute a strategic undertaking, it could adversely affect our business, financial condition, results of operations, reputation, regulatory relationships and growth prospects. To the extent we issue capital stock in connection with future acquisitions, these transactions may be dilutive to tangible book value and will dilute share ownership.

A failure, interruption, or breach in the security of our systems, or those of contracted vendors, could disrupt our business, result in the disclosure of confidential information, damage our reputation, and create significant financial and legal exposure.

Although we devote significant resources to maintain and regularly update our systems and processes that are designed to protect the security of our computer systems, software, networks and other technology assets, as well as the confidentiality, integrity and availability of information belonging to us and our customers, there is no assurance that all of our security measures will provide absolute security.

Many financial institutions, including the Company, have been subjected to attempts to infiltrate the security of their websites or other systems, some involving sophisticated and targeted attacks intended to obtain unauthorized access to confidential information, destroy data, disrupt or degrade service, sabotage systems or cause other damage, including through the introduction of computer viruses or malware, cyber-attacks and other means. We have been targeted by individuals and groups using phishing campaigns, pretext calling, malicious code and viruses, and have experienced distributed denial-of-service attacks with the objective of disrupting on-line banking services and expect to be subject to such attacks in the future.

Despite efforts to ensure the integrity of our systems, it is possible that we may not be able to anticipate, detect or recognize threats to our systems or to implement effective preventive measures against all security breaches of these types inside or outside our business, especially because the techniques used change frequently or are not recognized until launched, and because cyber-attacks can originate from a wide variety of sources, including individuals or groups who are associated with external service providers or who are or may be involved in organized crime or linked to terrorist organizations or hostile foreign governments. Those parties may also attempt to fraudulently induce employees, customers, third-party service providers or other users of our systems to disclose sensitive information in order to gain access to our data or that of our customers or clients. Similar to other companies, risks and exposures related to cybersecurity attacks have increased as a result of the COVID-19 pandemic, the related increased reliance on remote working and increase in digital operations in efforts to comply with state and local mandates. Such risks and exposures are expected to remain high for the foreseeable future due to the rapidly evolving nature and sophistication of these threats and the expanding use of technology, as our web-based product offerings grow or we expand internal usage of web-based applications.

A successful penetration or circumvention of the security of our systems, including those of our third-party vendors, could cause serious negative consequences, including significant disruption of our operations, misappropriation of confidential information, or damage to computers or systems, and may result in violations of applicable privacy and other laws, financial loss, loss of confidence in our security measures, customer dissatisfaction, increased insurance premiums, significant litigation exposure and harm to our reputation, all of which could have a material adverse effect on our business, financial condition, results of operations, and future prospects.

We rely on other companies to provide key components of our business infrastructure.

We rely on certain third parties to provide products and services necessary to maintain day-to-day operations, such as data processing and storage, recording and monitoring transactions, on-line banking interfaces and services, Internet connections, telecommunications, and network access. Even though we have a vendor management program to help us carefully select and monitor the performance of third parties, we do not control their actions. The failure of a third-party to perform in accordance with the contracted arrangements under service level agreements as a result of changes in the third party's organizational structure, financial condition, support for existing products and services, strategic focus, system interruption or breaches, or for any other reason, could be disruptive to our operations, which could have a material adverse effect on our business, financial condition and results of operations. Replacing these third parties could also create significant delays and expense. Accordingly, use of such third parties creates an inherent risk to our business operations.

Severe weather, natural disasters, acts of war or terrorism, new public health issues, or other adverse external events could harm the Company's business. Further, global concerns regarding climate risk may lead to new or heightened governmental regulations to mitigate those risks which could adversely affect our business

Severe weather, natural disasters, acts of war or terrorism, new public health issues, and other adverse external events could have a significant impact on our ability to conduct business. The nature and level of severe weather and/or natural disasters cannot be predicted and may be exacerbated by global climate change. Severe weather and natural disasters could harm our operations through interference with communications, including the interruption or loss of our computer systems, which could prevent or impede us from gathering deposits, originating loans and processing and controlling the flow of business, as well as through the destruction of facilities and our operational, financial and management information systems. California, in which a substantial portion of our business and a substantial portion of our loan collateral is located, is susceptible to severe weather and natural disasters such as earthquakes, floods, droughts, and wildfires. Additionally, the United States remains a target for potential acts of war or terrorism. Moreover, a new public health issue, such as a major epidemic or another pandemic, could adversely affect economic conditions.

Severe weather, natural disasters, acts of war or terrorism, public health issues, or other adverse external events could each negatively impact our business operations or the stability of our deposit base, cause significant property damage, adversely impact the values of collateral securing our loans and/or interrupt our borrowers' abilities to conduct their business in a manner to support their debt obligations, which could result in losses and increased provisions for credit losses. There is no assurance that our business continuity and disaster recovery program can adequately mitigate the risks of such business disruptions and interruptions.

Concerns regarding climate risk may lead to further governmental efforts to mitigate those risks, as well as changes in behavior and preferences by consumers and businesses. Future governmental regulations or guidance relating to climate risk, as well as the perspectives of regulators, shareholders, employees and other stakeholders, may at some point in the future affect our product and service offerings. Federal and state banking regulators and supervisory authorities, shareholders and other stakeholders have increasingly viewed financial institutions such as us as playing an important role in helping to address risks related to climate change, both directly and with respect to our clients, which may result in increased pressure regarding the disclosure and management of climate risks and related lending and advisory activities. In the future, we may also become subject to new or heightened regulatory requirements related to climate change, such as requirements relating to operational resiliency or stress testing for various climate stress scenarios. Any new or heightened requirements could result in increased regulatory compliance or other costs or higher capital requirements. The risks associated with, and the perspective of regulators, shareholders, employees and other stakeholders regarding climate change are continuing to evolve rapidly, which can make it difficult to assess the ultimate impact on us of climate change-related risks and uncertainties, and we expect that climate change-related risks will increase over time. Currently, there are no existing regulations applicable to us related to climate risk as such we have not performed a climate risk impact assessment.

Risk from Accounting and Other Estimates

Risk from Accounting and Other Estimates Is the Risk That the Estimates and Assumptions That We Use in Preparing Our Consolidated Financial Statements and In Models We Utilize to Make Business Decisions May Be Subject to Adjustment for Reasons Within or Beyond Our Control, Which Could Result in Unexpected Losses and Adverse Effects on Our Financial Condition.

The Company's consolidated financial statements are based in part on assumptions and estimates which, if incorrect, could cause unexpected losses in the future.

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

There are risks resulting from the extensive use of models in our business.

We rely on quantitative models to measure risks and to estimate certain financial values. Models may be used in such processes as determining the pricing of various products, grading loans and extending credit, measuring interest rate and other market risks, predicting or estimating losses, assessing capital adequacy and calculating regulatory capital levels, as well as to estimate the value of financial instruments and balance sheet items. Poorly designed or implemented models present the risk that our business decisions based on information incorporating model output could be adversely affected due to the inaccuracy of that information. Models are often based on historical experience to predict future outcomes, as a result new experiences or events which are not part of historical experience can significantly increase model imprecision and impact model reliability. Model inputs can also include information provided by third parties, such as economic forecasts or macroeconomic variables (unemployment, Real GDP, CRE Price Index, BBB Spreads, CPI, etc.) upon which we rely. Some of the decisions that our regulators make, including those related to capital distributions, could be affected due to the perception that the quality of the models used to generate the relevant information is insufficient, which could have a negative impact on our ability to make capital distributions in the form of dividends or share repurchases. Our reliance on models continues to increase as rules, guidance and expectations change.

Risks Related to Investments in Our Securities

The primary source of the holding company's liquidity from which we pay dividends, among other things, is the receipt of dividends from the Bank.

The holding company, PacWest, is a legal entity separate and distinct from the Bank and our other subsidiaries. The availability of dividends from the Bank is limited by various statutes and regulations. It is possible, depending upon the financial condition of the Bank and other factors, that the FRB, the FDIC and/or the DFPI could assert that payment of dividends or other payments is an unsafe or unsound practice. In the event the Bank is unable to pay dividends to the holding company, it is likely that we, in turn, would have to discontinue capital distributions in the form of dividends or share repurchases and may have difficulty meeting our other financial obligations, including payments in respect of any outstanding indebtedness or subordinated debt. The Bank may declare a dividend without the approval of the DFPI 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 dividend paid during such period. The Bank had a cumulative net loss of $155.3 million during the three fiscal years of 2021, 2020, and 2019 due to the $1.47 billion goodwill impairment in the first quarter of 2020, compared to dividends of $776.0 million paid by the Bank during that same period. During 2021, PacWest received $182.0 million in dividends from the Bank. Since the Bank had an accumulated deficit of $1.5 billion at December 31, 2021, for the foreseeable future, any cash dividends from the Bank to the holding company will continue to require DFPI and FDIC approval. The inability of the Bank to pay dividends to the holding company could have a material adverse effect on our business, including the market price of our common stock.

We may reduce or discontinue the payment of dividends on common stock.

Our stockholders are only entitled to receive such dividends as our Board may declare out of funds legally available for such payments. Although we have historically declared cash dividends on our common stock, we are not required to do so and may reduce or eliminate our common stock dividend in the future. Our ability to pay dividends is subject to the restrictions set forth in Delaware law, by the FRB, and by certain covenants contained in our subordinated debt. Notification to the FRB is also required prior to our declaring and paying a cash dividend during any period in which our quarterly and/or cumulative twelve-month net earnings are insufficient to fund the dividend amount, among other requirements. Given the impact of the goodwill impairment charge on net earnings in the first quarter of 2020, we were required to receive approval from the FRB prior to declaring a dividend from March 31, 2020 through March 31, 2021, but are no longer required to obtain such approval. In addition, we may be restricted by applicable law or regulation or actions taken by our regulators, now or in the future, from paying dividends to our stockholders. We cannot provide assurance that we will continue paying dividends on our common stock at current levels or at all.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

As of January 31, 2022, we had a total of 150 properties consisting of 71 full-service branch offices and 79 other offices. We own four locations and the remaining properties are leased. Our properties are located throughout the United States, however, approximately 71% are located in California. We lease our principal office, which is located at 9701 Wilshire Blvd., Suite 700, Beverly Hills, CA 90212.

For additional information regarding properties of the Company and Pacific Western, see Note 7. *Premises and Equipment, Net* of the Notes to Consolidated Financial Statements contained in “Item 8. Financial Statements and Supplementary Data.”

ITEM 3. LEGAL PROCEEDINGS

See Note 14. *Commitments and Contingencies* of the Notes to Consolidated Financial Statements contained in "Item 8. Financial Statements and Supplementary Data." That information is incorporated into this item by reference.

ITEM 4. MINE SAFETY DISCLOSURE

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Marketplace Designation and Holders

Our common stock is listed on The Nasdaq Global Select Market and is traded under the symbol "PACW." As of February 16, 2022, and based on the records of our transfer agent, there were approximately 1,590 record holders of our common stock.

Dividends

For a discussion of dividend restrictions on the Company's common stock, or of dividends from the Company's subsidiaries to the Company, see "Item 1. Business - Supervision and Regulation - *Dividends and Share Repurchases*" and Note 22. *Dividend Availability and Regulatory Matters* of the Notes to Consolidated Financial Statements contained in "Item 8. Financial Statements and Supplementary Data."

Securities Authorized for Issuance Under Equity Compensation Plans

The following table provides information as of December 31, 2021 regarding securities issued and to be issued under our equity compensation plans in effect during fiscal year 2021:

Plan Category	Plan Name	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants, and Rights (a)	Weighted Average Exercise Price of Outstanding Options, Warrants, and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
Equity compensation plans approved by security holders	Amended and Restated PacWest Bancorp 2017 Stock Incentive Plan (1)	512,863 (2)	$ —	2,502,132 (3)
Equity compensation plans not approved by security holders	None	—	—	—
Total		512,863	$ —	2,502,132

(1) The Amended and Restated PacWest Bancorp 2017 Stock Incentive Plan (the "Amended and Restated 2017 Plan") was approved by our stockholders at our May 11, 2021 Annual Meeting of Stockholders, authorizing 6,650,000 shares for issuance, representing 4,000,000 shares originally approved for grant under the Original 2017 Stock Incentive Plan plus 2,650,000 shares added as a result of the approval of the Amended and Restated 2017 Plan.

(2) Amount includes PRSUs granted in 2021, 2020, and 2019 that may be issued at the end of their three-year performance period if certain financial metrics are met. The number of units shown represents a target amount and the number of units that will ultimately vest is unknown. Amount does not include 2,312,080 shares of unvested time-based restricted stock outstanding under the Amended and Restated 2017 Plan with a zero exercise price as of December 31, 2021.

(3) The Amended and Restated 2017 Plan permits these remaining shares to be issued in the form of options, restricted stock, or stock appreciation rights.

Recent Sales of Unregistered Securities and Use of Proceeds

None.

Repurchases of Common Stock

The following table presents stock repurchases we made during the fourth quarter of 2021:

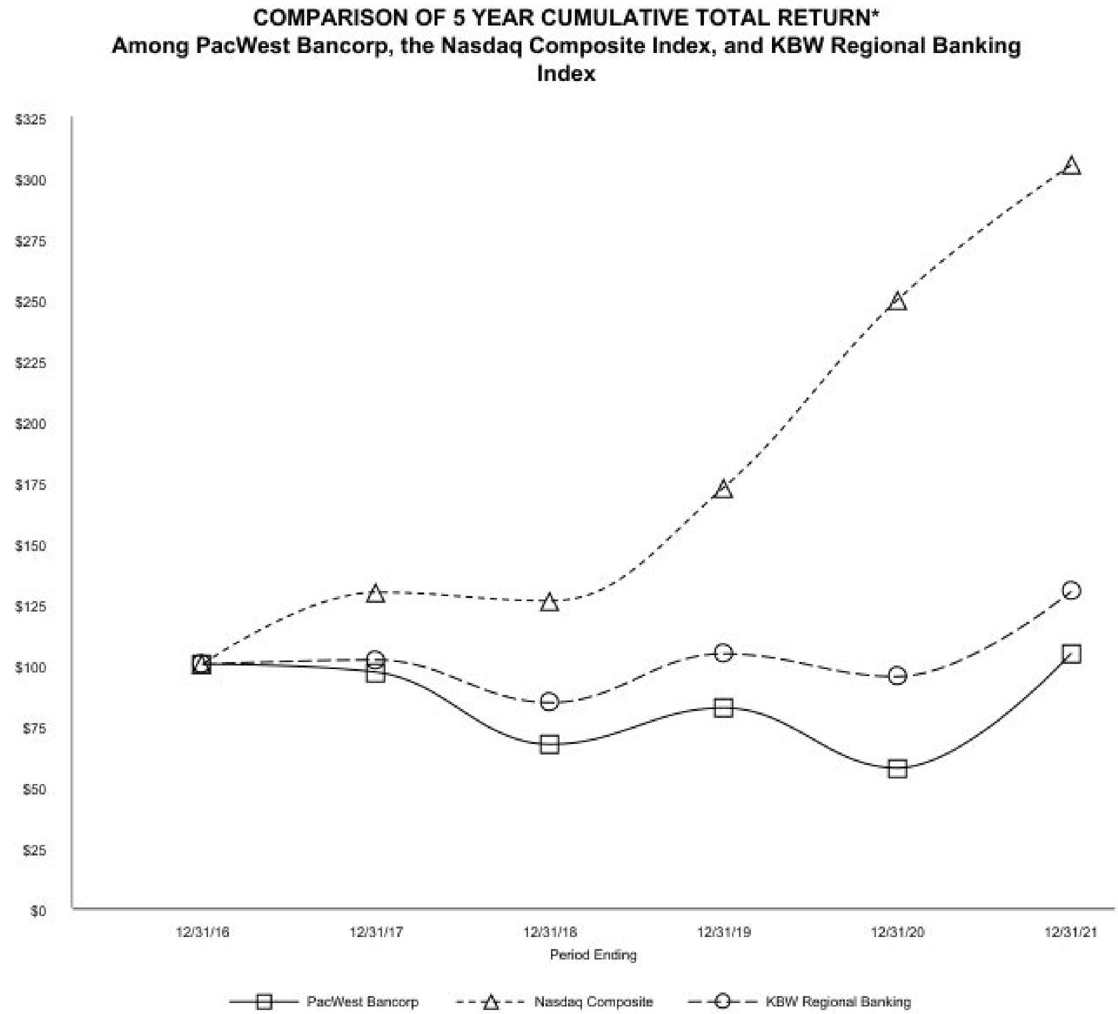
Purchase Dates	Total Number of Shares Purchased (1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Program (2)	Maximum Dollar Value of Shares That May Yet Be Purchased Under the Program (2)
				(In thous
October 1 – October 31, 2021	—	$ —	—	$
November 1 – November 30, 2021	6,810	$ 44.74	—	$
December 1 – December 31, 2021	—	$ —	—	$
Total	6,810	$ —	—	

(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.

(2) On February 12, 2020, PacWest's Board authorized a new Stock Repurchase Program to purchase shares of its common stock for an aggregate purchase price not to exceed $200 million, effective February 29, 2020. No shares were repurchased under the new Stock Repurchase Program prior to expiration on February 28, 2021. On February 15, 2022, PacWest's Board of Directors authorized a new Stock Repurchase Program, effective March 1, 2022, to repurchase shares of its common stock for an aggregate purchase price not to exceed $100 million with a program maturity date of February 28, 2023.

Five-Year Stock Performance Graph

The following chart compares the yearly percentage change in the cumulative stockholder return on our common stock based on the closing price during the five years ended December 31, 2021, with (1) the Total Return Index for U.S. companies traded on The Nasdaq Stock Market (the "Nasdaq Composite Index"), and (2) the Total Return Index for KBW Nasdaq Regional Bank Stocks (the "KBW Regional Banking Index"). This comparison assumes $100 was invested on December 31, 2016, in our common stock and the comparison groups and assumes the reinvestment of all cash dividends prior to any tax effect and retention of all stock dividends. The Company's total cumulative return was 4.39% over the five year period ending December 31, 2021 compared to returns of 204.85% and 29.65% for the Nasdaq Composite Index and KBW Regional Banking Index.



* $100 invested on December 31, 2016 in stock or index, including reinvestment of dividends.

	Year Ended December 31,					
Index	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
PacWest Bancorp	$ 100.00	$ 96.54	$ 66.82	$ 81.90	$ 57.34	$ 104.39
Nasdaq Composite Index	100.00	129.64	125.96	172.18	249.51	304.85
KBW Regional Banking Index	100.00	101.75	83.95	103.94	94.89	129.65

ITEM 6.

Reserved.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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 69 full-service branches located in California, one branch located in Durham, North Carolina, one branch located in Denver, Colorado, and numerous loan production offices across the country. The Bank provides community banking products including lending and comprehensive deposit and treasury management services to small and medium-sized businesses conducted primarily through our California-based branch offices and Denver, Colorado branch office. The Bank offers national lending products including asset-based, equipment, and real estate loans and treasury management services to established middle-market businesses on a national basis. The Bank also provides venture banking products including a comprehensive suite of financial services focused on entrepreneurial and venture-backed businesses and their venture capital and private equity investors, with offices located in key innovation hubs across the United States. The Bank also offers financing of business-purpose non-owner-occupied investor properties through Civic, a wholly-owned subsidiary. The Bank also provides a specialized suite of services for the HOA industry. 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 an SEC-registered investment adviser.

The following table presents balance sheet data as of the dates indicated:

	December 31,		
	2021	2020	2019
		(In thousands)	
Balance Sheet Data:			
Total assets	$ 40,443,344	$ 29,498,442	$ 26,770,806
Interest-earning deposits in financial institutions	3,944,686	3,010,197	465,039
Securities available-for-sale	10,694,458	5,235,591	3,797,187
Loans and leases held for investment, net of deferred fees	22,941,548	19,083,377	18,846,872
Goodwill	1,405,736	1,078,670	2,548,670
Core deposit and customer relationship intangibles	44,957	23,641	38,394
Noninterest-bearing deposits	14,543,133	9,193,827	7,243,298
Core deposits	32,734,949	22,264,480	16,187,287
Total deposits	34,997,757	24,940,717	19,233,036
Borrowings	—	5,000	1,759,008
Subordinated debt	863,283	465,812	458,209
Total liabilities	36,443,714	25,903,491	21,816,109
Stockholders' equity	3,999,630	3,594,951	4,954,697

At December 31, 2021, the Company had total assets of $40.4 billion, including $22.9 billion of total loans and leases, net of deferred fees, and $10.7 billion of securities available-for-sale, compared to $29.5 billion of total assets, including $19.1 billion of total loans and leases, net of deferred fees, and $5.2 billion of securities available-for-sale at December 31, 2020. The $10.9 billion increase in total assets since year-end was due primarily to a $5.5 billion increase in securities available-for-sale, a $3.9 billion increase in loans and leases, net of deferred fees, a $934.5 million increase in interest-earning deposits in financial institutions, and a $327.1 million increase in goodwill due to the Civic and HOA Business acquisitions.

At December 31, 2021, the Company had total liabilities of $36.4 billion, including total deposits of $35.0 billion and subordinated debt of $863.3 million, compared to $25.9 billion of total liabilities, including $24.9 billion of total deposits and $465.8 million of subordinated debt at December 31, 2020. The $10.5 billion increase in total liabilities since year-end 2020 was due mainly to increases of $10.1 billion in total deposits and $397.5 million in subordinated debt. The increase in total deposits was due primarily to continued strong deposit growth from our venture banking and community banking clients and the acquisition of the HOA Business, which added $4.1 billion of deposits. At December 31, 2021, core deposits totaled $32.7 billion, or 93% of total deposits, including $14.5 billion of noninterest-bearing demand deposits, or 41% of total deposits. The increase in subordinated debt was due to the $400 million of subordinated notes issued by the Bank on April 30, 2021. The subordinated notes qualify as Tier 2 capital for regulatory capital purposes.

At December 31, 2021, the Company had total stockholders' equity of $4.0 billion compared to $3.6 billion at December 31, 2020. The $404.7 million increase in stockholders' equity since year-end was due mainly to $607.0 million in net earnings, offset partially by $119.4 million of cash dividends paid and a $106.6 million decrease in accumulated other comprehensive income. Consolidated Tier 1 capital and total capital ratios were 9.32% and 12.69% at December 31, 2021, compared to 10.53% and 13.76% at December 31, 2020.

Recent Events

Stock Repurchase Programs

On February 15, 2022, PacWest's Board of Directors authorized a new Stock Repurchase Program, effective March 1, 2022, to repurchase shares of its common stock for an aggregate purchase price not to exceed $100 million with a program maturity date of February 28, 2023.

Acquisition of HOA Business

On October 8, 2021, the Bank completed the acquisition of the HOA Business. The Bank paid cash consideration of $237.8 million, which represented the aggregate of a 5.9% deposit premium and the net book value of certain acquired assets and assumed liabilities. At closing, there were $4.1 billion of deposits, primarily core deposits, related to the HOA Business.

The HOA Business acquisition has been accounted for under the acquisition method of accounting, which resulted in the recognition of goodwill of $201.6 million. All of the recognized goodwill is expected to be deductible for tax purposes. For further information, see Note 2. *Acquisitions* of the Notes to Consolidated Financial Statements contained in "Item 8. Financial Statements and Supplementary Data."

Subordinated Notes Offering

On April 30, 2021, the Bank issued $400 million aggregate principal amount of 3.25% Fixed-to-Floating Rate Subordinated Notes (the “Notes”) due May 1, 2031 (the “Maturity Date”), if not previously redeemed. Subject to any redemption prior to the Maturity Date, the Notes will bear interest from and including the original issue date to, but excluding, May 1, 2026 (the “Reset Date”), at a fixed rate of 3.25% per annum and from and including the Reset Date to, but excluding the Maturity Date, the Notes will bear interest at a floating per annum rate equal to a benchmark rate (which is expected to be the Three-Month Term SOFR) plus 252 basis points. For further information, see Note 12. *Borrowings and Subordinated Debt* in the Notes to Consolidated Financial Statements contained in "Item 8. Financial Statements and Supplementary Data."

Acquisition of Civic

On February 1, 2021, the Bank completed the acquisition of Civic in an all-cash transaction. Civic, located in Redondo Beach, California, is one of the leading lenders in the United States specializing in business-purpose residential non-owner-occupied investment properties. The acquisition of Civic advances the Bank's strategy to diversify and expand its lending portfolio, diversify its revenue streams, and deploy excess liquidity into higher-yielding assets. Civic operates as a subsidiary of the Bank and at December 31, 2021 had $1.4 billion of loans outstanding. The loans are categorized as either income producing and other residential real estate mortgage or residential real estate construction and land based on their purpose.

The Civic acquisition has been accounted for under the acquisition method of accounting, which resulted in the recognition of goodwill of $125.4 million. All of the recognized goodwill is expected to be deductible for tax purposes. For further information, see Note 2. *Acquisitions* of the Notes to Consolidated Financial Statements contained in "Item 8. Financial Statements and Supplementary Data."

COVID-19 Pandemic - Impact to Our Business

From a business perspective, the impact in 2021 from the ongoing COVID-19 pandemic has decreased, however, new variants may continue to impact key macroeconomic indicators such as unemployment and GDP and we will continue to closely monitor our loan portfolio. In the early stages of the COVID-19 pandemic, we experienced an increase in customers seeking loan modifications through payment deferrals and extension of terms. Most of the modifications were for payment deferrals for three months, while some deferrals were up to six months. Some loans were subsequently modified with deferrals of three to twelve months. As of December 31, 2021, there were 23 loans with a balance of $42.5 million on deferral. The Company did not apply a TDR classification to COVID-19 related loan modifications that met all of the requisite criteria as stipulated in the CARES Act.

We actively participated in both rounds of the Paycheck Protection Program ("PPP"), under the provisions of the CARES Act, originating $1.65 billion of PPP loans in 2020 and 2021 before the program ended on May 31, 2021. As of December 31, 2021, PPP loans totaled $156.7 million, net of deferred fees. In the fourth quarter of 2021, forgiven loans under the PPP program totaled approximately $110.6 million. The loans have origination fees that are recognized over the life of the loan with the fee recognition accelerated upon forgiveness or repayment of the loan. Fees recognized in the fourth quarter of 2021 were $3.6 million. As of December 31, 2021, the remaining unamortized fees, net of deferred costs, totaled $4.2 million. The PPP loans are fully guaranteed by the SBA and do not carry an allowance.

As the COVID-19 pandemic unfolded in March 2020, we immediately enhanced the monitoring of our loan and lease portfolio with particular emphasis on certain loan and lease portfolios that we expected to be most impacted by the COVID-19 pandemic, such as the hotel, retail, commercial aviation, restaurant, and oil services loan and lease portfolios. We continue to closely monitor all of our portfolios, although with the increase in oil prices, and with our relatively low loan and lease balances with oil services borrowers ($76.7 million at December 31, 2021), the credit risk in the oil services portfolio has diminished. The hotel portfolio as of December 31, 2021 is comprised of hotel CRE loans of $593.2 million, hotel construction loans of $301.1 million, and hotel SBA loans of $28.0 million. These portfolios - hotel, retail, commercial aviation, and restaurant - have weathered the pandemic well thus far with net charge-offs of $4.6 million since the pandemic started.

The tables below shows our exposure to these loan and lease portfolios, which includes equipment leased to others under operating leases, as of the dates indicated:

	December 31, 2021				
Loan and Lease Portfolio	**Classified**	**Special Mention**	**Pass**	**Total**	**% of Total Loans and Leases**
	(Dollars in thousands)				
Hotel	$ 14,867	$ 198,685	$ 708,727	$ 922,279	4.0 %
Retail CRE	215	1,415	400,504	402,134	1.8 %
Commercial aviation	—	57,795	174,105	231,900	1.0 %
Restaurant	7,093	22,427	115,979	145,499	0.6 %
Total	$ 22,175	$ 280,322	$ 1,399,315	$ 1,701,812	7.4 %

Loan and Lease Portfolio	December 31, 2020 Classified	Special Mention	Pass	Total	% of Total Loans and Leases
			(Dollars in thousands)		
Hotel	$ 82,509	$ 269,970	$ 798,049	$ 1,150,528	6.0 %
Retail CRE	24,478	—	444,670	469,148	2.5 %
Commercial aviation	19,417	109,473	110,113	239,003	1.3 %
Restaurant	6,781	19,636	124,598	151,015	0.8 %
Oil services	$ 4,274	$ 5,124	$ 70,223	$ 79,621	0.4 %
Total	$ 137,459	$ 404,203	$ 1,547,653	$ 2,089,315	10.9 %

From a credit perspective, most of our credit metrics improved during 2021 as economic conditions and economic forecasts continued to improve. This improvement led to a provision for credit losses benefit of $162.0 million for 2021, compared to a provision for credit losses of $339.0 million for 2020. For further details on CECL and the impacts to our process, see "- Balance Sheet Analysis - *Allowance for Credit Losses on Loans and Leases Held for Investment*" contained herein.

On a Company-wide basis, our operations continue to run normally despite the ongoing pandemic. Our branches and offices are open to serve our customers, although most non-client facing roles continue to work remotely or under a hybrid model. We expect most employees will return to the office sometime in 2022, but remain pleased how employees have embraced new technologies to assist in performing their responsibilities to ensure our operations continue to run smoothly.

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 and borrowings. Contributing to our strong net interest margin is our strong 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 and leases portfolio is diverse and generally includes various asset-secured loans, equipment-secured loans and leases, venture capital loans to support venture capital firms' operations and the operations of entrepreneurial and venture-backed companies during the various phases of their early life cycles, and secured business loans.

Our loan origination process emphasizes credit quality. To augment our internal loan production, we have historically purchased loans such as multi-family loans from other banks, private student loans from third-party lenders, and, most recently, single-family residential mortgage loans. Prior to our acquisition of Civic, we also purchased loans from Civic. 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 the allowance for loan and lease losses and the 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 that 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 the impact of assumptions and is reflective of historical experience, economic forecasts viewed to be reasonable and supportable by management, the current loan and lease composition, and relative credit risks known as of the balance sheet date. For originated and acquired credit-deteriorated 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 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 real estate market may lead to increased provisions for credit losses because our loans are concentrated in 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, which is calculated by dividing noninterest expense (less intangible asset amortization, net foreclosed assets expense (income), goodwill impairment, 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 years indicated:

Efficiency Ratio		Year Ended December 31, 2021	2020	2019
			(Dollars in thousands)	
Noninterest expense		$ 637,417	$ 1,984,019	$ 502,251
Less:	Intangible asset amortization	12,734	14,753	18,726
	Foreclosed assets (income) expense, net	(213)	(17)	(3,555)
	Goodwill impairment	—	1,470,000	—
	Acquisition, integration and reorganization costs	9,415	1,060	349
	Noninterest expense used for efficiency ratio	$ 615,481	$ 498,223	$ 486,731
Net interest income (tax equivalent)		$ 1,119,028	$ 1,023,466	$ 1,022,090
Noninterest income		193,927	146,060	142,562
Net revenues		1,312,955	1,169,526	1,164,652
Less:	Gain on sale of securities	1,615	13,171	25,445
	Net revenues used for efficiency ratio	$ 1,311,340	$ 1,156,355	$ 1,139,207
Efficiency ratio		46.9 %	43.1 %	42.7 %

The increase in noninterest expense used for the efficiency ratio in 2021, and the resulting increase in the efficiency ratio in 2021, were due in part to eleven months of operating expenses for Civic and three months of operating expenses for the HOA Business in 2021.

Critical Accounting Policies and Estimates

The following discussion and analysis of financial condition and results of operations are based upon our consolidated financial statements and the notes thereto, which have been prepared in accordance with U.S. GAAP. The preparation of the consolidated financial statements requires us to make a number of estimates and assumptions that affect the reported amounts and disclosures in the consolidated financial statements. On an ongoing basis, we evaluate our estimates and assumptions based upon historical experience and various other factors and circumstances. We believe that our estimates and assumptions are reasonable; however, actual results may ultimately differ significantly from these estimates and assumptions, which could have a material adverse effect on the carrying value of assets and liabilities at the balance sheet dates and on our results of operations for the reporting periods.

Our significant accounting policies and practices are described in Note 1. *Nature of Operations and Summary of Significant Accounting Policies* of the Notes to Consolidated Financial Statements contained in "Item 8. Financial Statements and Supplementary Data." We have identified three policies and estimates as being critical because they require management to make particularly difficult, subjective, and/or complex judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts would be reported under different conditions or using different assumptions. These policies relate to the allowance for credit losses on loans and leases held for investment, the carrying value of goodwill and other intangible assets, and the realization of deferred tax assets and liabilities.

Allowance for Credit Losses on Loans and Leases Held for Investment

For information regarding the calculation and policies of the allowance for credit losses on loans and leases held for investment, see " - Balance Sheet Analysis - *Allowance for Credit Losses on Loans and Leases Held for Investment*" and Note 1(i). *Nature of Operations and Summary of Significant Accounting Policies - Allowance for Credit Losses on Loans and Leases Held for Investment,* of the Notes to Consolidated Financial Statements contained in "Item 8. Financial Statements and Supplementary Data."

Goodwill and Other Intangible Assets

Goodwill and other intangible assets arise from the acquisition method of accounting for business combinations. For acquisitions, we are required to record the assets acquired, including identified intangible assets such as goodwill, and the liabilities assumed at their estimated fair value. These fair values often involve estimates based on third party valuations, such as appraisals, based on discounted cash flow analyses or other valuation techniques that may include estimates of attrition, discount rates, future growth rates, multiples of earnings or other relevant factors. 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 annually unless a triggering event occurs thereby requiring an updated assessment. Our regular annual impairment assessment occurs in the fourth quarter. Impairment exists when the carrying value of the goodwill exceeds its fair value. An impairment loss would be recognized in an amount equal to that excess as a charge to "Noninterest expense" in the consolidated statements of earnings (loss).

Deferred Tax Assets and Liabilities

We are subject to the income tax laws of the U.S., its states, and the municipalities in which we operate. These tax laws are complex and subject to different interpretations by the taxpayer and the relevant governing taxing authorities. We review income tax expense and the carrying value of deferred tax assets and liabilities quarterly, and as new information becomes available, the balances are adjusted as appropriate. In establishing a provision for income tax expense, we must make judgments and interpretations about the application of these inherently complex tax laws. We must also make estimates about when in the future certain tax items will affect taxable income in the various tax jurisdictions. Our deferred tax assets and liabilities arise from differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. We determine whether a deferred tax asset is realizable based on facts and circumstances, including our current and projected future tax position, the historical level of our taxable income, and estimates of our future taxable income. In most cases, the realization of deferred tax assets is based on our future profitability. If we were to experience either reduced profitability or operating losses in a future period, the realization of our deferred tax assets may no longer be considered more likely than not and, accordingly, we could be required to record a valuation allowance on our deferred tax assets by charging earnings.

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 use the following non-GAAP measures in this Form 10-K:

- ***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. In 2020, we changed the calculation of return on average tangible equity to add back intangible asset amortization to net earnings to arrive at adjusted net earnings. Prior periods have been conformed to the current period presentation. 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	Year Ended December 31, 2021	2020	2019
	(Dollars in thousands)		
Net earnings (loss)	$ 606,959	$ (1,237,574)	$ 468,636
Add: Intangible asset amortization	12,734	14,753	18,726
Goodwill impairment	—	1,470,000	—
Adjusted net earnings used for return on average tangible equity	$ 619,693	$ 247,179	$ 487,362
Average stockholders' equity	$ 3,808,019	$ 3,857,610	$ 4,864,332
Less: Average intangible assets	1,269,546	1,470,989	2,596,389
Average tangible common equity	$ 2,538,473	$ 2,386,621	$ 2,267,943
Return on average equity (1)	15.94 %	(32.08)%	9.63 %
Return on average tangible equity (2)	24.41 %	10.36 %	21.49 %

(1) Net earnings (loss) divided by average stockholders' equity.
(2) Adjusted net earnings divided by average tangible common equity.

Tangible Common Equity Ratio/ Tangible Book Value Per Share	December 31, 2021	2020	2019
	(Dollars in thousands, except per share data)		
Stockholders' equity	$ 3,999,630	$ 3,594,951	$ 4,954,697
Less: Intangible assets	1,450,693	1,102,311	2,587,064
Tangible common equity	$ 2,548,937	$ 2,492,640	$ 2,367,633
Total assets	$ 40,443,344	$ 29,498,442	$ 26,770,806
Less: Intangible assets	1,450,693	1,102,311	2,587,064
Tangible assets	$ 38,992,651	$ 28,396,131	$ 24,183,742
Equity to assets ratio	9.89 %	12.19 %	18.51 %
Tangible common equity ratio (1)	6.54 %	8.78 %	9.79 %
Book value per share	$ 33.45	$ 30.36	$ 41.36
Tangible book value per share (2)	$ 21.31	$ 21.05	$ 19.77
Shares outstanding	119,584,854	118,414,853	119,781,605

(1) Tangible common equity divided by tangible assets.
(2) Tangible common equity divided by shares outstanding.

- ***Adjusted net earnings and adjusted earnings per share:*** These non-GAAP measurements are presented in the following tables for the periods presented. For the GAAP calculation of earnings per share, see Note 17. *Earnings (Loss) Per Share* of the Notes to Consolidated Financial Statements contained in "Item 8. Financial Statements and Supplementary Data."

Adjusted Net Earnings and Adjusted Earnings Per Share (1)	**Year Ended December 31, 2021**	**2020**	**2019**
		(Dollars in thousands)	
Adjusted Net Earnings:			
Net earnings (loss)	$ 606,959	$ (1,237,574)	$ 468,636
Add: Goodwill impairment	—	1,470,000	—
Adjusted net earnings	$ 606,959	$ 232,426	$ 468,636
Adjusted Basic Earnings Per Share:			
Adjusted net earnings	$ 606,959	$ 232,426	$ 468,636
Less: Earnings allocated to unvested restricted stock	(10,248)	(2,769)	(5,182)
Adjusted net earnings allocated to common shares	$ 596,711	$ 229,657	$ 463,454
Weighted-average basic shares and unvested restricted stock outstanding	119,349	118,463	120,468
Less: Weighted-average unvested restricted stock outstanding	(2,255)	(1,610)	(1,502)
Weighted-average basic shares outstanding	117,094	116,853	118,966
Adjusted basic earnings per share	$ 5.10	$ 1.97	$ 3.90
Adjusted Diluted Earnings Per Share:			
Adjusted net earnings allocated to common shares	$ 596,711	$ 229,657	$ 463,454
Weighted-average diluted shares outstanding	117,094	116,853	118,966
Adjusted diluted earnings per share	$ 5.10	$ 1.97	$ 3.90

Results of Operations

Earnings Performance

The following table presents performance metrics for the years indicated:

	Year Ended December 31,		
	2021	2020	2019
	(Dollars in thousands, except per share data)		
Earnings Summary:			
Interest income	$ 1,158,729	$ 1,103,491	$ 1,219,893
Interest expense	(54,905)	(88,933)	(205,264)
Net interest income	1,103,824	1,014,558	1,014,629
Provision for credit losses	162,000	(339,000)	(22,000)
Noninterest income	193,927	146,060	142,562
Operating expense	(637,417)	(514,019)	(502,251)
Goodwill impairment	—	(1,470,000)	—
Earnings (loss) before income taxes	822,334	(1,162,401)	632,940
Income tax expense	(215,375)	(75,173)	(164,304)
Net earnings (loss)	$ 606,959	$ (1,237,574)	$ 468,636
Per Common Share Data:			
Diluted earnings (loss) per share	$ 5.10	$ (10.61)	$ 3.90
Book value per share	$ 33.45	$ 30.36	$ 41.36
Tangible book value per share (1)	$ 21.31	$ 21.05	$ 19.77
Performance Ratios:			
Return on average assets	1.71 %	(4.46)%	1.80 %
Return on average tangible equity (1)	24.41 %	10.36 %	21.49 %
Net interest margin (tax equivalent)	3.40 %	4.05 %	4.54 %
Yield on average loans and leases (tax equivalent)	5.08 %	5.18 %	6.00 %
Cost of average total deposits	0.09 %	0.27 %	0.77 %
Efficiency ratio	46.9 %	43.1 %	42.7 %
Capital Ratios (consolidated):			
Common equity tier 1 capital ratio	8.86 %	10.53 %	9.78 %
Tier 1 capital ratio	9.32 %	10.53 %	9.78 %
Total capital ratio	12.69 %	13.76 %	12.41 %

(1) See "- Non-GAAP Measurements."

2021 Compared to 2020

Net earnings for the year ended December 31, 2021 was $607.0 million, or $5.10 per diluted share, compared to net loss for the year ended December 31, 2020 of $1.24 billion, or $10.61 per diluted share. The $1.84 billion increase in net earnings was due primarily to a $1.47 billion goodwill impairment charge in the first quarter of 2020 combined with a decrease in the provision for credit losses of $501.0 million due to improvement in both the macroeconomic forecast variables used in the process to determine the allowance for credit losses and the loan portfolio credit quality metrics, offset partially by net loan growth for the year.

2020 Compared to 2019

Net loss for the year ended December 31, 2020 was $1.24 billion, or $10.61 per diluted share, compared to net earnings for the year ended December 31, 2019 of $468.6 million, or $3.90 per diluted share. The $1.71 billion decrease in net earnings was due primarily to a $1.47 billion goodwill impairment charge in the first quarter of 2020, a higher provision for credit losses of $317.0 million, and higher operating expense of $11.8 million, offset partially by higher noninterest income of $3.5 million and lower income tax expense of $$89.1 million. The increase in the provision for credit losses for 2020 was the result of the impact of the current economic forecast used in our ACL estimation, which reflected a significant deterioration in key macroeconomic forecast variables such as unemployment and GDP growth as a result of the COVID-19 pandemic. The increase in operating expense was due mainly to increases of $9.1 million in other expense, $6.2 million in insurance and assessments, $4.8 million in leased equipment depreciation, $3.7 million in customer related expense, and $3.5 million in foreclosed assets expense, offset partially by decreases of $14.4 million in compensation expense and $4.0 million in intangible asset amortization. The increase in noninterest income for 2020 was due primarily to a $15.6 million increase in dividends and gain on equity investments, offset partially by a $12.3 million decrease in gain on sale of securities.

Net Interest Income

The following table summarizes 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 years indicated:

	Year Ended December 31,								
	2021			2020			2019		
	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)	$ 19,762,220	$ 1,003,027	5.08 %	$ 19,243,961	$ 995,973	5.18 %	$ 18,330,137	$ 1,099,118	6.00 %
Investment securities (2)(4)	7,486,009	162,102	2.17 %	4,175,918	112,843	2.70 %	3,844,328	121,757	3.17 %
Deposits in financial institutions	5,692,338	8,804	0.15 %	1,856,942	3,583	0.19 %	322,366	6,479	2.01 %
Total interest-earning assets (2)	32,940,567	1,173,933	3.56 %	25,276,821	1,112,399	4.40 %	22,496,831	1,227,354	5.46 %
Other assets	2,577,921			2,475,591			3,608,777		
Total assets	$ 35,518,488			$ 27,752,412			$ 26,105,608		
LIABILITIES AND STOCKHOLDERS’ EQUITY:									
Interest checking	$ 7,198,646	8,709	0.12 %	$ 4,394,742	12,791	0.29 %	$ 3,406,218	41,938	1.23 %
Money market	8,843,122	12,993	0.15 %	6,547,027	19,178	0.29 %	5,139,623	56,382	1.10 %
Savings	606,741	148	0.02 %	538,985	263	0.05 %	525,809	891	0.17 %
Time	1,471,963	5,958	0.40 %	2,169,324	27,431	1.26 %	2,641,135	49,249	1.86 %
Total interest-bearing deposits	18,120,472	27,808	0.15 %	13,650,078	59,663	0.44 %	11,712,785	148,460	1.27 %
Borrowings	231,099	623	0.27 %	825,681	8,161	0.99 %	1,180,164	26,961	2.28 %
Subordinated debt	733,163	26,474	3.61 %	461,059	21,109	4.58 %	455,537	29,843	6.55 %
Total interest-bearing liabilities	19,084,734	54,905	0.29 %	14,936,818	88,933	0.60 %	13,348,486	205,264	1.54 %
Noninterest-bearing demand deposits	12,110,193			8,517,281			7,537,172		
Other liabilities	515,542			440,703			355,618		
Total liabilities	31,710,469			23,894,802			21,241,276		
Stockholders’ equity	3,808,019			3,857,610			4,864,332		
Total liabilities and stockholders' equity	$ 35,518,488			$ 27,752,412			$ 26,105,608		
Net interest income (2)		$ 1,119,028			$ 1,023,466			$ 1,022,090	
Net interest rate spread (2)			3.27 %			3.80 %			3.92 %
Net interest margin (2)			3.40 %			4.05 %			4.54 %
Total deposits (5)	$ 30,230,665	$ 27,808	0.09 %	$ 22,167,359	$ 59,663	0.27 %	$ 19,249,957	$ 148,460	0.77 %

(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 net loan premium amortization of $11.4 million for 2021 and net loan discount accretion of $5.6 million and $8.4 million for 2020 and 2019, respectively.
(4) Includes tax-equivalent adjustments of $8.6 million, $6.1 million, and $6.2 million for 2021, 2020, and 2019, respectively, related to tax-exempt interest on investment securities. The federal statutory rate utilized was 21%.
(5) Total deposits is the sum of interest-bearing deposits and noninterest-bearing demand deposits. The cost of total deposits is calculated as annualized interest expense on total deposits divided by average total deposits.

Net interest income is affected by changes in both interest rates and the amounts of average interest-earning assets and interest-bearing liabilities. The changes in the yields earned on average interest-earning assets and rates paid on average interest-bearing liabilities are referred to as changes in "rate." The changes in the amounts of average interest-earning assets and interest-bearing liabilities are referred to as changes in "volume." The change in interest income/expense attributable to rate reflects the change in rate multiplied by the prior year's volume. The change in interest income/expense attributable to volume reflects the change in volume multiplied by the prior year's rate. The change in interest income/expense not attributable specifically to either rate or volume is allocated ratably between the two categories.

The following table presents changes in interest income (tax equivalent) and interest expense and related changes in rate and volume for the years indicated:

	2021 Compared to 2020			2020 Compared to 2019		
	Total Increase (Decrease)	Increase (Decrease) Due to		Total Increase (Decrease)	Increase (Decrease) Due to	
		Rate	Volume		Rate	Volume
	(In thousands)					
Interest Income:						
Loans and leases [1]	$ 7,054	$ (19,473)	$ 26,527	$ (103,145)	$ (155,925)	$ 52,780
Investment securities [1]	49,259	(25,701)	74,960	(8,914)	(18,926)	10,012
Deposits in financial institutions	5,221	(865)	6,086	(2,896)	(10,322)	7,426
Total interest income [1]	61,534	(46,039)	107,573	(114,955)	(185,173)	70,218
Interest Expense:						
Interest checking deposits	(4,082)	(9,742)	5,660	(29,147)	(38,750)	9,603
Money market deposits	(6,185)	(11,296)	5,111	(37,204)	(49,689)	12,485
Savings deposits	(115)	(151)	36	(628)	(650)	22
Time deposits	(21,473)	(14,598)	(6,875)	(21,818)	(14,042)	(7,776)
Total interest-bearing deposits	(31,855)	(35,787)	3,932	(88,797)	(103,131)	14,334
Borrowings	(7,538)	(3,788)	(3,750)	(18,800)	(12,280)	(6,520)
Subordinated debt	5,365	(5,166)	10,531	(8,734)	(9,091)	357
Total interest expense	(34,028)	(44,741)	10,713	(116,331)	(124,502)	8,171
Net interest income [1]	$ 95,562	$ (1,298)	$ 96,860	$ 1,376	$ (60,671)	$ 62,047

(1) Tax equivalent.

2021 Compared to 2020

Net interest income increased by $89.3 million to $1.1 billion for the year ended December 31, 2021 compared to $1.0 billion for the year ended December 31, 2020 due mainly to higher income on investment securities attributable to a higher average balance, offset partially by a lower yield combined with lower interest expense due to lower rates paid on deposits, borrowings, and subordinated debt in conjunction with decreased market rates, offset partially by higher average balances for interest-bearing deposits and subordinated debt. The tax equivalent yield on average loans and leases was 5.08% for the year ended December 31, 2021 compared to 5.18% for 2020 attributable mainly to decreased market rates and the purchases of lower yielding single-family residential mortgage loans primarily in the second half of 2021.

The tax equivalent NIM for the year ended December 31, 2021 was 3.40% compared to 4.05% for the year ended December 31, 2020. The decrease in the tax equivalent NIM was due mostly to the change in the mix of average interest-earning assets and the lower yields on average investment securities and loans and leases, offset partially by lower costs of deposits, borrowings, and subordinated debt. The change in the mix of average interest-earning assets was due to a $3.8 billion increase in average deposits in financial institutions, a $3.3 billion increase in average investment securities, and a $518.3 million increase in average loans and leases. Average loans and leases as a percentage of average interest-earning assets was 60% for the year ended December 31, 2021 compared to 76% for the year ended December 31, 2020. Average investment securities as a percentage of average interest-earning assets was 23% for the year ended December 31, 2021 compared to 17% for the year ended December 31, 2020. Average deposits in financial institutions as a percentage of average interest-earning assets was 17% for the year ended December 31, 2021 compared to 7% for the year ended December 31, 2020.

The cost of average total deposits decreased to 0.09% for the year ended December 31, 2021 from 0.27% for 2020 due to lower rates paid on deposits in conjunction with decreased market rates.

2020 Compared to 2019

Net interest income held steady at $1.01 billion for both the year ended December 31, 2020 and the year ended December 31, 2019 due mainly to a lower yield on average loans and leases, offset partially by a lower cost of average interest-bearing deposits and a higher balance of average loans and leases. The tax equivalent yield on average loans and leases was 5.18% for the year ended December 31, 2020 compared to 6.00% for 2019. The decrease in the yield on average loans and leases was due mainly to lower loan coupon interest from the repricing of variable-rate loans in conjunction with decreased market rates and a lower rate on loan production from the impact of the PPP loans. Excluding the PPP loans, which have a coupon rate of 1%, the tax equivalent yield on average loans and leases was 5.27% in 2020.

The tax equivalent NIM for the year ended December 31, 2020 was 4.05% compared to 4.54% for the year ended December 31, 2019. The decrease in the tax equivalent NIM was due mostly to the decrease in the yield on average loans and leases as described above, offset partially by the lower cost of average interest-bearing deposits. Excluding the PPP loans, the tax equivalent NIM was 4.08% for the year ended December 31, 2020.

The cost of average total deposits decreased to 0.27% for the year ended December 31, 2020 from 0.77% for 2019 due mainly to lower rates paid on deposits resulting from decreased market rates.

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 years indicated:

	Year Ended December 31,				
	2021	Increase (Decrease)	2020	Increase (Decrease)	2019 [(2)]
	(Dollars in thousands)				
Provision For Credit Losses:					
(Reduction in) addition to allowance for loan and lease losses	$ (149,500)	$ (442,500)	$ 293,000	$ 270,000	$ 23,000
Addition to (reduction in) reserve for unfunded loan commitments	(12,500)	(58,500)	46,000	47,000	(1,000)
Total provision for credit losses	$ (162,000)	$ (501,000)	$ 339,000	$ 317,000	$ 22,000
Credit Quality Metrics:					
Net (recoveries) charge-offs on loans and leases held for investment [(1)]	$ (1,883)	$ (89,104)	$ 87,221	$ 70,534	$ 16,687
Net (recoveries) charge-offs to average loans and leases	(0.01)%		0.45 %		0.09 %
At year-end:					
Allowance for credit losses	$ 273,635	$ (160,117)	$ 433,752	$ 259,106	$ 174,646
Allowance for credit losses to loans and leases held for investment	1.19 %		2.27 %		0.93 %
Allowance for credit losses to nonaccrual loans and leases held for investment	447.3 %		475.8 %		189.1 %
Nonaccrual loans and leases held for investment	$ 61,174	$ (29,989)	$ 91,163	$ (1,190)	$ 92,353
Performing TDRs held for investment	$ 24,430	$ 10,176	$ 14,254	$ 1,997	$ 12,257
Classified loans and leases held for investment	$ 116,104	$ (149,158)	$ 265,262	$ 89,350	$ 175,912

(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.
(2) 2019 is pre-CECL adoption on January 1, 2020; the ACL ratio under CECL at adoption was 0.97%.

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 provision for credit losses decreased by $501.0 million to a provision for credit losses benefit of $162.0 million for the year ended December 31, 2021 compared to a provision of $339.0 million for the year ended December 31, 2020 as a result of improvement in both the macroeconomic forecast variables used in the process to determine the allowance for credit losses and the loan portfolio credit quality metrics, offset partially by net loan growth for the year.

The provision for credit losses increased by $317.0 million to $339.0 million for the year ended December 31, 2020 compared to $22.0 million for the year ended December 31, 2019 primarily as a result of the impact of the current economic forecast used in our ACL estimation, which reflected a significant deterioration in key macroeconomic forecast variables such as unemployment and GDP growth as a result of the COVID-19 pandemic.

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 nonperforming loans and leases, net loan and lease and unfunded commitment growth, and changes in economic conditions and forecasts. Changes in economic conditions and forecasts include the rate of economic growth, the unemployment rate, the rate of inflation, changes in the general level of interest rates, changes in real estate values, and adverse conditions in borrowers' businesses. For information regarding the allowance for credit losses on loans and leases held for investment, see "-Balance Sheet Analysis - *Allowance for Credit Losses on Loans and Leases Held for Investment*," Note 1(i). *Nature of Operations and Summary of Significant Accounting Policies - Allowance for Credit Losses on Loans and Leases Held for Investment,* and Note 5. *Loans and Leases* of the Notes to Consolidated Financial Statements contained in "Item 8. Financial Statements and Supplementary Data."

Noninterest Income

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

	Year Ended December 31,				
Noninterest Income	**2021**	**Increase (Decrease)**	**2020**	**Increase (Decrease)**	**2019**
			(In thousands)		
Leased equipment income	$ 45,746	$ 2,118	$ 43,628	$ 4,901	$ 38,727
Other commissions and fees	42,287	1,940	40,347	(3,276)	43,623
Service charges on deposit accounts	13,269	2,918	10,351	(4,286)	14,637
Gain on sale of loans and leases	1,733	(406)	2,139	1,025	1,114
Gain on sale of securities	1,615	(11,556)	13,171	(12,274)	25,445
Dividends and gains (losses) on equity investments	23,115	8,131	14,984	15,551	(567)
Warrant income	49,341	38,732	10,609	1,940	8,669
Other income	16,821	5,990	10,831	(83)	10,914
Total noninterest income	$ 193,927	$ 47,867	$ 146,060	$ 3,498	$ 142,562

2021 Compared to 2020

Noninterest income increased by $47.9 million to $193.9 million for the year ended December 31, 2021 compared to $146.1 million for the year ended December 31, 2020 due mainly to increases of $38.7 million in warrant income, $8.1 million in dividends and gains on equity investments, and $6.0 million in other income, offset partially by a decrease of $11.6 million in gain on sale of securities. Warrant income increased due principally to higher gains from exercised warrants, driven by the active capital markets. Dividends and gains on equity investments increased due primarily to higher gains on sales of equity investments and higher income distributions on SBIC investments, offset partially by lower fair value gains on equity investments still held and lower fair value marks on SBIC investments. Other income increased due principally to higher gains from early lease terminations. The decrease in gain on sale of securities resulted from the sale of $365.7 million of securities for a gain of $1.6 million for the year ended December 31, 2021 compared to sales of $160.3 million of securities for a gain of $13.2 million for the year ended December 31, 2020.

2020 Compared to 2019

Noninterest income increased by $3.5 million to $146.1 million for the year ended December 31, 2020 compared to $142.6 million for the year ended December 31, 2019 due mainly to increases of $15.6 million in dividends and gains on equity investments and $4.9 million in leased equipment income, offset partially by decreases of $12.3 million in gain on sale of securities, $4.3 million in service charges on deposit accounts, and $3.3 million in other commissions and fees. Dividends and gains on equity investments increased due primarily to increases in the fair value of equity investments still held and higher gains on sale of equity investments sold. Leased equipment income increased due to early lease terminations resulting in higher termination gains in the year ended December 31, 2020 as compared to the year ended December 31, 2019 and a higher average balance of leases in 2020 resulting in higher lease income as compared to 2019, offset partially by lower rental income attributable to two operating leases placed on nonaccrual status in 2020. The decrease in gain on sale of securities resulted from the sale of $160.3 million of securities for a gain of $13.2 million for the year ended December 31, 2020 compared to sales of $1.6 billion of securities for a gain of $25.4 million for the year ended December 31, 2019. Service charges on deposit accounts decreased due primarily to lower analysis fees and NSF fees for the year ended December 31, 2020 as compared to last year as we waived certain fees for a period of time as part of our response to the COVID-19 pandemic. Other commissions and fees decreased primarily due to lower credit card fee income and lower foreign exchange fees, offset partially by higher customer success fees.

Noninterest Expense

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

	Year Ended December 31,				
Noninterest Expense	**2021**	**Increase (Decrease)**	**2020**	**Increase (Decrease)**	**2019**
			(In thousands)		
Compensation	$ 368,450	$ 96,956	$ 271,494	$ (14,368)	$ 285,862
Occupancy	58,422	867	57,555	148	57,407
Leased equipment depreciation	35,755	6,890	28,865	4,849	24,016
Data processing	30,277	3,498	26,779	(777)	27,556
Other professional services	21,492	1,575	19,917	2,114	17,803
Customer related expense	20,504	2,972	17,532	3,693	13,839
Insurance and assessments	17,365	(5,260)	22,625	6,221	16,404
Loan expense	17,031	3,577	13,454	523	12,931
Intangible asset amortization	12,734	(2,019)	14,753	(3,973)	18,726
Acquisition, integration and reorganization costs	9,415	8,355	1,060	711	349
Foreclosed assets income, net	(213)	(196)	(17)	3,538	(3,555)
Other	46,185	6,183	40,002	9,089	30,913
Total operating expense	637,417	123,398	514,019	11,768	502,251
Goodwill impairment	—	(1,470,000)	1,470,000	1,470,000	—
Total noninterest expense	$ 637,417	$ (1,346,602)	$ 1,984,019	$ 1,481,768	$ 502,251

2021 Compared to 2020

Noninterest expense decreased by $1.35 billion to $637.4 million for the year ended December 31, 2021 compared to $2.0 billion for the year ended December 31, 2020 due mainly to a $1.47 billion goodwill impairment charge incurred in the first quarter of 2020. Excluding the goodwill impairment charge, noninterest expense increased by $123.4 million in 2021 compared to 2020. This increase was due primarily to increases of $97.0 million in compensation expense, $8.4 million in acquisition, integration and reorganization costs, $6.9 million in leased equipment depreciation, and $6.2 million in other expense, offset partially by a $5.3 million decrease in insurance and assessment expense. The increase in compensation expense was due to the incremental compensation expense from 11 months of Civic operations and three months of HOA Business operations in the 2021 period and higher bonus expense, given the operating results in 2021, while the 2020 bonus amounts were below historical levels as a result of the higher provisions for credit losses in 2020. The increase in acquisition, integration, and reorganization costs was due to the costs related to the Civic and HOA Business acquisitions. Leased equipment depreciation increased due to a higher average balance of leased equipment. Other expense increased due mainly to higher legal settlement costs. Insurance and assessment expense decreased due mostly to a decrease in the FDIC assessment rate in 2021 partially offset by a higher assessment base. The assessment rate was higher in 2020 due to the goodwill impairment recorded in the first quarter of 2020 resulting in a higher assessment rate for the next four quarters.

2020 Compared to 2019

Noninterest expense increased by $1.48 billion to $1.98 billion for the year ended December 31, 2020 compared to $502.3 million for the year ended December 31, 2019 due mainly to a $1.47 billion goodwill impairment charge incurred in the first quarter of 2020. Excluding the goodwill impairment charge, noninterest expense increased by $11.8 million to $514.0 million in 2020. This increase was due mainly to increases of $9.1 million in other expense, $6.2 million in insurance and assessments, $4.8 million in leased equipment depreciation, $3.7 million in customer related expense, and $3.5 million in foreclosed assets expense, offset partially by decreases of $14.4 million in compensation expense and $4.0 million in intangible asset amortization. Other expense increased due mainly to $6.6 million in prepayment penalties incurred in the second quarter of 2020 from the early payoff of $750 million of FHLB term advances and higher litigation accruals, offset partially by lower business development expenses and employee related expenses as a result of COVID-19. Insurance and assessments expense increased due primarily to an increase in our FDIC assessment rate as a result of the first quarter 2020 loss from the goodwill impairment charge. Leased equipment depreciation increased due principally to a higher average balance of leased equipment. Customer related expenses increased due mostly to higher customer analysis expenses and reciprocal deposit referral fees. Foreclosed assets expense increased due principally to lower gains on the sale of foreclosed assets. Compensation expense decreased due mainly to lower bonus expense in the 2020 period compared to the prior year based on Company financial performance in 2020. Intangible asset amortization decreased due mostly to lower CDI amortization related to financial institutions acquired in 2015 and 2017.

Income Taxes

The effective tax rates were 26.2%, (6.5)%, and 26.0% for the years ended December 31, 2021, 2020, and 2019. Excluding non-deductible goodwill impairment, the effective income tax rate was 24.4% for the year ended December 31, 2020. The increase in the effective tax rate for 2021 compared to the 24.4% rate for 2020 was due primarily to an increase in the state apportionment rates for 2021 and a tax benefit recorded in 2020 for amended state returns. The Company's 2021 blended statutory tax rate for federal and state was 27.8%. For further information on income taxes, see Note 16. *Income Taxes* of the Notes to Consolidated Financial Statements contained in “Item 8. Financial Statements and Supplementary Data.”

Balance Sheet Analysis

Securities Available-for-Sale

Our securities available-for sale portfolio consists primarily of U.S. government agency and government-sponsored enterprise (“agency") obligations and obligations of states and political subdivisions (“municipal securities”).

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

	December 31,								
	2021			2020			2019		
Security Type	**Fair Value**	**% of Total**	**Duration (in years)**	**Fair Value**	**% of Total**	**Duration (in years)**	**Fair Value**	**% of Total**	**Duration (in years)**
	(Dollars in thousands)								
Agency residential MBS	$ 2,898,210	27 %	2.9	$ 341,074	7 %	1.9	$ 305,198	8 %	3.3
Municipal securities	2,315,968	22 %	7.7	1,531,617	29 %	8.2	735,159	19 %	7.6
Agency commercial MBS	1,688,967	16 %	5.2	1,281,877	24 %	3.2	1,108,224	29 %	4.4
Agency residential CMOs	1,038,134	10 %	3.2	1,219,880	23 %	2.7	1,136,397	30 %	3.7
U.S. Treasury securities	966,898	9 %	6.6	5,302	— %	1.3	5,181	— %	3.2
Corporate debt securities	527,094	5 %	4.2	311,889	6 %	3.7	20,748	1 %	11.3
Private label commercial MBS	450,217	4 %	7.5	82,957	2 %	1.8	72,304	2 %	2.7
Collateralized loan obligations	385,362	4 %	0.1	135,876	3 %	—	123,756	3 %	0.2
Private label residential CMOs	264,417	2 %	3.9	116,946	2 %	2.1	99,483	3 %	3.2
Asset-backed securities	129,547	1 %	0.1	166,546	3 %	0.1	142,479	4 %	0.3
SBA securities	29,644	— %	3.7	41,627	1 %	3.2	48,258	1 %	4.0
Total securities available-for-sale	$ 10,694,458	100 %	4.8	$ 5,235,591	100 %	4.3	$ 3,797,187	100 %	4.4

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

	December 31, 2021	
Municipal Securities by State	**Fair Value**	**% of Total**
	(Dollars in thousands)	
California	$ 569,288	25 %
Texas	477,499	21 %
Washington	357,536	15 %
Oregon	143,838	6 %
Maryland	74,334	3 %
Georgia	68,662	3 %
New York	65,831	3 %
Colorado	58,503	3 %
Minnesota	55,911	2 %
Florida	41,629	2 %
Total of ten largest states	1,913,031	83 %
All other states	402,937	17 %
Total municipal securities	$ 2,315,968	100 %

The following table presents a summary of contractual rates and contractual maturities of our securities available-for-sale as of the date indicated:

December 31, 2021	Due Within One Year		Due After One Year Through Five Years		Due After Five Years Through Ten Years		Due After Ten Years		Total	
	Fair Value	Rate(1)	Fair Value	Rate(1)	Fair Value	Rate(1)	Fair Value	Rate(1)	Fair Value	Rate(1)
	(Dollars in thousands)									
Agency residential MBS	$ 31	4.85 %	$ 8,335	3.77 %	$ 6,909	3.93 %	$ 2,882,935	2.70 %	$ 2,898,210	2.71 %
Municipal securities	28,542	4.23 %	120,882	3.80 %	720,580	2.29 %	1,445,964	3.15 %	2,315,968	2.93 %
Agency commercial MBS	8,823	3.66 %	463,242	2.66 %	1,052,581	1.97 %	164,321	2.38 %	1,688,967	2.21 %
Agency residential CMOs	—	0.00 %	1,906	3.18 %	220,885	2.54 %	815,343	2.30 %	1,038,134	2.35 %
U.S. Treasury securities	—	0.00 %	5,146	2.67 %	961,751	1.17 %	—	0.00 %	966,897	1.18 %
Corporate debt securities	—	0.00 %	28,513	4.60 %	410,030	4.29 %	88,551	4.49 %	527,094	4.34 %
Private label Commercial MBS	4,961	4.05 %	8,676	3.43 %	41,510	2.63 %	395,070	2.48 %	450,217	2.53 %
Collateralized loan obligations	—	0.00 %	—	0.00 %	121,093	2.00 %	264,269	1.85 %	385,362	1.89 %
Private label residential CMOs	—	0.00 %	—	0.00 %	—	0.00 %	264,417	2.68 %	264,417	2.68 %
Asset-backed securities	10,464	0.79 %	25,248	1.52 %	1,736	0.79 %	92,099	1.11 %	129,547	1.16 %
SBA securities	1,864	4.07 %	429	3.24 %	7,612	2.76 %	19,740	2.87 %	29,645	2.93 %
Total securities available-for-sale	$ 54,685	3.46 %	$ 662,377	2.93 %	$ 3,544,687	2.14 %	$ 6,432,709	2.69 %	$ 10,694,458	2.53 %

(1) Rates presented are weighted average rates. Rates on tax-exempt securities are contractual rates and are not presented on a tax-equivalent basis.

Loans and Leases Held for Investment

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

	December 31,					
	2021		2020		2019	
	Balance	% of Total	Balance	% of Total	Balance	% of Total
	(Dollars in thousands)					
Real estate mortgage:						
Other commercial real estate	$ 2,429,791	11 %	$ 2,747,526	14 %	$ 2,685,930	14 %
SBA program	623,579	3 %	599,788	3 %	556,889	3 %
Hotel	593,203	3 %	571,917	3 %	625,798	3 %
Healthcare real estate	115,726	— %	177,440	1 %	334,070	2 %
Total commercial real estate mortgage	3,762,299	17 %	4,096,671	21 %	4,202,687	22 %
Income producing residential	4,647,503	20 %	3,718,457	20 %	3,665,790	19 %
Other residential real estate	2,768,918	12 %	84,808	— %	104,270	1 %
Total income producing and other residential real estate mortgage	7,416,421	32 %	3,803,265	20 %	3,770,060	20 %
Total real estate mortgage	11,178,720	49 %	7,899,936	41 %	7,972,747	42 %
Real estate construction and land:						
Commercial	832,591	4 %	1,117,121	6 %	1,082,368	6 %
Residential	2,604,536	11 %	2,243,160	12 %	1,655,434	9 %
Total real estate construction and land [(1)]	3,437,127	15 %	3,360,281	18 %	2,737,802	15 %
Total real estate	14,615,847	64 %	11,260,217	59 %	10,710,549	57 %
Commercial:						
Lender finance	2,617,712	11 %	2,095,963	11 %	2,118,767	11 %
Equipment finance	681,266	3 %	700,042	4 %	852,278	5 %
Premium finance	586,267	3 %	438,761	2 %	467,469	2 %
Other asset-based	190,232	1 %	194,517	1 %	309,893	2 %
Total asset-based	4,075,477	18 %	3,429,283	18 %	3,748,407	20 %
Equity fund loans	1,707,143	7 %	1,032,718	5 %	1,199,268	6 %
Venture lending	613,450	3 %	665,790	4 %	980,154	6 %
Total venture capital	2,320,593	10 %	1,698,508	9 %	2,179,422	12 %
Secured business loans	486,088	2 %	430,263	2 %	583,300	3 %
Paycheck Protection Program	156,699	1 %	1,057,422	5 %	—	— %
Security monitoring	89,597	— %	329,312	2 %	619,260	3 %
Other lending	739,597	3 %	558,117	3 %	565,107	3 %
Total other commercial	1,471,981	6 %	2,375,114	12 %	1,767,667	9 %
Total commercial	7,868,051	34 %	7,502,905	39 %	7,695,496	41 %
Consumer	457,650	2 %	320,255	2 %	440,827	2 %
Total loans and leases held for investment, net of deferred fees	$ 22,941,548	100 %	$ 19,083,377	100 %	$ 18,846,872	100 %

(1) Includes $151.8 million, $167.1 million, and $173.4 million, at December 31, 2021, 2020, and 2019 of land acquisition and development loans.

Our loan portfolio segments of real estate mortgage loans, real estate construction and land loans, and commercial loans comprised 49%, 15%, and 34% of our total loans and leases held for investment at December 31, 2021, compared to 41%, 18%, and 39% at December 31, 2020, respectively.

The changes during 2021 in the portfolio classes comprising these portfolio segments reflected the following:

- Commercial real estate mortgage loans decreased by 8% to $3.8 billion or 17% of total loans and leases held for investment at December 31, 2021 from $4.1 billion or 21% at December 31, 2020. The lower balance and composition ratio was attributable primarily to the balance of other commercial real estate loans declining by 12% to $2.4 billion at December 31, 2021 from $2.7 billion at December 31, 2020.
- Income producing and other residential real estate mortgage loans increased by 95% to $7.4 billion or 32% of total loans and leases held for investment at December 31, 2021 from $3.8 billion or 20% at December 31, 2020. The increase was attributable primarily to $2.4 billion of single-family residential mortgage loans purchased during 2021 and loans originated by Civic since its February 1, 2021 acquisition date. Such Civic-originated loans totaled $956.2 million at December 31, 2021 and included business-purpose loans secured by for-rent residential properties, short-term bridge loans, and multi-family loans.
- Commercial real estate construction and land loans decreased by 25% to $832.6 million or 4% of total loans and leases held for investment at December 31, 2021 from $1.1 billion or 6% at December 31, 2020.
- Residential real estate construction and land loans increased by 16% to $2.6 billion or 11% of total loans and leases held for investment at December 31, 2021 from $2.2 billion or 12% at December 31, 2020. The increase was due primarily to the business-purpose loans secured by non-owner-occupied residential properties undergoing renovation that were originated by Civic since its February 1, 2021 acquisition date which totaled $422.4 million at December 31, 2021.
- Asset-based loans and leases increased by 19% to $4.1 billion or 18% of total loans and leases held for investment at December 31, 2021 from $3.4 billion or 18% at December 31, 2020. The higher balance was attributable primarily to the balance of lender finance loans increasing by 25% to $2.6 billion at December 31, 2021 from $2.1 billion at December 31, 2020.
- Venture capital loans increased by 37% to $2.3 billion or 10% of total loans and leases held for investment at December 31, 2021 from $1.7 billion or 9% at December 31, 2020. The higher balance and composition ratio was attributable primarily to higher equity fund loans, offset partially by lower venture lending loans to venture-backed companies. Equity fund loans increased to $1.7 billion at December 31, 2021 from $1.0 billion at December 31, 2020. Venture lending loans decreased to $613.5 million at December 31, 2021 from $665.8 million at December 31, 2020.
- Other commercial loans decreased by 38% to $1.5 billion or 6% of total loans and leases held for investment at December 31, 2021 from $2.4 billion or 12% at December 31, 2020. The lower balance and composition ratio was attributable primarily to the balance of Paycheck Protection Program ("PPP") loans decreasing by 85% to $156.7 million at December 31, 2021 from $1.1 billion at December 31, 2020.

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

	December 31,			
	2021		2020	
Real Estate Loans by State	**Balance**	**% of Total**	**Balance**	**% of Total**
	(Dollars in thousands)			
California	$ 8,916,633	61 %	$ 6,942,768	62 %
Colorado	721,343	5 %	386,480	3 %
New York	675,948	5 %	716,329	6 %
Florida	556,057	4 %	598,167	5 %
Washington	500,836	3 %	413,014	4 %
Texas	392,836	3 %	263,731	2 %
Oregon	375,223	3 %	269,600	2 %
Nevada	346,838	2 %	195,663	2 %
Arizona	253,289	2 %	171,533	2 %
New Jersey	214,087	1 %	108,247	1 %
Total of 10 largest states	12,953,090	89 %	10,065,532	89 %
All other states	1,662,757	11 %	1,194,685	11 %
Total real estate loans held for investment, net of deferred fees	$ 14,615,847	100 %	$ 11,260,217	100 %

At December 31, 2021 and 2020, 61% and 62% of our real estate loans were collateralized by property located in California because our full-service branches and our community banking activities are primarily located in California. The increase in real estate loans in Colorado reflects the growth from opening our Denver branch in November 2019.

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

Roll Forward of Loans and Leases Held for Investment, Net of Deferred Fees [(1)]	**Year Ended December 31, 2021**	**2020**	**2019**
	(Dollars in thousands)		
Balance, beginning of year	$ 19,083,377	$ 18,846,872	$ 17,957,713
Additions:			
Production	9,054,767	4,243,538	4,863,288
Disbursements	5,952,158	5,159,912	5,092,219
Total production and disbursements	15,006,925	9,403,450	9,955,507
Reductions:			
Payoffs	(7,337,296)	(3,738,754)	(4,669,530)
Paydowns	(3,728,950)	(5,193,848)	(4,262,977)
Total payoffs and paydowns	(11,066,246)	(8,932,602)	(8,932,507)
Sales	(117,263)	(125,999)	(76,335)
Transfers to foreclosed assets	(1,062)	(14,755)	(120)
Charge-offs	(10,715)	(93,589)	(32,262)
Transfers to loans held for sale	(25,554)	—	(25,124)
Total reductions	(11,220,840)	(9,166,945)	(9,066,348)
Loans acquired through acquisition	72,086	—	—
Net increase	3,858,171	236,505	889,159
Balance, end of year	$ 22,941,548	$ 19,083,377	$ 18,846,872
Weighted average rate on production [(2)]	4.19 %	3.57 %	5.06 %

(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 38 basis points to loan yields in 2021, 25 basis points to loan yields in 2020, and 22 basis points to loan yields in 2019.

Loan and Lease Interest Rate Sensitivity

The following table presents contractual maturity information for loans and leases held for investment, net of deferred fees, as of the date indicated:

December 31, 2021	**Due Within One Year**	**Due After One Year Through Five Years**	**Due After Five to 15 Years**	**Due After 15 Years**	**Total**
			(In thousands)		
Real estate mortgage	$ 1,210,137	$ 1,738,404	$ 1,702,726	$ 6,527,453	$ 11,178,720
Real estate construction and land	1,793,440	1,209,954	30,140	403,593	3,437,127
Commercial	2,549,356	4,209,232	921,124	188,339	7,868,051
Consumer	7,969	60,707	218,573	170,401	457,650
Total loans and leases held for investment, net of deferred fees	$ 5,560,902	$ 7,218,297	$ 2,872,563	$ 7,289,786	$ 22,941,548

At December 31, 2021, we had $5.6 billion of loans and leases held for investment due to mature over the next twelve months. For any of these loans and leases held for investment, in the event that we provide a concession through a refinance or modification that we would not ordinarily consider in order to protect as much of our investment as possible, such loans may be considered TDRs even though the loans have performed in accordance with their contractual terms. The circumstances regarding any modifications and a borrower's specific situation, such as its ability to obtain financing from another source at similar market terms, are evaluated on an individual basis to determine if a contractual loan renewal or loan extension constitutes a TDR. Higher levels of TDRs may result in increases in classified loans and credit loss provisions.

The following table presents the interest rate profile of loans and leases held for investment, net of deferred fees, due after one year as of the date indicated:

	Due After One Year		
December 31, 2021	**Fixed Rate**	**Variable Rate**	**Total**
		(In thousands)	
Real estate mortgage	$ 3,730,256	$ 6,238,327	$ 9,968,583
Real estate construction and land	596,917	1,046,770	1,643,687
Commercial	1,794,426	3,524,269	5,318,695
Consumer	429,258	20,423	449,681
Total loans and leases held for investment, net of deferred fees	$ 6,550,857	$ 10,829,789	$ 17,380,646

For information regarding our variable-rate loans subject to interest rate floors, see "Item 7A. Quantitative and Qualitative Disclosures About Market Risk."

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 the amortized cost basis of loans and leases, while the reserve for unfunded loan commitments is included within "Accrued interest payable and other liabilities" on the consolidated balance sheets. The amortized cost basis of loans and leases does not include accrued interest receivable, which is included in "Other assets" on the consolidated balance sheets. The "Provision for credit losses" on the consolidated statement of earnings (loss) is a combination of the provision for loan and lease losses and the provision for unfunded loan commitments.

Under the CECL methodology, expected credit losses reflect losses over the remaining contractual life of an asset, considering the effect of prepayments and available information about the collectability of cash flows, including information about relevant historical experience, current conditions, and reasonable and supportable forecasts of future events and circumstances. Thus, the CECL methodology incorporates a broad range of information in developing credit loss estimates.

For further information regarding the calculation of the allowance for credit losses on loans and leases held for investment using the CECL methodology, see Note 1(i). *Nature of Operations and Summary of Significant Accounting Policies - Allowance for Credit Losses on Loans and Leases Held for Investment* of the Notes to Consolidated Financial Statements contained in "Item 8. Financial Statements and Supplementary Data."

In calculating our allowance for credit losses, we continued to consider the impacts of the ongoing COVID-19 pandemic on our estimation of expected credit losses given the changes in economic forecasts and assumptions along with the uncertainty related to the severity and duration of the economic consequences of the COVID-19 pandemic. Our methodology and framework along with the 4-quarter reasonable and supportable forecast period and 2-quarter reversion period have remained consistent since the implementation of CECL on January 1, 2020. Certain management assumptions are reassessed every quarter based on current expectations for credit losses, while other assumptions are assessed and updated on at least an annual basis.

In the fourth quarter of 2021, we used the Moody’s Consensus Forecast dated December 9, 2021 for the calculation of our quantitative component, which is consistent with each of the quarters in 2021. The key macroeconomic variables used improved from the prior quarter as a result of updating and advancing the forecast by a quarter which, when combined with improvements in other credit quality metrics such as a decline in classified and special mention loans, drove the decrease in the allowance for credit losses in the fourth quarter. This decrease was offset partially by provisions for net loan growth.

As part of our allowance for credit losses methodology, we consistently incorporate the use of qualitative factors in determining the overall allowance for credit losses to capture risks that may not be adequately reflected in our quantitative models. During the first quarter of 2021, we added qualitative components that were based on management’s assessment of various qualitative factors such as economic conditions and collateral dependency. These qualitative components were primarily related to certain loan portfolios including hotels, retail, and office properties that may react more slowly to the improvements in the general economic conditions. These sectors may see a slower economic recovery to pre-pandemic levels due to changes in consumer behavior such as less business travel due to more virtual meetings, more online shopping versus in person shopping, or the potential for more permanent shifts to remote or hybrid working arrangements. Additionally, small businesses in these sectors may face greater challenges once debt relief and PPP funding is exhausted. Throughout 2021, these qualitative adjustments were updated based on evolving forecasts of property values and the pace of recovery for small businesses.

The use of different economic forecasts, whether based on different scenarios, the use of multiple or single scenarios, or updated economic forecasts and scenarios, can change the outcome of the calculations. In addition to the economic forecasts, there are numerous components and assumptions that are integral to the overall estimation of allowance for credit losses. As part of our allowance for credit losses process, sensitivity analyses are performed to assess the impact of how changing certain assumptions could impact the estimated allowance for credit losses. At times, these analyses can provide information to further assist management in making decisions on certain assumptions. We calculated alternative values for our December 31, 2021 ACL using two different forecast scenarios (Moody's Baseline and Moody's S5) and the calculated amounts for the quantitative component differed from the Consensus Forecast ranging from lower by 1.31% to higher by 2.60%. However, changing one assumption and not reassessing other assumptions used in the quantitative or qualitative process could yield results that are not reasonable or appropriate, hence all assumptions and information must be considered. From a sensitivity analysis perspective, changing key assumptions such as the macro-economic variable inputs from the economic forecasts, the reasonable and supportable forecast period, prepayment rates, loan segmentation, historical loss factors and/or periods, among others, would all change the outcome of the quantitative components of the allowance for credit losses. Those results would then need to be assessed from a qualitative perspective potentially requiring further adjustments to the qualitative component to arrive at a reasonable and appropriate allowance for credit losses.

The determination of the allowance for credit losses is complex and highly dependent on numerous models, assumptions, and judgments made by management. Management's current expectation for credit losses as quantified in the allowance for credit losses considers the impact of assumptions and is reflective of historical credit experience, economic forecasts viewed to be reasonable and supportable, current loan and lease composition, and relative credit risks known as of the balance sheet date.

Management believes the allowance for credit losses is appropriate for the current expected credit losses in our loan and lease portfolio and associated unfunded commitments, and the credit risk ratings and inherent loss rates currently assigned are reasonable and appropriate as of the reporting date. 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 consolidated financial statements.

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	December 31, 2021	December 31, 2020	December 31, 2019 [2]
	(Dollars in thousands)		
Allowance for loan and lease losses	$ 200,564	$ 348,181	$ 138,785
Reserve for unfunded loan commitments	73,071	85,571	35,861
Total allowance for credit losses	$ 273,635	$ 433,752	$ 174,646
Allowance for credit losses to loans and leases held for investment [1]	1.19 %	2.27 %	0.93 %
Allowance for credit losses to nonaccrual loans and leases held for investment	447.3 %	475.8 %	189.1 %
Nonaccrual loans and leases held for investment to loans and leases held for investment	0.27 %	0.48 %	0.49 %

(1) Excluding PPP loans, the ACL ratio as of December 31, 2021 and 2020 was 1.20% and 2.41%.
(2) 2019 is pre-CECL adoption on January 1, 2020; the ACL ratio under CECL at adoption was 0.97%.

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

Allowance for Credit Losses Roll Forward	Year Ended December 31, 2021	Year Ended December 31, 2020	Year Ended December 31, 2019
	(Dollars in thousands)		
Balance, beginning of year [2]	$ 433,752	$ 174,646	$ 169,333
Cumulative effect of change in accounting principle - CECL, as of January 1, 2020:			
Allowance for loan and lease losses	—	3,617	—
Reserve for unfunded loan commitments	—	3,710	—
Total cumulative effect	—	7,327	—
Provision for credit losses:			
(Reduction in) addition to allowance for loan and lease losses	(149,500)	293,000	23,000
(Reduction in) addition to reserve for unfunded loan commitments	(12,500)	46,000	(1,000)
Total provision for credit losses	(162,000)	339,000	22,000
Loans and leases charged off:			
Real estate mortgage	(1,128)	(10,686)	(997)
Real estate construction and land	(782)	—	—
Commercial	(7,298)	(82,105)	(30,426)
Consumer	(1,507)	(798)	(839)
Total loans and leases charged off	(10,715)	(93,589)	(32,262)
Recoveries on loans charged off:			
Real estate mortgage	6,767	617	983
Real estate construction and land	—	21	—
Commercial	5,711	5,529	14,397
Consumer	120	201	195
Total recoveries on loans charged off	12,598	6,368	15,575
Net recoveries (charge-offs)	1,883	(87,221)	(16,687)
Balance, end of year	$ 273,635	$ 433,752	$ 174,646
Net (recoveries) charge-offs to average loans and leases	(0.01)%	0.45 %	0.09 %

The following table presents net charge-offs, average loan balance, and ratio of net charge-offs to average loans by loan portfolio segment for the years indicated:

Ratio of Net Charge-offs to Average Loans	Year Ended December 31, 2021	2020	2019
	(Dollars in thousands)		
Real Estate Mortgage:			
Net (recoveries) charge-offs	$ (5,639)	$ 10,069	$ 14
Average loan balance	$ 9,119,963	$ 7,942,883	$ 8,004,659
Ratio of net (recoveries) charge-offs to average loans	(0.06)%	0.13 %	— %
Real Estate Construction and Land:			
Net charge-offs (recoveries)	$ 782	$ (21)	$ —
Average loan balance	$ 3,396,145	$ 3,148,522	$ 2,450,157
Ratio of net charge-offs to average loans	0.02 %	— %	— %
Commercial:			
Net charge-offs	$ 1,587	$ 76,576	$ 16,029
Average loan balance	$ 7,310,253	$ 7,794,969	$ 7,595,463
Ratio of net charge-offs to average loans	0.02 %	0.98 %	0.21 %
Consumer:			
Net charge-offs	$ 1,387	$ 597	$ 644
Average loan balance	$ 377,927	$ 392,904	$ 413,856
Ratio of net charge-offs to average loans	0.37 %	0.15 %	0.16 %

Net recoveries in 2021 were $1.9 million compared to net charge-offs of $87.2 million in 2020. This improvement was due primarily to the real estate mortgage portfolio segment going from net charge-offs of $10.1 million in 2020 to net recoveries of $5.6 million in 2021 and the commercial portfolio segment going from net charge-offs of $76.6 million in 2020 to net charge-offs of $1.6 million in 2021. Real estate mortgage net charge-offs in 2020 included $8.2 million of gross charge-offs related to two retail properties that were adversely affected by pandemic-related business closures. Commercial net charge-offs in 2020 included $59.6 million related to five security monitoring loans and an $11.8 million gross charge-off on a single equipment finance loan. Net charge-offs in 2019 totaled $16.7 million and included $16.0 million of net charge-offs in the commercial portfolio segment which included an $11.8 million gross charge-off on a single asset-based loan.

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

Allowance for Credit Losses Charge-offs	Year Ended December 31, 2021	2020	2019
	(In thousands)		
Real estate mortgage:			
SBA program	$ 622	$ 769	$ 897
Hotel	343	422	—
Healthcare real estate	—	—	—
Other commercial real estate	—	8,987	9
Total commercial real estate mortgage	965	10,178	906
Income producing residential	163	—	—
Other residential real estate	—	508	91
Total income producing and other residential real estate mortgage	163	508	91
Total real estate mortgage	1,128	10,686	997
Real estate construction and land:			
Commercial	775	—	—
Residential	7	—	—
Total real estate construction and land	782	—	—
Commercial:			
Lender finance	232	—	—
Equipment finance	—	11,817	—
Other asset-based	—	—	11,950
Premium finance	—	—	31
Total asset-based	232	11,817	11,981
Equity fund loans	—	—	—
Venture lending	620	6,819	9,369
Total venture capital	620	6,819	9,369
Security monitoring	2,892	59,605	1,707
Secured business loans	210	—	1,426
Other lending	3,344	3,864	5,943
Total other commercial	6,446	63,469	9,076
Total commercial	7,298	82,105	30,426
Consumer	1,507	798	839
Total charge-offs	$ 10,715	$ 93,589	$ 32,262

Commercial real estate mortgage gross charge-offs decreased to $1.0 million for the year ended December 31, 2021 from $10.2 million for the year ended December 31, 2020. The 2020 amount included $8.2 million gross charge-offs related to two retail properties that were adversely affected by pandemic-related business closures.

Asset-based gross charge-offs decreased to $0.2 million for the year ended December 31, 2021 from $11.8 million for the year ended December 31, 2020. The 2020 amount included an $11.8 million gross charge-off in the equipment finance subclass related to a single loan.

Venture capital gross charge-offs decreased to $0.6 million for the year ended December 31, 2021 from $6.8 million for the year ended December 31, 2020. The 2020 amount included one loan for $6.5 million.

Other commercial gross charge-offs decreased to $6.4 million for the year ended December 31, 2021 from $63.5 million for the year ended December 31, 2020. The 2020 amount includes $59.6 million for five security monitoring loans, representing 64% of total gross charge-offs for 2020.

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

Allowance for Credit Losses Recoveries	Year Ended December 31,		
	2021	2020	2019
		(In thousands)	
Real estate mortgage:			
SBA program	$ 697	$ 168	$ 382
Hotel	—	—	—
Healthcare real estate	—	—	—
Other commercial real estate	5,384	121	162
Total commercial real estate mortgage	6,081	289	544
Income producing residential	28	—	276
Other residential real estate	658	328	163
Total income producing and other residential real estate mortgage	686	328	439
Total real estate mortgage	6,767	617	983
Real estate construction and land:			
Commercial	—	—	—
Residential	—	21	—
Total real estate construction and land	—	21	—
Commercial:			
Lender finance	3	—	6
Equipment finance	263	286	11
Other asset-based	453	422	1,416
Premium finance	—	—	—
Total asset-based	719	708	1,433
Equity fund loans	—	—	—
Venture lending	404	1,261	8,151
Total venture capital	404	1,261	8,151
Security monitoring	—	123	181
Secured business loans	2,402	374	2,877
Other lending	2,186	3,063	1,755
Total other commercial	4,588	3,560	4,813
Total commercial	5,711	5,529	14,397
Consumer	120	201	195
Total recoveries	$ 12,598	$ 6,368	$ 15,575

The following table presents the allowance for loan and lease losses on loans and leases held for investment by loan portfolio segment as of the dates indicated:

	Allowance for Loan and Lease Losses by Portfolio Segment				
	Real Estate Mortgage	**Real Estate Construction and Land**	**Commercial**	**Consumer**	**Total**
			(Dollars in thousands)		
December 31, 2021					
Allowance for loan and lease losses	$ 98,053	$ 45,079	$ 48,718	$ 8,714	$ 200,5
% of loans to total loans	49 %	15 %	34 %	2 %	1
December 31, 2020					
Allowance for loan and lease losses	$ 138,342	$ 78,356	$ 126,403	$ 5,080	$ 348,1
% of loans to total loans	41 %	18 %	39 %	2 %	1
December 31, 2019					
Allowance for loan and lease losses	$ 44,575	$ 30,544	$ 61,528	$ 2,138	$ 138,7
% of loans to total loans	42 %	15 %	41 %	2 %	1

The allowance for loan and lease losses attributable to real estate mortgage loans was $98.1 million and $138.3 million at December 31, 2021 and 2020. As ratios to real estate mortgage loans at those dates, these percentages were 0.88% and 1.75%. The decrease was due to a lower allowance for loan losses as a result of improvement in both the macroeconomic forecast variables used in the process to determine the allowance for credit losses and the loan portfolio credit quality metrics, and to a higher loan balance.

The allowance for loan and lease losses attributable to real estate construction and land loans was $45.1 million and $78.4 million at December 31, 2021 and 2020. As ratios to real estate construction and land loans at those dates, these percentages were 1.31% and 2.33%. The decrease was due to a lower allowance for loan losses as a result of improvement in both the macroeconomic forecast variables used in the process to determine the allowance for credit losses and the loan portfolio credit quality metrics, and to a higher loan balance.

The allowance for loan and lease losses attributable to commercial loans and leases was $48.7 million and $126.4 million at December 31, 2021 and 2020. As ratios to commercial loans and leases at those dates, these percentages were 0.62% and 1.68%. The decrease was due to a lower allowance for loan losses as a result of improvement in both the macroeconomic forecast variables used in the process to determine the allowance for credit losses and the loan portfolio credit quality metrics, and to a higher loan balance.

Deposits

The following table presents a summary of our average deposit amounts and average rates paid during the years indicated:

	Year Ended December 31,					
	2021		2020		2019	
Deposit Composition	Average Balance	Weighted Average Rate	Average Balance	Weighted Average Rate	Average Balance	Weighted Average Rate
	(Dollars in thousands)					
Interest checking	$ 7,198,646	0.12 %	$ 4,394,742	0.29 %	$ 3,406,218	1.23 %
Money market	8,843,122	0.15 %	6,547,027	0.29 %	5,139,623	1.10 %
Savings	606,741	0.02 %	538,985	0.05 %	525,809	0.17 %
Time	1,471,963	0.40 %	2,169,324	1.26 %	2,641,135	1.86 %
Total interest-bearing deposits	18,120,472	0.15 %	13,650,078	0.44 %	11,712,785	1.27 %
Noninterest-bearing demand	12,110,193	—	8,517,281	—	7,537,172	—
Total deposits	$ 30,230,665	0.09 %	$ 22,167,359	0.27 %	$ 19,249,957	0.77 %

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

	December 31,					
	2021		2020		2019	
Deposit Composition	Balance	% of Total	Balance	% of Total	Balance	% of Total
	(Dollars in thousands)					
Noninterest-bearing demand	$ 14,543,133	41 %	$ 9,193,827	37 %	$ 7,243,298	38 %
Interest checking	7,319,898	21 %	5,974,910	24 %	3,753,978	19 %
Money market	10,241,265	29 %	6,532,917	26 %	4,690,420	24 %
Savings	630,653	2 %	562,826	2 %	499,591	3 %
Total core deposits	32,734,949	93 %	22,264,480	89 %	16,187,287	84 %
Non-core non-maturity deposits	889,976	3 %	1,149,467	5 %	496,407	3 %
Total non-maturity deposits	33,624,925	96 %	23,413,947	94 %	16,683,694	87 %
Time deposits $250,000 and under	885,938	3 %	994,197	4 %	2,065,733	11 %
Time deposits over $250,000	486,894	1 %	532,573	2 %	483,609	2 %
Total time deposits	1,372,832	4 %	1,526,770	6 %	2,549,342	13 %
Total deposits	$ 34,997,757	100 %	$ 24,940,717	100 %	$ 19,233,036	100 %
Estimated uninsured deposits	$ 22,479,674		$ 15,241,530		$ 11,436,515	

During 2021, total deposits increased by $10.1 billion, or 40%, to $35.0 billion at December 31, 2021, due primarily to an increase of $10.5 billion in core deposits, offset partially by decreases of $259.5 million in non-core non-maturity deposits and $153.9 million in time deposits. The increase in core deposits was due primarily to continued strong deposit growth from our venture banking and community banking clients and the acquisition of the HOA Business, which added $4.1 billion of core deposits. The increase in core deposits by component was due to increases of $5.3 billion in noninterest-bearing demand deposits, $1.3 billion in interest checking deposits, $3.7 billion in money market deposits, and $67.8 million in savings deposits. At December 31, 2021, core deposits totaled $32.7 billion, or 93% of total deposits, including $14.5 billion of noninterest-bearing demand deposits, or 41% of total deposits. Our deposit base is also diversified by client type. As of December 31, 2021, no individual depositor represented more than 1.7% of our total deposits, and our top ten depositors represented 11.2% of our total deposits.

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

December 31, 2021	Time Deposits $250,000 and Under	Time Deposits Over $250,000	Total
	(In thousands)		
Maturities:			
Due in three months or less	$ 274,030	$ 222,816	$ 496,846
Due in over three months through six months	183,369	164,468	347,837
Due in over six months through 12 months	205,770	86,416	292,186
Total due within 12 months	663,169	473,700	1,136,869
Due in over 12 months through 24 months	110,917	10,824	121,741
Due in over 24 months	111,852	2,370	114,222
Total due over 12 months	222,769	13,194	235,963
Total	$ 885,938	$ 486,894	$ 1,372,832

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

December 31, 2021	Uninsured Time Deposits
	(In thousands)
Maturities:	
Due in three months or less	$ 183,939
Due in over three months through six months	145,718
Due in over six months through 12 months	50,862
Total due within 12 months	380,519
Total due over 12 months	999
Total	$ 381,518

Client Investment Funds

In addition to deposit products, we also offer select clients non-depository cash investment options through PWAM, our SEC registered investment adviser subsidiary, and third-party money market sweep products. PWAM provides customized investment advisory and asset management solutions. At December 31, 2021, total off-balance sheet client investment funds were $1.4 billion of which $0.9 billion was managed by PWAM. At December 31, 2020, total off-balance sheet client investment funds were $1.3 billion, of which $1.0 billion was managed by PWAM.

Borrowings and Subordinated Debt

The Bank has various available lines of credit. These include the ability to borrow funds from time to time on a long-term, short-term, or overnight basis from the FHLB, the FRBSF, or other financial institutions. The maximum amount that the Bank could borrow under its secured credit line with the FHLB at December 31, 2021 was $4.0 billion, of which all was available on that date. The maximum amount that the Bank could borrow under its secured credit line with the FRBSF at December 31, 2021 was $1.4 billion, all of which was available on that date. The FHLB secured credit line was collateralized by a blanket lien on $6.2 billion of certain qualifying loans. The FRBSF secured credit line was collateralized by liens on $1.8 billion of qualifying loans. In addition to its secured lines of credit, the Bank also maintains unsecured lines of credit for the borrowing of overnight funds, subject to availability, of $112.0 million with the FHLB and $180.0 million in the aggregate with several correspondent banks. As of December 31, 2021, there was no balance outstanding related to these unsecured lines 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 December 31, 2021, the Bank had no outstanding borrowings through the AFX.

The following table presents information on our borrowings as of the dates indicated:

Borrowings	December 31, 2021 Balance	2021 Weighted Average Rate	2020 Balance	2020 Weighted Average Rate	2019 Balance	2019 Weighted Average Rate
	(Dollars in thousands)					
FHLB secured short-term advances	$ —	— %	$ 5,000	— %	$ 1,318,000	1.66 %
FHLB unsecured overnight advance	—	— %	—	— %	141,000	1.56 %
AFX short-term borrowings	—	— %	—	— %	300,000	1.61 %
Non-recourse debt	—	— %	—	— %	8	7.50 %
Total borrowings	$ —	— %	$ 5,000	— %	$ 1,759,008	1.64 %
Averages for the year:						
Total borrowings	$ 231,099	0.27 %	$ 825,681	0.99 %	$ 1,180,164	2.28 %

The following table presents summary information on our subordinated debt as of the dates indicated:

Subordinated Debt	December 31, 2021 Balance	2021 Weighted Average Rate	2020 Balance	2020 Weighted Average Rate	2019 Balance	2019 Weighted Average Rate
	(Dollars in thousands)					
Gross subordinated debt:						
With no unamortized acquisition discount or unamortized issuance costs	$ 135,055	2.58 %	$ 135,055	2.63 %	$ 135,055	4.33 %
With unamortized acquisition discount or unamortized issuance costs	806,039	2.65 %	408,220	2.11 %	405,635	3.72 %
Total gross subordinated debt	941,094	2.64 %	543,275	2.24 %	540,690	3.87 %
Unamortized issuance costs	(5,366)		—		—	
Unamortized acquisition discount	(72,445)		(77,463)		(82,481)	
Net subordinated debt	$ 863,283		$ 465,812		$ 458,209	
Averages for the year:						
Net subordinated debt	$ 733,163	3.61 %	$ 461,059	4.58 %	$ 455,537	6.55 %

The subordinated debt is variable rate and based on 3-month LIBOR plus a margin, except for one which is based on 3-month EURIBOR plus a margin and $400 million of subordinated notes issued on April 30, 2021 that is fixed rate at 3.25% until May 1, 2026 when it changes to floating rate and resets quarterly at a benchmark rate plus 252 basis points. The margins on the 3-month LIBOR debentures range from 1.55% to 3.10%, while the margin on the 3-month EURIBOR debenture is 2.05%. The interest rate on the LIBOR-based subordinated debt will default to the last published or determined rate of LIBOR, and for Trust CS 2006-4, the Base Rate, defined as the greater of Prime and the federal funds rate, upon cessation of LIBOR and effectively converting these instruments to fixed rate, if not modified prior to June 30, 2023. The subordinated debt is all long-term, with maturities ranging from May 2031 to July 2037.

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:

	December 31,		
	2021	2020	2019
	(Dollars in thousands)		
Nonaccrual loans and leases held for investment	$ 61,174	$ 91,163	$ 92,353
Accruing loan contractually past due 90 days or more	—	—	—
Foreclosed assets, net	12,843	14,027	440
Total nonperforming assets	$ 74,017	$ 105,190	$ 92,793
Performing TDRs held for investment	$ 24,430	$ 14,254	$ 12,257
Classified loans and leases held for investment	$ 116,104	$ 265,262	$ 175,912
Nonaccrual loans and leases held for investment to loans and leases held for investment	0.27 %	0.48 %	0.49 %
Nonperforming assets to loans and leases held for investment and foreclosed assets, net	0.32 %	0.55 %	0.49 %
Allowance for credit losses to nonaccrual loans and leases held for investment	447.31 %	475.80 %	189.11 %
Classified loans and leases held for investment to loans and leases held for investment	0.51 %	1.39 %	0.93 %

Nonaccrual Loans and Leases Held for Investment

During 2021, nonaccrual loans and leases held for investment decreased by $30.0 million to $61.2 million at December 31, 2021 due mainly to the sale of one security monitoring loan for $25.6 million, charge-offs of $7.9 million, transfers to accrual status of $7.0 million, and principal payments and other reductions of $59.0 million, offset partially by $69.4 million in additions. As of December 31, 2021, the Company's three largest loan relationships on nonaccrual status had an aggregate carrying value of $14.2 million and represented 23% 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:

	December 31, 2021		December 31, 2020		Increase (Decrease)	
	Nonaccrual	Accruing and 30-89 Days Past Due	Nonaccrual	Accruing and 30-89 Days Past Due	Nonaccrual	Accruing and 30-89 Days Past Due
	(Dollars in thousands)					
Real estate mortgage:						
Commercial	$ 27,540	$ 2,165	$ 43,731	$ 3,636	$ (16,191)	$ (1,471)
Income producing and other residential	12,292	39,929	1,826	600	10,466	39,329
Total real estate mortgage	39,832	42,094	45,557	4,236	(5,725)	37,858
Real estate construction and land:						
Commercial	—	—	315	—	(315)	—
Residential	4,715	5,031	—	759	4,715	4,272
Total real estate construction and land	4,715	5,031	315	759	4,400	4,272
Commercial:						
Asset-based	1,464	—	2,679	—	(1,215)	—
Venture capital	2,799	—	1,980	540	819	(540)
Other commercial	11,950	630	40,243	2,078	(28,293)	(1,448)
Total commercial	16,213	630	44,902	2,618	(28,689)	(1,988)
Consumer	414	1,004	389	1,260	25	(256)
Total held for investment	$ 61,174	$ 48,759	$ 91,163	$ 8,873	$ (29,989)	$ 39,886

During 2021, loans accruing and 30-89 days past due increased by $39.9 million to $48.8 million at December 31, 2021 due primarily to a $39.3 million increase in past due loans in the income producing and other residential loan portfolio class, which was attributable mostly to increases of $20.0 million in past due purchased single-family residential mortgage loans and $16.1 million in past due business-purpose loans secured by for-rent residential properties and short-term bridge loans originated by Civic. The delinquency related to the purchased single-family residential mortgage loans was attributable to delayed payment applications stemming from servicing being transferred following our purchase of these loans.

Foreclosed Assets

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

	December 31,		
Property Type	2021	2020	2019
	(In thousands)		
Commercial real estate	$ 12,594	$ 12,979	$ 221
Construction and land development	—	219	219
Total OREO, net	12,594	13,198	440
Other foreclosed assets	249	829	—
Total foreclosed assets	$ 12,843	$ 14,027	$ 440

During 2021, foreclosed assets decreased by $1.2 million to $12.8 million at December 31, 2021 due to sales of $2.2 million, offset partially by additions of $1.1 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:

	December 31,					
	2021		2020		2019	
Performing TDRs	**Balance**	**Number of Loans**	**Balance**	**Number of Loans**	**Balance**	**Number of Loans**
	(Dollars in thousands)					
Real estate mortgage	$ 6,204	18	$ 6,631	20	$ 10,165	22
Real estate construction and land	1,428	1	1,451	1	1,470	1
Commercial	16,773	24	6,146	21	550	12
Consumer	25	1	26	1	72	2
Total performing TDRs held for investment	$ 24,430	44	$ 14,254	43	$ 12,257	37

During 2021, performing TDRs held for investment increased by $10.2 million to $24.4 million at December 31, 2021 due primarily to transfers from nonaccrual status to performing TDRs of $18.2 million and additions of $13.2 million, offset partially by transfers of performing TDRs to nonaccrual status of $8.0 million and principal payments and other reductions of $13.2 million.

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:

	December 31,		
Loan and Lease Credit Risk Ratings	**2021**	**2020**	**2019**
	(Dollars in thousands)		
Pass	$ 22,433,833	$ 18,096,830	$ 18,348,004
Special mention	391,611	721,285	322,956
Classified	116,104	265,262	175,912
Total loans and leases held for investment, net of deferred fees	$ 22,941,548	$ 19,083,377	$ 18,846,872

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 management. Both special mention and classified loans had significant increases in 2020 primarily as a result of proactively downgrading loans and leases in the first quarter of 2020 due to the uncertainty surrounding the long-term economic effects of the COVID-19 pandemic. A high percentage of these downgrades were in industries more acutely impacted by the COVID-19 pandemic such as hotels, commercial aviation, and retail.

During 2021, as economic conditions improved, classified loans and leases decreased by $149.2 million to $116.1 million at December 31, 2021 due mainly to decreases of $65.9 million in other commercial classified loans, $42.6 million in commercial real estate construction and land classified loans, $29.3 million in commercial real estate mortgage classified loans, and $23.3 million in asset-based classified loans and leases, offset partially by an increase of $8.9 million in income producing and other residential real estate mortgage classified loans. Classified loans and leases peaked in the second quarter of 2020 at $293.2 million.

During 2021, as economic conditions improved, special mention loans and leases decreased by $329.7 million to $391.6 million at December 31, 2021 due primarily to decreases of $103.3 million in venture capital special mention loans, $75.0 million in asset-based special mention loans and leases, $70.7 million in commercial real estate mortgage special mention loans, $41.5 million in income producing and other residential special mention loans, and $39.9 million in commercial real estate construction and land special mention loans. Special mention loans and leases peaked in the first quarter of 2020 at $898.7 million in conjunction with our initial downgrades at the onset of the pandemic.

The following table presents the classified and special mention credit risk rating categories for loans and leases held for investment, net of deferred fees, by loan portfolio segment and class and the related net changes as of the dates indicated:

	December 31, 2021		December 31, 2020		Increase (Decrease)	
	Classified	Special Mention	Classified	Special Mention	Classified	Special Mention
			(In thousands)			
Real estate mortgage:						
Commercial	$ 62,206	$ 191,809	$ 91,543	$ 262,462	$ (29,337)	$ (70,653)
Income producing and other residential	17,700	19,848	8,767	61,384	8,933	(41,536)
Total real estate mortgage	79,906	211,657	100,310	323,846	(20,404)	(112,189)
Real estate construction and land:						
Commercial	—	67,727	42,558	107,592	(42,558)	(39,865)
Residential	4,715	1,720	—	759	4,715	961
Total real estate construction and land	4,715	69,447	42,558	108,351	(37,843)	(38,904)
Commercial:						
Asset-based	4,591	78,305	27,867	153,301	(23,276)	(74,996)
Venture capital	4,794	14,833	6,508	118,125	(1,714)	(103,292)
Other commercial	21,659	15,528	87,557	14,930	(65,898)	598
Total commercial	31,044	108,666	121,932	286,356	(90,888)	(177,690)
Consumer	439	1,841	462	2,732	(23)	(891)
Total	$ 116,104	$ 391,611	$ 265,262	$ 721,285	$ (149,158)	$ (329,674)

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 December 31, 2021, 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%.

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. Effective January 1, 2019, 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%. At December 31, 2021, the Company and Bank were in compliance with the capital conservation buffer requirements.

The Company and Bank elected the CECL 5-year regulatory transition guidance for calculating regulatory capital ratios and the December 31, 2021 ratios include this election. This regulatory guidance allows an entity to add back to capital 100% of the capital impact from the day one CECL transition adjustment and 25% of subsequent increases to the allowance for credit losses through December 31, 2022. This cumulative amount will then be phased out of regulatory capital over the next three years from 2023 to 2025. The add-back as of December 31, 2021 ranged from 0 basis points to 10 basis points for the capital ratios below.

In the third quarter of 2021, approximately $131.0 million of trust preferred securities were reclassified from Tier II capital to Tier I capital due to a reassessment of the Basel III implementation rule that permitted the grandfathering of certain trust preferred securities as Tier I capital. Prior periods were not required to be revised for this change.

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	For Well Capitalized Classification	For Capital Conservation Buffer
December 31, 2021				
PacWest Bancorp Consolidated				
Tier 1 leverage capital ratio	6.84%	4.00%	N/A	N/A
CET1 capital ratio	8.86%	4.50%	N/A	7.00%
Tier 1 capital ratio	9.32%	6.00%	N/A	8.50%
Total capital ratio	12.69%	8.00%	N/A	10.50%
Pacific Western Bank				
Tier 1 leverage capital ratio	7.00%	4.00%	5.00%	N/A
CET1 capital ratio	9.56%	4.50%	6.50%	7.00%
Tier 1 capital ratio	9.56%	6.00%	8.00%	8.50%
Total capital ratio	11.80%	8.00%	10.00%	10.50%

	Actual	Minimum Required For Capital Adequacy Purposes	For Well Capitalized Classification	For Capital Conservation Buffer
December 31, 2020				
PacWest Bancorp Consolidated				
Tier 1 leverage capital ratio	8.55%	4.00%	N/A	N/A
CET1 capital ratio	10.53%	4.50%	N/A	7.00%
Tier 1 capital ratio	10.53%	6.00%	N/A	8.50%
Total capital ratio	13.76%	8.00%	N/A	10.50%
Pacific Western Bank				
Tier 1 leverage capital ratio	9.53%	4.00%	5.00%	N/A
CET1 capital ratio	11.73%	4.50%	6.50%	7.00%
Tier 1 capital ratio	11.73%	6.00%	8.00%	8.50%
Total capital ratio	12.99%	8.00%	10.00%	10.50%

Subordinated Debt

We issued or assumed through mergers subordinated debt to trusts that were established by us or entities we acquired, which, in turn, issued trust preferred securities. On April 30, 2021, the Bank completed the sale of $400 million aggregate principal amount of 3.25% Fixed-to-Floating Rate Subordinated Notes due May 1, 2031. For further information, see Note 12. *Borrowings and Subordinated Debt* in the Notes to Consolidated Financial Statements contained in "Item 8. Financial Statements and Supplementary Data."

The carrying value of subordinated debt totaled $863.3 million at December 31, 2021. At December 31, 2021, $131.0 million of the trust preferred securities were included in the Company's Tier I capital and $718.2 million were included in Tier II capital. For a more detailed discussion of our subordinated debt, see "Item 1: Business - Supervision and Regulation - *Capital Requirements*."

Dividends on Common Stock and Interest on Subordinated Debt

As a bank holding company, PacWest is required to notify and receive approval from 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 on subordinated debt are considered dividend payments under FRB regulations. We may not pay a dividend if the FRB objects or until such time as we receive approval from the FRB or we no longer need to provide notice under applicable regulations. Given the impact of the goodwill impairment charge on net earnings in the first quarter of 2020, we were required to receive approval from the FRB prior to declaring a dividend from March 31, 2020 through March 31, 2021, but are no longer required to obtain such approval.

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 credit 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 $4.0 billion at December 31, 2021, of which all was available on that date. The FHLB secured credit line was collateralized by a blanket lien on $6.2 billion of certain qualifying loans. The Bank also had secured borrowing capacity with the FRBSF of $1.4 billion at December 31, 2021, all of which was available on that date. The FRBSF secured credit line was collateralized by liens on $1.8 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 $112.0 million with the FHLB and $180.0 million in the aggregate with several correspondent banks. As of December 31, 2021, there was no balance outstanding related to these unsecured lines 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 December 31, 2021, the Bank had borrowed nothing through the AFX.

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

	December 31,		
Primary Liquidity - On-Balance Sheet	**2021**	**2020**	**2019**
	(Dollars in thousands)		
Cash and due from banks	$ 112,548	$ 150,464	$ 172,585
Interest-earning deposits in financial institutions	3,944,686	3,010,197	465,039
Securities available-for-sale	10,694,458	5,235,591	3,797,187
Less: pledged securities	(532,418)	(449,330)	(486,200)
Total primary liquidity	$ 14,219,274	$ 7,946,922	$ 3,948,611
Ratio of primary liquidity to total deposits	40.6 %	31.9 %	20.5 %

Secondary Liquidity - Off-Balance Sheet	December 31,		
Available Secured Borrowing Capacity	**2021**	**2020**	**2019**
	(In thousands)		
Total secured borrowing capacity with the FHLB	$ 3,976,465	$ 3,330,715	$ 4,229,788
Less: secured advances outstanding	—	(5,000)	(1,318,000)
Available secured borrowing capacity with the FHLB	3,976,465	3,325,715	2,911,788
Available secured borrowing capacity with the FRBSF	1,380,191	1,409,452	1,988,028
Total secondary liquidity	$ 5,356,656	$ 4,735,167	$ 4,899,816

During 2021, the Company's primary liquidity increased by $6.3 billion to $14.2 billion at December 31, 2021 due mainly to a $5.5 billion increase in securities available-for-sale and a $934.5 million increase in interest-earning deposits in financial institutions, offset partially by an $83.1 million increase in pledged securities. During 2021, the Company's secondary liquidity increased by $621.5 million to $5.4 billion at December 31, 2021 due mostly to a $650.8 million increase in available secured borrowing capacity with the FHLB, offset partially by a $29.3 million decrease in available borrowing capacity on the secured credit line with the FRBSF. The $650.8 million increase in available secured borrowing capacity with the FHLB resulted primarily from a $645.8 million increase in the borrowing capacity related to pledged loans and a $5.0 million decrease in the amount borrowed from the secured borrowing line with the FHLB.

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 deposits, defined as noninterest-bearing demand, interest checking, savings, and non-brokered money market accounts. At December 31, 2021, core deposits totaled $32.7 billion and represented 93% of the Company's total deposits. 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 customers withdraw funds from the Bank. In order to address the Bank's liquidity risk from fluctuating deposit balances, the Bank maintains adequate levels of available liquidity on and off the balance sheet.

We use brokered deposits, the availability of which is uncertain and subject to competitive market forces and regulation, for liquidity management purposes. At December 31, 2021, brokered deposits totaled $1.1 billion, consisting primarily of $890.0 million of non-maturity brokered accounts and $195.7 million of brokered time deposits. At December 31, 2020, brokered deposits totaled $1.3 billion, consisting mainly of $1.1 billion of non-maturity brokered accounts and $195.7 million of brokered time 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. At December 31, 2021, the Bank was in compliance with all 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. PacWest's 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. PacWest's ability to pay dividends is also subject to the restrictions set forth in Delaware law, by the FRB, and by certain covenants contained in our subordinated debt. Approval by the FRB is required prior to our declaring and paying a cash dividend during any period in which our quarterly and/or cumulative twelve-month net earnings are insufficient to fund the dividend amount, among other requirements. PacWest may not pay a dividend if the FRB objects or until such time as we receive approval from the FRB or we no longer need to provide notice under applicable regulations. In addition, we may be restricted by applicable law or regulation or actions taken by our regulators, now or in the future, from paying dividends. Due to the impact of the goodwill impairment charge on net earnings in the first quarter of 2020, we were required to receive approval from the FRB, as described above, prior to declaring a dividend, for the period of March 31, 2020 to March 31, 2021, but are no longer required to obtain such approval.

Dividends paid by California state-chartered banks are regulated by the FDIC for non-member banks and the DFPI under their general supervisory authority. The Bank may declare a dividend without the approval of the DFPI 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. The Bank had a cumulative net loss of $155.3 million during the three fiscal years of 2021, 2020, and 2019, compared to dividends of $776.0 million paid by the Bank during that same period. During the year ended December 31, 2021, PacWest received $182.0 million in dividends from the Bank. Since the Bank had an accumulated deficit of $1.5 billion at December 31, 2021, for the foreseeable future any dividends from the Bank to PacWest will continue to require DFPI and FDIC approval consistent with what has been required since 2008 when the Bank first had an accumulated deficit triggered by goodwill impairment write-downs during the financial crisis of 2007-2008.

At December 31, 2021, PacWest had $176.9 million in cash and cash equivalents, 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.

Stock Repurchase Programs

On February 12, 2020, 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 $200 million, effective February 29, 2020. No shares were repurchased under the new Stock Repurchase Program prior to its expiration on February 28, 2021.

On February 15, 2022, PacWest's Board of Directors authorized a new Stock Repurchase Program, effective March 1, 2022, to repurchase shares of its common stock for an aggregate purchase price not to exceed $100 million with a program maturity date of February 28, 2023.

Material Cash Requirements

Our material contractual obligations are primarily for time deposits, subordinated debt, commitments to contribute capital to investments in LIHTC partnerships, SBICs and CRA-related loan pools, and operating lease obligations. At December 31, 2021, time deposits totaled $1.4 billion, of which $1.1 billion was due within one year. Gross subordinated debt totaled $941.1 million, all of which was due after five years. Our liability to contribute capital to LIHTC partnerships was $170.7 million and our commitment to contribute capital to SBICs and CRA-related loan pools was $85.9 million for a combined total of $256.7 million, of which $94.2 million was due within one year. Our operating lease obligation for leased facilities totaled $153.5 million, of which $35.8 million was due within one year. For further information regarding these items, see Note 11. *Deposits*, Note 12. *Borrowings and Subordinated Debt,* Note 9. *Other Assets,* Note 14. *Commitments and Contingencies,* and Note 10. *Leases* of the Notes to Consolidated Financial Statements contained in “Item 8. Financial Statements and Supplementary Data.”

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 December 31, 2021, our loan commitments and standby letters of credit were $9.0 billion and $345.8 million, respectively. The loan commitments, a portion of which will eventually result in funded loans, increase our profitability through net interest income when drawn and unused commitment fees prior to being 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 14. *Commitments and Contingencies* of the Notes to Consolidated Financial Statements contained in “Item 8. Financial Statements and Supplementary Data.”

Recent Accounting Pronouncements

See Note 1. *Nature of Operations and Summary of Significant Accounting Policies* of the Notes to Consolidated Financial Statements contained in “Item 8. Financial Statements and Supplementary Data” for information on recent accounting pronouncements and their expected impact, if any, on our consolidated financial statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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 foreign exchange forward contracts to hedge exposures to 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 December 31, 2021, the U.S. Dollar notional amounts of subordinated debt payable denominated in foreign currencies was $29.3 million, and the U.S. Dollar notional amounts of derivatives outstanding to hedge these foreign currency exposures was $28.5 million. We recognized foreign currency translation net gains of $296,000, $3,000, and $150,000 for the years ended December 31, 2021, 2020, and 2019, respectively.

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 December 31, 2021, 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 December 31, 2021. 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 December 31, 2021. In order to arrive at the base case, we extend our balance sheet at December 31, 2021 one year and reprice any assets and liabilities that would contractually reprice or mature during that period using the products’ pricing as of December 31, 2021. 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 that 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 accelerated cash flows 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 December 31, 2021 assumes interest-bearing deposits reprice at 31% of the change in market rates in a rising interest rate scenario, depending on the amount of the rate change (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. Additionally, we assume that all market interest rates have an interest rate floor of 0%. 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 as of December 31, 2021 and forward yield curve as of December 31, 2021 (which presumes three interest rate hikes in 2022) as the base scenario, with immediate and sustained parallel upward movements in interest rates of 100, 200, and 300 basis points and sustained parallel downward movements in interest rates of 25, 50, and 100 basis points as of the date indicated:

December 31, 2021	Forecasted Net Interest Income (Tax Equivalent)	Percentage Change From Base	Forecasted Net Interest Margin (Tax Equivalent)	Forecasted Net Interest Margin Chang From Base
	(Dollars in millions)			
Interest Rate Scenario:				
Up 300 basis points	$ 1,404.6	18.7%	3.76%	0.59%
Up 200 basis points	$ 1,328.9	12.3%	3.56%	0.39%
Up 100 basis points	$ 1,251.3	5.7%	3.35%	0.18%
BASE CASE	$ 1,183.4	—	3.17%	
Down 25 basis points	$ 1,180.6	(0.2)%	3.16%	(0.01)%
Down 50 basis points	$ 1,156.3	(2.3)%	3.10%	(0.07)%
Down 100 basis points	$ 1,136.4	(4.0)%	3.04%	(0.13)%

During 2021, total base case year 1 tax equivalent NII increased by $159.2 million to $1.2 billion at December 31, 2021 and the base case tax equivalent NIM decreased to 3.17% from 3.87%. The increase in year 1 NII compared to December 31, 2020 was due mainly to a $184.8 million increase in interest income attributable to higher average balances of loans and leases and investment securities, offset partially by a $25.6 million increase in interest expense due to a higher average balance of deposits and a higher average balance of subordinated debt attributable to the $400 million of subordinated notes issued by the Bank on April 30, 2021. The decrease in the NIM was due mostly to the change in the mix of interest-earning assets to lower yielding interest-earnings deposits in financial institutions and investment securities from higher yielding loans and leases, as well as to lower yields on investment securities and loans and leases.

In addition to parallel interest rate shock scenarios, we also model various alternative rate vectors. The most favorable alternate rate vector that we model is the “Bear Flattener Severe” scenario, when short-term rates increase faster than long-term rates. In the “Bear Flattener Severe” scenario, Year 1 tax equivalent NII increases by 2.3%. Because of the low level of market interest rates and the assumption that market rates contain a 0% floor, the ad hoc scenarios that assume decreasing interest rates do not differ materially from the base case scenario.

At December 31, 2021, we had $23.0 billion of total gross loans that included $10.9 billion with variable interest rate terms (excluding hybrid loans discussed below). Of the variable interest rate loans, $9.2 billion, or 84%, contained interest rate floor provisions, which included $8.5 billion of loans with "in-the-money" floors, meaning the loan coupon will not adjust down if there are future decreases to the index interest rate. The following table summarizes the estimated balance of loans with "in-the-money" floors for the indicated increases in interest rates:

December 31, 2021	
Basis Points of Rate Increases	**Total Amount of Loans With "In-the-Money" Loan Floors**
(Dollars in millions)	
50 bps	$4,746
100 bps	$3,166
150 bps	$2,376
200 bps	$1,466
250 bps	$815

At December 31, 2021, we also had $4.2 billion of variable-rate hybrid loans that 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 $0.6 billion, $0.9 billion, and $1.2 billion in the next one, two, and three years.

LIBOR is expected to be phased out in 2023, as such the Company stopped originations of LIBOR-indexed loans effective December 31, 2021. The business processes impacted relate primarily to our variable-rate loans and our subordinated debt, both of which are indexed to LIBOR. For further information see Item 1A. Risk Factors.

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 in market interest rates of 100, 200, and 300 basis points and sustained decrease in market interest rates of 25, 50, and 100 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 December 31, 2021.

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

December 31, 2021	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	$ 10,121.7	$ 1,449.8	16.7%	25.0%	253.1%
Up 200 basis points	$ 9,788.9	$ 1,117.0	12.9%	24.2%	244.7%
Up 100 basis points	$ 9,325.1	$ 653.2	7.5%	23.1%	233.1%
BASE CASE	$ 8,671.8	$ —	—	21.4%	216.8%
Down 25 basis points	$ 8,474.3	$ (197.6)	(2.3)%	21.0%	211.9%
Down 50 basis points	$ 8,278.9	$ (392.9)	(4.5)%	20.5%	207.0%
Down 100 basis points	$ 7,898.6	$ (773.2)	(8.9)%	19.5%	197.5%

During 2021, total base case projected market value of equity increased by $2.9 billion to $8.7 billion at December 31, 2021. This increase in base case projected MVE was due primarily to: (1) a $2.4 billion decrease in the mark-to-market adjustment for total deposits, borrowings, and subordinated debt; and (2) a $404.7 million increase in the book value of stockholders' equity due mainly to $607.0 million in net earnings, offset partially by $119.4 million of cash dividends paid and a $106.6 million decrease in accumulated other comprehensive income; offset partially by (3) a $149.4 million increase in the mark-to-market adjustment for loans and leases.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Contents

MANAGEMENT’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of PacWest Bancorp, including its consolidated subsidiaries, is responsible for establishing and maintaining adequate internal control over financial reporting. The Company’s internal control system was designed to provide reasonable assurance to the Company’s management and Board of Directors regarding the preparation and fair presentation of published financial statements in accordance with U.S. generally accepted accounting principles. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management maintains a comprehensive system of controls intended to ensure that transactions are executed in accordance with management’s authorization, assets are safeguarded, and financial records are reliable. Management also takes steps to see that information and communication flows are effective and to monitor performance, including performance of internal control procedures.

As of December 31, 2021, PacWest Bancorp management assessed the effectiveness of the Company’s internal control over financial reporting based on the framework established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management has determined that the Company’s internal control over financial reporting as of December 31, 2021, is effective.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements should they occur. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the control procedures may deteriorate.

On February 1, 2021, the Company acquired Civic Financial Services, LLC. As a result, $1.4 billion of loans, $6.8 million of allowance for credit losses, $74.1 million of loan servicing accounts receivable and $4.9 million of accrued interest receivable included in other assets, and $59.3 million of loan interest income in the Company’s consolidated financial statements as of and for the period ended December 31, 2021 have been excluded from management’s assessment of internal control over financial reporting of the Company as of December 31, 2021.

KPMG LLP, the independent registered public accounting firm that audited the Company’s consolidated financial statements included in this Annual Report on Form 10-K, has issued a report on the effectiveness of the Company’s internal control over financial reporting as of December 31, 2021. The report, which expresses an unqualified opinion on the effectiveness of the Company’s internal control over financial reporting as of December 31, 2021, is included in this Item under the heading “Report of Independent Registered Public Accounting Firm.”

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
PacWest Bancorp:

Opinions on the Consolidated Financial Statements and Internal Control Over Financial Reporting

We have audited the accompanying consolidated balance sheets of PacWest Bancorp and subsidiaries (the Company) as of December 31, 2021 and 2020, the related consolidated statements of earnings (loss), comprehensive income (loss), changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2021, and the related notes (collectively, the consolidated financial statements). We also have audited the Company's internal control over financial reporting as of December 31, 2021, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2021, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021 based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

The Company acquired Civic Financial Services, LLC during 2021, and management excluded from its assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2021, Civic Financial Services, LLC's internal control over financial reporting associated with $1.4 billion of loans, $6.8 million of allowance for credit losses, $74.1 million of loan servicing accounts receivable and $4.9 million of accrued interest receivable included in other assets, and $59.3 million of loan interest income included in the consolidated financial statements of the Company as of and for the year ended December 31, 2021. Our audit of internal control over financial reporting of the Company also excluded an evaluation of the internal control over financial reporting of Civic Financial Services, LLC.

Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, the Company has changed its method of accounting for the recognition and measurement of credit losses as of January 1, 2020 due to the adoption of Accounting Standards Update 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of a critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Assessment of the allowance for credit losses for loans and leases collectively evaluated

As discussed in Note 1 to the consolidated financial statements, the Company's allowance for credit losses for loans and leases collectively evaluated is the combination of an allowance for loan and lease losses collectively evaluated (reserve on pooled loans and leases) and the reserve for unfunded loan commitments (collective ACL). As discussed in Note 5 to the consolidated financial statements, the Company's total allowance for credit losses as of December 31, 2021 was $273.6 million, of which $271.0 million related to the collective ACL (the collective ACL). The collective ACL is measured with the current expected credit loss (CECL) approach for financial instruments measured at amortized cost and other commitments to extend credit which share similar risk characteristics and reflects losses over the remaining contractual life of an asset, considering the effect of prepayments and available information about the collectability of cash flows, including information about relevant historical loss experience, current conditions, and reasonable and supportable forecasts of future events and circumstances. The Company's CECL methodology for the reserve on pooled loans and leases component includes both quantitative and qualitative loss factors which are applied to the population of loans and leases and assessed at a pool level. The Company estimates the probability of default (PD) during the reasonable and supportable period using econometric regression models developed to correlate macroeconomic variables to historical credit performance. The loans and unfunded commitments are grouped into loss given default (LGD) pools based on portfolio classes that share similar collateral risk characteristics. LGD rates are computed based on the net charge-offs recognized divided by the exposure at default (EAD) of defaulted loans. The Company estimates the reserve for unfunded loan commitments using the same PD, LGD, and prepayment rates as used for the reserve on pooled loans and leases. The reserve for unfunded loan commitments is computed using expected future utilization rates of the unfunded commitments during the contractual life of the commitments based on historical usage of unfunded commitments by loan pool. For the reasonable and supportable forecast period, future macroeconomic events and circumstances are estimated using a single scenario economic forecast that is consistent with the Company's current expectations for the loan pools. The EAD is multiplied by the PD and LGD rates to calculate expected losses through the end of the forecast period. The Company then reverts on a straight-line basis from the PD, LGD and prepayment rates used during the reasonable and supportable period to the Company's historical PD, LGD and prepayment experience. The qualitative portion of the reserve on pooled loans and leases represents the Company's judgment of additional considerations to account for internal and external risk factors that are not adequately measured in the quantitative reserve, including consideration of idiosyncratic risk factors, conditions that may not be reflected in quantitatively derived results, or other relevant factors to ensure the collective ACL reflects the Company's best estimate of current expected credit losses.

We identified the assessment of the collective ACL as a critical audit matter. A high degree of audit effort, including specialized skills and knowledge, and subjective and complex auditor judgment was involved in the assessment. Specifically, the assessment encompassed the evaluation of the collective ACL methodology, including the methods and models used to estimate the PD, LGD, prepayments and their significant assumptions, including the pooling of loans and leases which share similar risk characteristics, the economic forecast and macroeconomic events and circumstances, the reasonable and supportable forecast period, the reversion to the Company's historical PD, LGD and prepayment experience for the remaining contractual life of the loans and leases, internal risk ratings for commercial loans, and the qualitative loss factors and their significant assumptions, including the idiosyncratic risk factors. The assessment included an evaluation of the conceptual soundness of the PD, LGD, and prepayment models. The assessment also encompassed the determination of expected future utilization rates on unfunded loan commitments utilized in the reserve for unfunded loan commitments. In addition, auditor judgment was required to evaluate the sufficiency of audit evidence obtained.

The following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls related to the Company's measurement of the collective ACL estimate, including controls over the:

- development and approval of the collective ACL methodology
- development of the PD, LGD and prepayment models
- identification and determination of the significant assumptions used in the PD, LGD and prepayment models used to calculate the collective ACL
- development of the qualitative loss factors, including the significant assumptions used in the measurement of the qualitative factors
- development of the expected future utilization rates of unfunded loan commitments
- analysis of the collective ACL results, trends and ratios.

We evaluated the Company's process to develop the collective ACL estimate by testing certain sources of data, factors, and assumptions that the Company used, and considered the relevance and reliability of such data, factors and assumptions. In addition, we involved credit risk professionals with specialized skills and knowledge, who assisted in the following:

- evaluating the collective ACL methodology for compliance with U.S. generally accepted accounting principles
- evaluating judgments made by the Company relative to the development and performance of the PD, LGD, and prepayment models by comparing them to relevant Company-specific metrics and trends and the applicable industry and regulatory practices
- assessing the conceptual soundness and performance of the PD, LGD and prepayment models by inspecting the model documentation to determine whether the models are suitable for their intended use
- evaluating the selection of the economic forecast and underlying assumptions by comparing them to relevant Company-specific metrics and trends and the applicable industry and regulatory practices

- evaluating the economic forecast and macroeconomic events and circumstances through comparison to publicly available forecasts
- evaluating the length of the historical observation period, reasonable and supportable forecast period, and reversion period by comparing them to specific portfolio risk characteristics and trends
- determining whether the loan and lease portfolio is pooled by similar risk characteristics by comparing to the Company’s business environment and relevant industry practices
- evaluating individual internal risk ratings for a selection of commercial loans by evaluating the financial performance of the borrower, sources of repayment, and any relevant guarantees or underlying collateral
- evaluating the methodology used to develop the qualitative loss factors and their significant assumptions, and the effect of those factors on the collective ACL compared with relevant credit risk factors and consistency with credit trends and identified limitations of the underlying quantitative models
- evaluating the methodology of the expected future utilization rates of unfunded loan commitments by comparing them to relevant Company-specific metrics and trends.

We also assessed the sufficiency of the audit evidence obtained related to the Company’s collective ACL by evaluating the:

- cumulative results of the audit procedures
- qualitative aspects of the Company’s accounting practices
- potential bias in the accounting estimate.

/s/ KPMG LLP

We have served as the Company's auditor since 1982.

Irvine, California
February 28, 2022

PACWEST BANCORP AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31, 2021	December 31, 2020
	(Dollars in thousands, except par value amounts)	
ASSETS:		
Cash and due from banks	$ 112,548	$ 150,464
Interest-earning deposits in financial institutions	3,944,686	3,010,197
Total cash and cash equivalents	4,057,234	3,160,661
Securities available-for-sale, at fair value	10,694,458	5,235,591
Federal Home Loan Bank stock, at cost	17,250	17,250
Total investment securities	10,711,708	5,252,841
Gross loans and leases held for investment	23,026,308	19,153,357
Deferred fees, net	(84,760)	(69,980)
Allowance for loan and lease losses	(200,564)	(348,181)
Total loans and leases held for investment, net	22,740,984	18,735,196
Equipment leased to others under operating leases	339,150	333,846
Premises and equipment, net	46,740	39,234
Foreclosed assets, net	12,843	14,027
Goodwill	1,405,736	1,078,670
Core deposit and customer relationship intangibles, net	44,957	23,641
Other assets	1,083,992	860,326
Total assets	$ 40,443,344	$ 29,498,442
LIABILITIES:		
Noninterest-bearing deposits	$ 14,543,133	$ 9,193,827
Interest-bearing deposits	20,454,624	15,746,890
Total deposits	34,997,757	24,940,717
Borrowings	—	5,000
Subordinated debt	863,283	465,812
Accrued interest payable and other liabilities	582,674	491,962
Total liabilities	36,443,714	25,903,491
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 December 31, 2021 and 2020, 122,105,853 and 120,736,834 shares issued, respectively, includes 2,312,080 and 1,608,126 shares of unvested restricted stock, respectively)	1,221	1,207
Additional paid-in capital	3,013,399	3,100,633
Retained earnings	1,016,350	409,391
Treasury stock, at cost (2,520,999 and 2,321,981 shares at December 31, 2021 and 2020)	(97,308)	(88,803)
Accumulated other comprehensive income, net	65,968	172,523
Total stockholders' equity	3,999,630	3,594,951
Total liabilities and stockholders' equity	$ 40,443,344	$ 29,498,442

See accompanying Notes to Consolidated Financial Statements.

PACWEST BANCORP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS (LOSS)

	Year Ended December 31,		
	2021	2020	2019
	(Dollars in thousands, except per share amounts)		
Interest income:			
Loans and leases	$ 996,457	$ 993,138	$ 1,097,845
Investment securities	153,468	106,770	115,569
Deposits in financial institutions	8,804	3,583	6,479
Total interest income	1,158,729	1,103,491	1,219,893
Interest expense:			
Deposits	27,808	59,663	148,460
Borrowings	623	8,161	26,961
Subordinated debt	26,474	21,109	29,843
Total interest expense	54,905	88,933	205,264
Net interest income	1,103,824	1,014,558	1,014,629
Provision for credit losses	(162,000)	339,000	22,000
Net interest income after provision for credit losses	1,265,824	675,558	992,629
Noninterest income:			
Other commissions and fees	42,287	40,347	43,623
Leased equipment income	45,746	43,628	38,727
Service charges on deposit accounts	13,269	10,351	14,637
Gain on sale of loans and leases	1,733	2,139	1,114
Gain on sale of securities	1,615	13,171	25,445
Dividends and gains (losses) on equity investments	23,115	14,984	(567)
Warrant income	49,341	10,609	8,669
Other income	16,821	10,831	10,914
Total noninterest income	193,927	146,060	142,562
Noninterest expense:			
Compensation	368,450	271,494	285,862
Occupancy	58,422	57,555	57,407
Leased equipment depreciation	35,755	28,865	24,016
Data processing	30,277	26,779	27,556
Insurance and assessments	17,365	22,625	16,404
Other professional services	21,492	19,917	17,803
Customer related expense	20,504	17,532	13,839
Intangible asset amortization	12,734	14,753	18,726
Loan expense	17,031	13,454	12,931
Acquisition, integration and reorganization costs	9,415	1,060	349
Foreclosed assets income, net	(213)	(17)	(3,555)
Goodwill impairment	—	1,470,000	—
Other expense	46,185	40,002	30,913
Total noninterest expense	637,417	1,984,019	502,251
Earnings (loss) before income taxes	822,334	(1,162,401)	632,940
Income tax expense	215,375	75,173	164,304
Net earnings (loss)	$ 606,959	$ (1,237,574)	$ 468,636
Earnings (loss) per share:			
Basic	$ 5.10	$ (10.61)	$ 3.90
Diluted	$ 5.10	$ (10.61)	$ 3.90

See accompanying Notes to Consolidated Financial Statements.

PACWEST BANCORP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Year Ended December 31,		
	2021	2020	2019
	(In thousands)		
Net earnings (loss)	$ 606,959	$ (1,237,574)	$ 468,636
Other comprehensive income (loss), net of tax:			
Unrealized net holding (losses) gains on securities available-for-sale arising during the year	(146,066)	142,696	143,019
Income tax benefit (expense) related to net unrealized holding gains (losses) arising during the year	40,677	(39,335)	(40,058)
Unrealized net holding (losses) gains on securities available-for-sale, net of tax	(105,389)	103,361	102,961
Reclassification adjustment for net gains included in net earnings [1]	(1,615)	(13,171)	(25,445)
Income tax expense related to reclassification adjustment	449	3,675	7,217
Reclassification adjustment for net gains included in net earnings, net of tax	(1,166)	(9,496)	(18,228)
Other comprehensive income (loss), net of tax	(106,555)	93,865	84,733
Comprehensive income (loss)	$ 500,404	$ (1,143,709)	$ 553,369

(1) Entire amount recognized in "*Gain on sale of securities*" on the Consolidated Statements of Earnings (Loss).

See accompanying Notes to Consolidated Financial Statements.

PACWEST BANCORP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Stock						
	Shares	Par Value	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
				(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 principles [(1)]	—	—	—	938	—	—	938
Net earnings	—	—	—	468,636	—	—	468,636
Other comprehensive income	—	—	—	—	—	84,733	84,733
Restricted stock awarded and earned stock compensation, net of shares forfeited	798,248	8	26,807	—	—	—	26,815
Restricted stock surrendered	(218,531)				(8,449)		(8,449)
Common stock repurchased under Stock Repurchase Program	(3,987,945)	(40)	(154,476)	—	—	—	(154,516)
Cash dividends paid: Common stock, $2.40/share	—	—	(289,048)	—	—	—	(289,048)
Balance, December 31, 2019	119,781,605	1,219	3,306,006	1,652,248	(83,434)	78,658	4,954,697
Cumulative effect of change in accounting principle [(2)]	—	—	—	(5,283)	—	—	(5,283)
Net loss	—	—	—	(1,237,574)	—	—	(1,237,574)
Other comprehensive income	—	—	—	—	—	93,865	93,865
Restricted stock awarded and earned stock compensation, net of shares forfeited	800,537	8	24,355	—	—	—	24,363
Restricted stock surrendered	(213,578)	—	—	—	(5,369)	—	(5,369)
Common stock repurchased under Stock Repurchase Program	(1,953,711)	(20)	(69,980)	—	—	—	(70,000)
Cash dividends paid: Common stock, $1.35/share	—	—	(159,748)	—	—	—	(159,748)
Balance, December 31, 2020	118,414,853	1,207	3,100,633	409,391	(88,803)	172,523	3,594,951
Net earnings	—	—	—	606,959	—	—	606,959
Other comprehensive loss	—	—	—	—	—	(106,555)	(106,555)
Restricted stock awarded and earned stock compensation, net of shares forfeited	1,369,019	14	32,209	—	—	—	32,223
Restricted stock surrendered	(199,018)	—	—	—	(8,505)	—	(8,505)
Cash dividends paid: Common stock, $1.00/share	—	—	(119,443)	—	—	—	(119,443)
Balance, December 31, 2021	119,584,854	$ 1,221	$ 3,013,399	$ 1,016,350	$ (97,308)	$ 65,968	$ 3,999,630

(1) Impact due to adoption on January 1, 2019 of ASU 2016-02, "*Leases (Topic 842),"* and the related amendments.
(2) Impact due to adoption on January 1, 2020 of ASU 2016-13, "*Financial Instruments - Credit Losses (ASC 326): Measurement of Credit Losses on Financial Instruments,"* and the related amendments, commonly referred to as CECL.

See accompanying Notes to Consolidated Financial Statements.

PACWEST BANCORP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2021	**2020**	**2019**
		(In thousands)	
Cash flows from operating activities:			
Net earnings (loss)	$ 606,959	$ (1,237,574)	$ 468,636
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:			
Goodwill impairment	—	1,470,000	—
Depreciation and amortization	52,195	44,839	39,115
Amortization of net premiums on securities available-for-sale	44,197	16,311	13,962
Amortization of intangible assets	12,734	14,753	18,726
Amortization of operating lease ROU assets	30,406	29,432	29,393
Provision for credit losses	(162,000)	339,000	22,000
Gain on sale of foreclosed assets, net	(406)	(495)	(3,689)
Provision for losses on foreclosed assets	14	267	78
Gain on sale of loans and leases, net	(1,733)	(2,139)	(1,114)
Loss on sale of premises and equipment	74	346	599
Gain on sale of securities, net	(1,615)	(13,171)	(25,445)
Gain on BOLI death benefits	(491)	—	—
Unrealized (gain) loss on derivatives and foreign currencies, net	(1,134)	66	(228)
Earned stock compensation	32,223	24,363	26,815
(Increase) decrease in other assets	(97,181)	(105,749)	30,261
Decrease in accrued interest payable and other liabilities	(11,286)	(96,376)	(36,449)
Net cash provided by operating activities	502,956	483,873	582,660
Cash flows from investing activities:			
Cash acquired in acquisitions, net of cash consideration paid	3,757,122	—	—
Net increase in loans and leases	(3,925,829)	(463,643)	(1,005,478)
Proceeds from sales of loans and leases	144,550	128,138	102,573
Proceeds from maturities and paydowns of securities available-for-sale	847,472	439,473	325,863
Proceeds from sales of securities available-for-sale	367,348	173,425	1,584,860
Purchases of securities available-for-sale	(6,863,950)	(1,924,917)	(1,569,421)
Net redemptions (purchases) of Federal Home Loan Bank stock	—	23,674	(8,821)
Proceeds from sales of foreclosed assets	2,638	1,396	8,590
Purchases of premises and equipment, net	(17,262)	(12,529)	(15,104)
Proceeds from sales of premises and equipment	95	8	73
Proceeds from BOLI death benefits	4,143	761	555
Net increase in equipment leased to others under operating leases	(30,786)	(46,765)	(54,996)
Net cash used in investing activities	(5,714,459)	(1,680,979)	(631,306)
Cash flows from financing activities:			
Net increase (decrease) in noninterest-bearing deposits	3,726,157	1,952,116	(643,530)
Net increase in interest-bearing deposits	2,170,769	3,757,152	1,008,152
Net (decrease) increase in borrowings	(55,210)	(1,754,008)	387,894
Proceeds from subordinated notes offering, net	394,308	—	—
Common stock repurchased and restricted stock surrendered	(8,505)	(75,369)	(162,965)
Cash dividends paid, net	(119,443)	(159,748)	(289,048)
Net cash provided by financing activities	6,108,076	3,720,143	300,503
Net increase in cash and cash equivalents	896,573	2,523,037	251,857
Cash and cash equivalents, beginning of year	3,160,661	637,624	385,767
Cash and cash equivalents, end of year	$ 4,057,234	$ 3,160,661	$ 637,624

See accompanying Notes to Consolidated Financial Statements.

PACWEST BANCORP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2021	2020	2019
	(In thousands)		
Supplemental disclosures of cash flow information:			
Cash paid for interest	$ 53,446	$ 99,605	$ 200,463
Cash paid for income taxes	136,015	114,235	123,533
Loans transferred to foreclosed assets	1,062	14,755	120
Transfers from loans held for investment to loans held for sale	25,554	—	25,124
Effective February 1, 2021, the Company acquired Civic in a transaction summarized as follows:			
Fair value of assets acquired	$ 307,997		
Cash paid	(160,420)		
Liabilities assumed	$ 147,577		
Effective October 8, 2021, the Company acquired the HOA Business in a transaction summarized as follows:			
Fair value of assets acquired	$ 4,362,893		
Cash paid	(237,798)		
Liabilities assumed	$ 4,125,095		

See accompanying Notes to Consolidated Financial Statements.

NOTE 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 69 full-service branches located in California, one branch located in Durham, North Carolina, one branch located in Denver, Colorado, and numerous loan production offices across the country. The Bank provides community banking products including lending and comprehensive deposit and treasury management services to small and medium-sized businesses conducted primarily through our California-based branch offices and Denver, Colorado branch office. The Bank offers national lending products including asset-based, equipment, and real estate loans and treasury management services to established middle-market businesses on a national basis. The Bank also offers venture banking products including a comprehensive suite of financial services focused on entrepreneurial and venture-backed businesses and their venture capital and private equity investors, with offices located in key innovative hubs across the United States. The Bank also offers financing of business-purpose non-owner-occupied investor properties through Civic, a wholly-owned subsidiary. The Bank also provides a specialized suite of services for the HOA industry. 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 an 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 treasury management and investment management services. Our major operating expenses are the interest paid by the Bank on deposits and borrowings, compensation, occupancy, and general operating expenses.

(a) Accounting Standards Adopted in 2021

Effective January 1, 2021, the Company adopted ASU 2019-12, "*Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*" which simplifies the accounting for income taxes by eliminating certain exceptions related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period and the recognition of deferred tax liabilities for outside basis differences. The amendment also simplifies aspects of the accounting for franchise taxes and enacted changes in tax laws or rates and clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

Effective January 1, 2021, the Company adopted ASU 2020-01, "*Investments – Equity Securities (Topic 321), Investments – Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815)*" which clarifies that entities that apply the measurement alternative in ASC 321 should consider observable transactions that result in entities initially applying or discontinuing the use of the equity method of accounting under ASC 323. The guidance also clarifies that certain forward contracts and purchased options on equity securities that are not deemed to be in-substance common stock under ASC 323 or accounted for as derivatives under ASC 815 are in the scope of ASC 321. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

Effective January 1, 2021, the Company adopted ASU 2020-08, "*Codification Improvements to Subtopic 310-20, Receivables – Nonrefundable Fees and Other Costs*" which clarifies the Company should reevaluate whether a callable debt security that has multiple call dates is within the scope of ASC 310-20-35-33 at each reporting period. ASC 310-20-35-33 requires that, to the extent the amortized cost basis of an individual callable debt security exceeds the amount repayable by the issuer at the next call date, the excess should be amortized to the earliest call date. As the Company's accounting policy to amortize premiums on investments in callable debt securities to the earliest call date is consistent with the manner required by ASU 2020-08, the adoption of this standard had no impact on the Company's consolidated financial statements.

In August 2021, the FASB issued ASU 2021-06, "*Presentation of Financial Statements (Topic 205), Financial Services – Depository and Lending (Topic 942), and Financial Services – Investment Companies (Topic 946): Amendments to SEC Paragraphs Pursuant to SEC Final Rule Releases No. 33-10786, Amendments to Financial Disclosures about Acquired and Disposed Businesses, and No. 33-10835, Update of Statistical Disclosures for Bank and Savings and Loan Registrants (SEC Update),"* to amend SEC paragraphs in the Accounting Standards Codification to reflect the issuance of SEC Release No. 33-10786, *Amendments to Financial Disclosures about Acquired and Disposed Businesses,* and No. 33-10835, *Update of Statistical Disclosures for Bank and Savings and Loan Registrants.* The Company adopted Rule 33-10786 on January 1, 2021 on its effective date and it did not have a material impact on the Company's consolidated financial statements. The Company also adopted Rule 33-10835 in conjunction with the completion of our Annual Report on Form 10-K for the fiscal year ended December 31, 2021. The adoption of this disclosure guidance did not have a material impact on our consolidated financial statements.

(b) Basis of Presentation

The accounting and reporting policies of the Company are in accordance with U.S. generally accepted accounting principles, which we may refer to as U.S. GAAP. 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 have been included.

(c) Use of Estimates

The Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period to prepare these 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 goodwill and other intangible assets, and the realization of deferred tax assets. These estimates may be adjusted as more current information becomes available, and any adjustment may be significant.

(d) Reclassifications

Certain prior period amounts have been reclassified to conform to the current period's presentation format. On the consolidated statements of earnings (loss), new lines are presented for "Dividends and gains (losses) on equity investments" and "Warrant income," as those categories exceeded the disclosure materiality threshold in 2021, which previously had been included as part of "Other income." We realigned our other commercial subclasses by moving our cash flow subclass into the other lending subclass. All of the loan and allowance tables, both current period and prior periods, reflect these realignments. In our securities available-for-sale tables, we presented a new line for private label commercial MBS, which had previously been included with the asset-backed securities line. All of the securities available-for-sale tables, both current period and prior periods, reflect this new presentation.

(e) Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, cash and cash equivalents consist of: (1) cash and due from banks, (2) interest-earning deposits in financial institutions, and (3) securities purchased under resale agreements. Interest-earning deposits in financial institutions represent mostly cash held at the FRBSF, the majority of which is immediately available.

(f) Investment in Debt Securities

We determine the classification of securities at the time of purchase. If we have the intent and the ability at the time of purchase to hold securities until maturity, they are classified as held-to-maturity and stated at amortized cost. We do not classify any securities as held-to-maturity. Securities to be held for indefinite periods of time, but not necessarily to be held-to-maturity or on a long-term basis, are classified as available-for-sale and carried at estimated fair value, with unrealized gains or losses reported as a separate component of stockholders’ equity in accumulated other comprehensive income (loss), net of applicable income taxes. Securities available-for-sale include securities that management intends to use as part of its asset/liability management strategy and that may be sold in response to changes in interest rates, prepayment risk, and other related factors. Securities are individually evaluated for appropriate classification when acquired. As a result, similar types of securities may be classified differently depending on factors existing at the time of purchase.

The carrying values of all securities are adjusted for amortization of premiums and accretion of discounts using the interest method. Premiums on callable securities are amortized to the earliest call date. Realized gains or losses on the sale of securities, if any, are determined using the amortized cost of the specific securities sold. Such gains or losses are included in "Gain on sale of securities" on the consolidated statements of earnings (loss).

Prior to January 1, 2020, debt securities available-for-sale were measured at fair value and declines in the fair value were reviewed to determine whether the impairment was other-than-temporary. If the decline in fair value was considered temporary, the decline in fair value below the amortized cost basis of a security was recognized in other comprehensive income (loss). If we did not expect to recover the entire amortized cost basis of the security, then an other-than-temporary impairment was considered to have occurred. The cost basis of the security was written down to its estimated fair value and the amount of the write-down was recognized through a charge to earnings. If the amount of the amortized cost basis expected to be recovered increased in a future period, the cost basis of the security was not increased but rather recognized prospectively through interest income.

Effective January 1, 2020, upon the adoption of ASU 2016-13, "*Financial Instruments - Credit Losses (ASC 326): Measurement of Credit Losses on Financial Instruments*," debt securities available-for-sale are measured at fair value and are subject to impairment testing. A security is impaired if the fair value of the security is less than its amortized cost basis. When an available-for-sale debt security is considered impaired, the Company must determine if the decline in fair value has resulted from a credit-related loss or other factors and then, (1) recognize an allowance for credit losses by a charge to earnings for the credit-related component (if any) of the decline in fair value, and (2) recognize in other comprehensive income (loss) any non-credit related components (if any) of the fair value decline. If the amount of the amortized cost basis expected to be recovered increases in a future period, the valuation allowance would be reduced, but not more than the amount of the current existing allowance for that security.

(g) Equity and Other Investments

Investments in equity securities are classified into one of the following two categories and accounted as follows:

- Securities with a readily determinable fair value are reported at fair value, with changes in fair value recorded in earnings.
- Securities without a readily determinable fair value for which we have elected the "measurement alternative" are reported at cost less impairment (if any) plus or minus adjustments resulting from observable price changes in orderly transactions for the identical or similar investment of the same issuer.

Investments in common or preferred stock that are not publicly traded and certain investments in limited partnerships are considered equity investments that do not have a readily determinable fair value. On a quarterly basis, we review our equity investments without readily determinable fair values for impairment. We consider a number of qualitative factors such as whether there is a significant deterioration in earnings performance, credit rating, asset quality, or business prospects of the investee in determining if impairment exists. If the investment is considered impaired, an impairment loss equal to the amount by which the carrying value exceeds its fair value is recorded through a charge to earnings. The impairment loss may be reversed in a subsequent period if there are observable transactions for the identical or similar investment of the same issuer at a higher amount than the carrying amount that was established when the impairment was recognized. Impairment as well as upward or downward adjustments resulting from observable price changes in orderly transactions for identical or similar investments are included in "Noninterest income - other."

Included in our equity investments that do not have a readily determinable fair value are our investments in non-public Small Business Investment Companies ("SBICs"). All of our SBIC investments meet the definition of investment companies, as defined in ASC 946, *Financial Services - Investment Companies*. We elected the practical expedient available in Topic 820, *Fair Value Measurements*, which permits the use of net asset value ("NAV") per share or equivalent to value investments in entities that are or are similar to investment companies. SBICs are required to value and report their investments at estimated fair value. We record the unrealized gains and losses resulting from changes in the fair value of our SBIC investments as gains or losses on equity investments in our consolidated statements of earnings (loss). The carrying value of our SBIC investments is equal to the capital account balance per each SBIC entities' quarterly financial statements.

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

If we have the ability to significantly influence the operating and financial policies of the investee, the investment is accounted for pursuant to the equity method of accounting. This is generally presumed to exist when we own between 20% and 50% of a corporation, or when we own greater than 5% of a limited partnership or similarly structured entity. Our equity investment carrying values are included in other assets and our share of earnings and losses in equity method investees is included in "Noninterest income - other" on the consolidated statements of earnings (loss).

Investments in FHLB stock are carried at cost and evaluated regularly for impairment. FHLB stock is expected to be redeemed at par and is a required investment based on measurements of the Bank's assets and/or borrowing levels.

(h) Loans and Leases

Originated loans. Loans are originated by the Company with the intent to hold them for investment and are stated at the principal amount outstanding, net of unearned income. Unearned income includes deferred unamortized nonrefundable loan fees and direct loan origination costs. Net deferred fees or costs 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 sold. The amortization of loan fees or costs is discontinued when a loan is placed on nonaccrual status. Interest income is recorded on an accrual basis in accordance with the terms of the respective loan.

Purchased loans. Purchased loans are stated at the principal amount outstanding, net of unearned discounts or unamortized premiums. All loans acquired in our acquisitions are initially measured and recorded at their fair value on the acquisition date. A component of the initial fair value measurement is an estimate of the credit losses over the life of the purchased loans. Purchased loans are also evaluated to determine if they have experienced a more-than-insignificant deterioration in credit quality since origination or issuance as of the acquisition date and are classified as either (i) loans purchased without evidence of deteriorated credit quality ("non-PCD loans"), or (ii) loans purchased that have experienced a more-than-insignificant deterioration in credit quality, referred to as purchased credit deteriorated loans ("PCD loans").

Acquired non-PCD loans. Acquired non-PCD loans are those loans for which there was no evidence of a more-than-insignificant credit deterioration at their acquisition date and it was probable that we would be able to collect all contractually required payments. Acquired non-PCD loans, together with originated loans, are referred to as Non-PCD loans. Purchase discounts or premiums on acquired non-PCD loans are recognized as an adjustment to interest income over the contractual life of such loans using the effective interest method or taken into income when the related loans are paid off or sold.

Purchased loans with credit deterioration. Prior to January 1, 2020, purchased credit impaired loans were accounted for in accordance with ASC Subtopic 310-30, "*Loans and Debt Securities Acquired with Deteriorated Credit Quality.*" At the time of acquisition, these loans were recorded at estimated fair value based upon estimated future cash flows with no related allowance for credit losses.

Effective January 1, 2020, upon the adoption of ASU 2016-13, an entity records purchased financial assets with credit deterioration ("PCD assets") at the purchase price plus the allowance for credit losses expected at the time of acquisition. This allowance is recognized through a gross-up that increases the amortized cost basis of the asset with no effect on net income. Subsequent changes (favorable and unfavorable) in expected cash flows are recognized immediately in net income by adjusting the related allowance.

Leases to customers. We provide equipment financing to our customers primarily with direct financing and operating leases. For direct financing leases, lease receivables are recorded on the balance sheet but the leased property is not, although we generally retain legal title to the leased property 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. Leases acquired in an acquisition are initially measured and recorded at their fair value on the acquisition date. Purchase discount or premium on acquired leases is recognized as an adjustment to interest income over the contractual life of the leases using the effective interest method or taken into income when the related leases are paid off. Direct financing leases are subject to our accounting for allowance for loans and leases.

We provide equipment financing through operating leases where we facilitate the purchase of equipment leased to customers. The equipment is shown on our consolidated balance sheets 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 consolidated statements of earnings (loss), according to our fixed asset accounting policy. We receive periodic rental income payments under the leases, which are recorded as "Noninterest income" in the consolidated statements of earnings (loss).

Delinquent or past due loans and leases. Loans and leases are considered delinquent when principal or interest payments are past due 30 days or more. Delinquent loans may remain on accrual status between 30 days and 89 days past due.

Nonaccrual loans and leases. When we discontinue the accrual of interest on a loan or lease it is designated as nonaccrual. We discontinue the accrual of interest on a loan or lease generally when a borrower's principal or interest payments or a lessee's payments are past due 90 days or when, in the opinion of management, there is a reasonable doubt as to collectability in the normal course of business. Loans with interest or principal payments past due 90 days or leases with payments past due 90 days may be accruing if the loans or leases are concluded to be well-secured and in the process of collection; however, these loans or leases are still reported as nonperforming. When loans or leases are placed on nonaccrual status, all interest previously accrued but not collected is reversed against current period interest income. Interest on nonaccrual loans or leases is subsequently recognized only to the extent that cash is received and the loan principal balance or lease balance is deemed collectable. Loans or leases are restored to accrual status when the loans or leases become both well-secured and are in the process of collection.

Individually Evaluated Loans and Leases**.** Loans and leases that do not share similar risk characteristics with other financial assets are individually evaluated for impairment and excluded from loan pools used within the collective evaluation of estimated credit losses**.** We defined the following criteria for what constitutes a "default," which results in a loan no longer sharing similar risk characteristics with other loans, and therefore requires an individual evaluation for expected credit losses. The criteria for default may include any one of the following:

- On nonaccrual status,
- Modified under a TDR,
- Payment delinquency of 90 days or more,
- Partial charge-off recognized,
- Risk rated doubtful or loss, or
- Reasonably expected to be modified under a TDR.

Defaulted loans and leases with outstanding balances over $250,000 are reviewed individually for expected credit loss. Individually evaluated loans are measured at the present value of the expected future cash flows discounted at the loan's initial effective interest rate, unless the loans are collateral dependent, in which case loan impairment is based on the estimated fair value of the underlying collateral. A loan is considered collateral-dependent when the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral. The fair value of each loan’s collateral is generally based on estimated market prices from an independently prepared appraisal, which is then adjusted for the cost related to liquidating such collateral. An individually evaluated reserve and/or charge off would be recognized when the present value of expected future cash flows or the fair value of the underlying collateral is below the amortized cost of the loan. If the measured amount of any individually reviewed loan exceeds its amortized cost, further review is required to determine whether a positive allowance should be added (but only up to amounts previously written off) to its amortized cost basis in order to reflect the net amount expected to be collected.

Troubled debt restructurings. A loan is classified as a troubled debt restructuring when we grant a concession to a borrower experiencing financial difficulties that we otherwise would not consider under our normal lending policies. These concessions may include a reduction of the interest rate, principal or accrued interest, extension of the maturity date or other actions intended to minimize potential losses. All modifications of criticized loans are evaluated to determine whether such modifications are troubled debt restructurings as outlined under ASC Subtopic 310-40, *“Troubled Debt Restructurings by Creditors.”* Loans restructured with an interest rate equal to or greater than that of a new loan with comparable market risk at the time the loan is modified may be excluded from certain restructured loan disclosures in years subsequent to the restructuring if the loans are in compliance with their modified terms.

Between March 2020 and December 2021, the Company granted various commercial and consumer loan modifications to provide borrowers relief from the economic impacts of COVID-19. In accordance with the Coronavirus Aid, Relief, and Economic Security ("CARES") Act, the Company elected to not apply TDR classification to COVID-19 related loan modifications that met all of the requisite criteria as stipulated in the CARES Act.

A loan that has been placed on nonaccrual status that is subsequently restructured will usually remain on nonaccrual status until the borrower is able to demonstrate repayment performance in compliance with the restructured terms for a sustained period of time, typically for six months. A restructured loan may return to accrual status sooner based on other significant events or circumstances. A loan that has not been placed on nonaccrual status may be restructured and such loan may remain on accrual status after such restructuring. In these circumstances, the borrower has made payments before and after the restructuring. Generally, this restructuring involves maturity extensions, a reduction in the loan interest rate and/or a change to interest-only payments for a period of time. Loan modifications that qualify as troubled debt restructurings are individually evaluated for expected credit losses based on the present value of expected cash flows discounted at the loan’s original effective interest rate or based on the fair value of the collateral if the loan is collateral-dependent.

Impaired loans and leases. Prior to January 1, 2020, a loan or lease was considered impaired when it was probable that we would be unable to collect all amounts due according to the contractual terms of the loan or lease agreement. Impaired loans and leases included loans and leases on nonaccrual status and performing troubled debt restructured loans. Income from impaired loans was recognized on an accrual basis unless the loan was on nonaccrual status. Income from loans on nonaccrual status was recognized to the extent cash was received and when the loan’s principal balance was deemed collectable. We measured impairment of a loan or lease by using the estimated fair value of the collateral, less estimated costs to sell and other applicable costs, if the loan or lease was collateral-dependent and the present value of the expected future cash flows discounted at the loan’s or lease’s effective interest rate if the loan or lease was not collateral-dependent. The impairment amount on a collateral-dependent loan or lease was charged-off, and the impairment amount on a loan that was not collateral-dependent was generally recorded as a specific reserve within our allowance for loan and lease losses.

(i) Allowance for Credit Losses on Loans and Leases Held for Investment

Effective January 1, 2020, upon the adoption of ASU 2016-13, the Company replaced the incurred loss accounting approach with the current expected credit loss ("CECL") approach for financial instruments measured at amortized cost and other commitments to extend credit. CECL requires the immediate recognition of estimated credit losses expected to occur over the estimated remaining life of the asset. The forward-looking concept of CECL requires loss estimates to consider historical experience, current conditions and reasonable and supportable forecasts.

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 the amortized cost basis of loans and leases, while the reserve for unfunded loan commitments is included within "Accrued interest payable and other liabilities" on the consolidated balance sheets. The amortized cost basis of loans and leases does not include accrued interest receivable, which is included in "Other assets" on the consolidated balance sheets. The "Provision for credit losses" on the consolidated statements of earnings (loss) is a combination of the provision for loan and lease losses and the provision for unfunded loan commitments.

Under the CECL methodology, expected credit losses reflect losses over the remaining contractual life of an asset, considering the effect of prepayments and available information about the collectability of cash flows, including information about relevant historical experience, current conditions, and reasonable and supportable forecasts of future events and circumstances. Thus, the CECL methodology incorporates a broad range of information in developing credit loss estimates. The resulting allowance for loan and lease losses is deducted from the associated amortized cost basis to reflect the net amount expected to be collected. Subsequent changes in this estimate are recorded through the provision for credit losses and the allowance. The CECL methodology could result in significant changes to both the timing and amounts of provision for credit losses and the allowance as compared to historical periods. Loans and leases that are deemed to be uncollectable are charged off and deducted from the allowance. The provision for credit losses and recoveries on loans and leases previously charged off are added to the allowance.

The allowance for loan and lease losses is comprised of an individually evaluated component for loans and leases that no longer share similar risk characteristics with other loans and leases and a pooled loans component for loans and leases that share similar risk characteristics.

A loan or lease with an outstanding balance greater than $250,000 is individually evaluated for expected credit loss when it is probable that we will be unable to collect all amounts due according to the original contractual terms of the agreement. We select loans and leases for individual assessment on an ongoing basis using certain criteria such as payment performance, borrower reported and forecasted financial results, and other external factors when appropriate. We measure the current expected credit loss of an individually evaluated 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 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.

Our CECL methodology for the pooled loans component includes both quantitative and qualitative loss factors which are applied to our population of loans and leases and assessed at a pool level. The quantitative CECL model estimates credit losses by applying pool-specific probability of default ("PD") and loss given default ("LGD") rates to the expected exposure at default ("EAD") over the contractual life of loans and leases. The qualitative component considers internal and external risk factors that may not be adequately assessed in the quantitative model.

The loan portfolio is segmented into four loan segments, eight loan classes, and 18 loan pools (excluding Paycheck Protection Program loans, which are fully government guaranteed) based upon loan type that share similar default risk characteristics to calculate quantitative loss factors for each pool. Two of these loan pools have insignificant current balances and/or insignificant historical losses, thus, estimated losses are calculated using historical loss rates from the first quarter of 2009 to the current period rather than econometric regression modeling. For the remaining 16 loan pools, we estimate the PD during the reasonable and supportable forecast period using seven econometric regression models developed to correlate macroeconomic variables to historical credit performance (based on quarterly transition matrices for the economic cycle from 2009 to 2019, which include risk rating upgrades/downgrades and defaults).

The loans and unfunded commitments are grouped into eight LGD pools based on portfolio classes that share similar collateral risk characteristics. LGD rates are computed based on the net charge-offs recognized divided by the EAD of defaulted loans starting with the first quarter of 2009 to the current period. The PD and LGD rates are applied to the EAD at the loan or lease level based on contractual scheduled payments and estimated prepayments. We use our actual historical loan prepayment experience from 2009 to 2019, consistent with the economic cycle used for our PD regression models, to estimate future prepayments by loan pool. Loans and leases with outstanding balances less than or equal to $250,000, where it is probable that we will be unable to collect all amounts due according to the contractual terms of the agreement, remain in their respective pools and are assigned a 100% probability of default.

For the reasonable and supportable forecast period, future macroeconomic events and circumstances are estimated over a 4-quarter time horizon using a single scenario economic forecast that is consistent with management's current expectations for the 16 loan pools. We use economic forecasts from Moody's Analytics in this process. The economic forecast is updated monthly; therefore, the forecast used for each quarter-end calculation is generally released a few weeks prior to quarter-end. If economic conditions as of the balance sheet date change materially, management would consider a qualitative adjustment. The key macroeconomic assumptions used in each of the seven PD regression models include two or three of the following economic indicators: Real GDP, unemployment rates, CRE Price Index, the BBB corporate spread, nominal disposable income, and CPI.

The quantitative CECL model applies the projected rates based on the economic forecasts for the 4-quarter reasonable and supportable forecast horizon to EAD to estimate defaulted loans. During this forecast horizon, prepayment rates during a historical period that exhibits economic conditions most similar to the economic forecast are used to estimate EAD. If no historical period from the 2009 to 2019 economic cycle exhibits economic conditions that are similar to the economic forecast, management uses its best estimate of prepayments expected over the reasonable and supportable forecast period which may, in some circumstances, be the average of all historical prepayment experience. Historical LGD rates are applied to estimated defaulted loans to determine estimated credit losses. We then use a 2-quarter reversion period to revert on a straight-line basis from the PD, LGD, and prepayment rates used during the reasonable and supportable forecast period to the Company’s historical PD, LGD, and prepayment experience. Subsequent to the reversion period for the remaining contractual life of loans and leases, the PD, LGD, and prepayment rates are based on historical experience during the economic cycle from 2009 to 2019. PD regression models and prepayment rates are updated on an annual basis. During the annual model performance assessment for 2021, we considered updating the prepayment rates and PD models with 2020 data, however, we elected not to include historical data from 2020 to assess the quantitative expected credit losses because we believe 2020 did not represent normal economic behavior considering the changes in macroeconomic variables and the significant levels of government relief programs. As such, we continued to use the most recent and complete economic cycle from 2009 to 2019 to assess quantitative expected credit losses. LGD rates are updated every quarter to reflect current charge-off activity.

The PDs calculated by the quantitative models are highly correlated to our internal risk ratings assigned to each loan and lease. 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 and leases on a regular basis. The credit risk ratings assigned to every loan and lease are as follows:

- *High Pass*: (Risk ratings 1-2) Loans and leases rated as "high pass" exhibit a favorable credit profile and have minimal risk characteristics. Repayment in full is expected, even in adverse economic conditions.
- *Pass*: (Risk ratings 3-4) Loans and leases rated as "pass" are not adversely classified and collection and repayment in full are expected.
- *Special Mention*: (Risk rating 5) 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*: (Risk rating 6) 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*: (Risk rating 7) 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.

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 5. *Loans and Leases.*

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 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.

The qualitative portion of the reserve on pooled loans and leases represents management's judgment of additional considerations to account for internal and external risk factors that are not adequately measured in the quantitative reserve. The qualitative loss factors consider idiosyncratic risk factors, conditions that may not be reflected in quantitatively derived results, or other relevant factors to ensure the allowance for credit losses reflects our best estimate of current expected credit losses. Current and forecasted economic trends and underlying market values for collateral dependent loans are generally considered to be encompassed within the CECL quantitative reserve. An incremental qualitative adjustment may be considered when economic forecasts exhibit higher levels of volatility or uncertainty.

In addition to economic conditions and collateral dependency, the other qualitative criteria we consider when establishing the loss factors include the following:

- Legal and Regulatory - matters that could impact our borrowers' ability to repay our loans and leases;
- Concentrations - loan and lease portfolio composition and any loan concentrations;
- Lending Policy - current lending policies and the effects of any new policies or policy amendments;
- Nature and Volume - loan and lease production volume and mix;
- Problem Loan Trends - loan and lease portfolio credit performance trends, including a borrower's financial condition, credit rating, and ability to meet loan payment requirements;
- Loan Review - results of independent credit review; and
- Management - changes in management related to credit administration functions.

We estimate the reserve for unfunded loan commitments using the same PD, LGD, and prepayment rates for the quantitative credit losses and qualitative loss factors as used for the allowance for loan and lease losses. The EAD for the reserve for unfunded loan commitments is computed using expected future utilization rates of the unfunded commitments during the contractual life of the commitments based on historical usage by loan pool from 2015 to 2020. The utilization rates are updated on an annual basis.

The CECL methodology requires a significant amount of management judgment in determining the appropriate allowance for credit losses. Most of the steps in the methodology involve judgment and are subjective in nature including, among other things: segmenting the loan and lease portfolio; determining the amount of loss history to consider; selecting predictive econometric regression models that use appropriate macroeconomic variables; determining the methodology to forecast prepayments; selecting the most appropriate economic forecast scenario; determining the length of the reasonable and supportable forecast and reversion periods; estimating expected utilization rates on unfunded loan commitments; and assessing relevant and appropriate qualitative factors. In addition, the CECL methodology is dependent on economic forecasts which are inherently imprecise and will change from period to period. Although the allowance for credit losses is considered appropriate, there can be no assurance that it will be sufficient to absorb future losses.

Management believes the allowance for credit losses is appropriate for the current expected credit losses in our loan and lease portfolio and associated unfunded commitments, and the credit risk ratings and inherent loss rates currently assigned are reasonable and appropriate as of the reporting date. 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 consolidated financial statements.

Prior to January 1, 2020, the allowance for loan losses was measured using the incurred loss accounting approach. The allowance for credit losses was 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 was based upon our review of the credit quality of the loan and lease portfolio, which includes 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.

The allowance for loan and lease losses had a general reserve component for unimpaired loans and leases and a specific reserve component for impaired loans and leases.

A loan or lease was considered impaired when it was probable that we would be unable to collect all amounts due according to the original contractual terms of the agreement. We assessed 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 measured impairment of a loan or lease based upon the fair value of the underlying collateral if the loan or lease was collateral-dependent or the present value of cash flows, discounted at the effective interest rate, if the loan or lease was not collateral-dependent. To the extent a loan or lease balance exceeded the estimated collectable value, a specific reserve or charge-off was recorded depending upon either the certainty of the estimate of loss or the fair value of the loan’s collateral if the loan was collateral-dependent. Impaired loans and leases with outstanding balances less than or equal to $250,000 might 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 included both quantitative and qualitative loss factors which were applied to our population of unimpaired loans and leases to estimate our general reserves. The quantitative loss factors determination was based on a probability of default/loss given default ("PD/LGD") methodology which considered 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 had higher quantitative loss factors. The qualitative loss factors considered, 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 quantitative estimation of the allowance for credit losses considered actual historical loan and lease charge-off experience over a 44-quarter look-back period starting with the first quarter of 2009. This look-back period was inclusive of the average timeframe over which charge-offs typically occurred following loan or lease origination and allowed for the capture of sufficient loss observations that were relevant to the current portfolio. When estimating the general reserve component for the various pools of similar loan types, the loss factors applied to the loan pools considered the current credit risk ratings, giving greater weight to loans with more adverse credit risk ratings. We recognized that the determination of the allowance for credit losses was sensitive to the assigned credit risk ratings and inherent loss rates at any given point in time.

(j) Land, Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation and amortization. Land is not depreciated. Depreciation and amortization is charged to "Noninterest expense" in the consolidated statements of earnings (loss) using the straight-line method over the estimated useful lives of the assets. The estimated useful lives of furniture, fixtures and equipment range from 3 to 7 years and for buildings up to 30 years. Leasehold improvements are amortized over their estimated useful lives, or the life of the lease, whichever is shorter.

(k) Foreclosed Assets

Foreclosed assets include OREO and repossessed non-real estate assets. Foreclosed assets are initially recorded at the estimated fair value of the property, based on current independent appraisals obtained at the time of acquisition, less estimated costs to sell, including senior obligations such as delinquent property taxes. The excess of the recorded loan balance over the estimated fair value of the property at the time of acquisition less estimated costs to sell is charged to the allowance for loan and lease losses. Any subsequent write-downs are charged to "Noninterest expense" in the consolidated statements of earnings (loss) and recognized through a foreclosed assets valuation allowance. Subsequent increases in the fair value of the asset less selling costs reduce the foreclosed assets valuation allowance, but not below zero, and are credited to "Noninterest expense." Gains and losses on the sale of foreclosed assets and operating expenses of such assets are included in "Noninterest expense."

(l) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in earnings in the period that includes the enactment date. Any interest or penalties assessed by the taxing authorities is classified in the financial statements as income tax expense. Deferred tax assets and liabilities of the same jurisdiction, net of valuation allowances, are grouped together and reported net on the consolidated balance sheets.

On a periodic basis, the Company evaluates its deferred tax assets to assess whether they are expected to be realized in the future. This determination is based on currently available facts and circumstances, including our current and projected future tax positions, the historical level of our taxable income, and estimates of our future taxable income. In most cases, the realization of deferred tax assets is based on our future profitability. To the extent our deferred tax assets are not considered more likely than not to be realized, we are required to record a valuation allowance on our deferred tax assets by charging earnings. The Company also evaluates existing valuation allowances periodically to determine if sufficient evidence exists to support an increase or reduction in the allowance.

(m) 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 annually unless a triggering event occurs thereby requiring an updated assessment. Our regular annual impairment assessment occurs in the fourth quarter. 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 fair value. An impairment loss would be recognized in an amount equal to that excess as a charge to "Noninterest expense" in the consolidated statements of earnings (loss).

Intangible assets with estimable useful lives are amortized over such useful lives to their estimated residual values. CDI and CRI are recognized apart from goodwill at the time of acquisition based on market valuations. In preparing such valuations, variables considered included deposit servicing costs, attrition rates, and market discount rates. CDI assets are amortized to expense over their useful lives, which we have estimated to range from 7 to 10 years. CRI assets are amortized to expense over their useful lives, which we have estimated to range from 4 to 7 years. The amortization expense represents the estimated decline in the value of the underlying deposits or customer relationships acquired.

Both CDI and CRI are reviewed for impairment quarterly or earlier if events or changes in circumstances indicate that their carrying values may not be recoverable. If the recoverable amount of either CDI or CRI is determined to be less than its carrying value, we would then measure the amount of impairment based on an estimate of the intangible asset's fair value at that time. If the fair value is below the carrying value, then the intangible asset is reduced to such fair value; an impairment loss for such amount would be recognized as a charge to "Noninterest expense" in the consolidated statements of earnings (loss).

(n) Operating Leases

As of December 31, 2021, the Company only had operating leases related to our leased facilities. The Company determines 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. Operating leases with a term of more than one year are included in operating lease ROU assets and operating lease liabilities, which are reported in "Other assets" and "Accrued interest payable and other liabilities" on the Company's consolidated balance sheets. The Company made a policy election to apply the short-term lease exemption to any operating leases with an original term of less than 12 months, therefore no ROU asset or lease liability is recorded for these operating leases. The Company has agreements with lease and non-lease components, which are accounted for as a single lease component.

ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized on the lease commencement date based on the present value of lease payments over the lease term. The Company uses the incremental borrowing rate commensurate with the lease term based on the information available at the lease commencement date in determining the present value of lease payments. ROU assets initially equal the lease liability, adjusted for any prepaid lease payments and initial direct costs incurred less any lease incentives received.

Certain of the Company's lease agreements include rental payments that adjust periodically based on changes in the CPI. We initially measure the present value of the 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. The Company's lease terms may include options to extend or terminate the lease. These options to extend or terminate are assessed on a lease-by-lease basis, and the ROU assets and lease liabilities are adjusted when it is reasonably certain that an option will be exercised. Rent expense for lease payments is recognized on a straight-line basis over the lease term and is included in "Occupancy expense" on the Company's consolidated statements of earnings (loss).

The Company uses the long-lived assets impairment guidance under ASC Topic 360-10-35, "*Property, Plant and Equipment*," to determine whether an ROU asset is impaired, and if impaired, the amount of loss to recognize. Long-lived assets are tested for recoverability whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. These could include vacating the leased space, obsolescence, or physical damage to a facility. Under ASC Topic 842, "*Leases*," if an impairment loss is recognized for a ROU asset, the adjusted carrying amount of the ROU asset would be its new accounting basis. The remaining ROU asset (after the impairment write-down) is amortized on a straight-line basis over the remaining lease term.

(o) Stock-Based Compensation

The Company issues stock-based compensation instruments consisting of TRSAs and PRSUs. 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. Forfeitures of stock-based awards are recognized when they occur. 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 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's is based on a market condition (such as total shareholder return), the amortization is neither reversed nor suspended if it is subsequently determined that the attainment of the performance target is less than probable or improbable and the employee continues to meet the service requirement of the award.

Unvested TRSAs participate with common stock in any dividends declared and paid. Dividends are paid on unvested TRSAs and are charged to equity and the related tax impact is recorded to income tax expense. Dividends paid on forfeited TRSAs are charged to compensation expense. Unvested PRSUs participate with common stock in any dividends declared, but are only paid on the shares which ultimately vest, if any, at the end of the three-year performance period. At the time of vesting, the vested shares are entitled to receive cumulative dividends declared and paid during the three-year performance period. Such dividends are accrued during the three-year performance period at the estimated level of shares to be received by the award holder.

(p) Derivative Instruments

The Company uses derivatives to manage exposure to market risk, primarily foreign currency risk and interest rate risk, and to assist customers with their risk management objectives. The Company uses foreign exchange contracts to manage the foreign exchange rate risk associated with certain foreign currency-denominated assets and liabilities. As of December 31, 2021, all of our derivatives were held for risk management purposes and none were designated as accounting hedges. The objective is to manage the uncertainty of future foreign exchange rate fluctuations. These derivatives provide for a fixed exchange rate which has the effect of reducing or eliminating changes to anticipated cash flows to be received on assets and liabilities denominated in foreign currencies as the result of changes to exchange rates. Our foreign currency derivatives are carried at fair value and recorded in other assets or other liabilities, as appropriate. The changes in fair value of our derivatives and the related interest are recognized in "Noninterest income - other" in the consolidated statements of earnings (loss).

The Bank offers interest rate swap products to certain loan customers to allow them to hedge the risk of rising interest rates on their variable-rate loans. When such products are issued, we also enter into an offsetting swap with institutional counterparties to eliminate the interest rate risk to us. These back-to-back swap agreements, which generate fee income for us, are intended to offset each other. We retain the credit risk of the original loan. The net cash flow for us is equal to the interest income received from a variable rate loan originated with the client plus a fee. These swaps are not designated as accounting hedges and are recorded at fair value in "Other assets" and "Accrued interest payable and other liabilities" in the consolidated balance sheets. The changes in fair value are recorded in "Noninterest income - other" in the consolidated statements of earnings (loss).

In connection with negotiated credit facilities and certain other services, we may obtain equity warrant assets giving us the right to acquire stock in primarily private, venture-backed companies. We account for equity warrant assets as derivatives when they contain net settlement terms and other qualifying criteria under ASC 815. These equity warrant assets are measured at estimated fair value on a monthly basis and are classified as "Other assets" in the consolidated balance sheets at the time they are obtained.

Derivative instruments expose us to credit risk in the event of nonperformance by counterparties. This risk exposure consists primarily of the termination value of agreements where we are in a favorable position. We manage the credit risk associated with various derivative agreements through counterparty credit review and monitoring procedures.

(q) Comprehensive Income (Loss)

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

(r) Earnings (Loss) Per Share

In accordance with ASC Topic 260, "*Earnings Per Share*," all outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends are considered participating securities and are included in the two-class method of determining basic and diluted earnings (loss) per share. All of our unvested restricted stock participates with our common stockholders in dividends. Accordingly, earnings allocated to unvested restricted stock are deducted from net earnings (loss) to determine that amount of earnings (loss) available to common stockholders. In the two-class method, the amount of our earnings (loss) available to common stockholders is divided by the weighted average shares outstanding, excluding any unvested restricted stock, for both the basic and diluted earnings (loss) per share.

(s) Business Combinations

Business combinations are accounted for under the acquisition method of accounting in accordance with ASC Topic 805, "*Business Combinations*." Under the acquisition method, the acquiring entity in a business combination recognizes 100 percent of the acquired assets and assumed liabilities, regardless of the percentage owned, at their estimated fair values as of the date of acquisition. Any excess of the purchase price over the fair value of net assets and other identifiable intangible assets acquired is recorded as goodwill. To the extent the fair value of net assets acquired, including other identifiable assets, exceeds the purchase price, a bargain purchase gain is recognized. Assets acquired and liabilities assumed from contingencies must also be recognized at fair value, if the fair value can be determined during the measurement period. Results of operations of an acquired business are included in the consolidated statements of earnings (loss) from the date of acquisition. Acquisition-related costs, including conversion and restructuring charges, are expensed as incurred.

(t) Business Segments

We regularly assess our strategic plans, operations and reporting structures to identify our reportable segments. Changes to our reportable segments are expected to be infrequent. As of December 31, 2021 and since December 31, 2015, we have operated as one reportable segment. Civic, which we acquired on February 1, 2021, is an operating segment, however, it does not meet the quantitative thresholds for disclosure as a reportable segment. The factors considered in making this determination include the nature of products and offered services, geographic regions in which we operate, the applicable regulatory environment, and the discrete financial information reviewed by our key decision makers. Through our network of banking offices nationwide, our entire operations provide relationship-based banking products, services and solutions for small to mid-sized companies, entrepreneurial and venture-backed businesses, venture capital and private equity investors, real estate investors, professionals and other individuals. Our products and services include commercial real estate, multi-family, commercial business, construction and land, consumer and government-guaranteed small business loans, business and personal deposit products, HOA services, and treasury cash management services.

(u) Recently Issued Accounting Standards

Standard	Description	Effective Date	Effect on the Financial Statements or Other Significant Matters
ASU 2020-04, "*Reference Rate Reform (Topic 848)*" and ASU 2021-01, "*Reference Rate Reform (Topic 848): Scope)*"	This standard provides optional expedients and exceptions for applying GAAP to loan and lease agreements, derivative contracts, and other agreements affected by the anticipated transition away from LIBOR toward new interest reference rates. For agreements that are modified because of reference rate reform and that meet certain scope guidance: (i) modifications of loan agreements should be accounted for by prospectively adjusting the effective interest rate and the modification will be considered "minor" so that any existing unamortized origination fees/costs would carry forward and continue to be amortized and (ii) modifications of lease agreements should be accounted for as a continuation of the existing agreement with no reassessments of the lease classification and the discount rate or remeasurements of lease payments that otherwise would be required for modifications not accounted for as separate contracts. Additionally, the amendments in ASU 2021-01 clarify that certain optional expedients and exceptions in Topic 848 for contract modifications and hedge accounting apply to derivatives that are affected by the discounting transition. Specifically, certain provisions in Topic 848, if elected by an entity, apply to derivative instruments that use an interest rate for margining, discounting, or contract price alignment that is modified as a result of reference rate reform. ASU 2020-04 is effective immediately, as of March 12, 2020, and may be applied prospectively to contract modifications made and hedging relationships entered into on or before December 31, 2022. ASU 2021-01 is also effective immediately. Entities may elect to apply the amendments on a full retrospective basis as of any date from the beginning of an interim period that includes or is subsequent to March 12, 2020, or on a prospective basis to new modifications from any date within an interim period that includes or is subsequent to January 7, 2021 and up to December 31, 2022.	Effective upon the issuance date of March 12, 2020, and once adopted, will apply to contract modifications made and hedging relationships entered into on or before December 31, 2022.	The Company has established a cross-functional project team and implementation plan to facilitate the LIBOR transition. As of December 31, 2021, the Company permanently ceased originating any new loans or entering into any transaction that would increase its LIBOR-based exposure. For all new variable-rate and hybrid loans, the Company primarily offers Prime and SOFR as the variable-rate index, but may consider alternate rates such as the American Interbank Offered Rate ("Ameribor") and others based on market conditions and/or the type of loan or financial instrument. The Company has completed its readiness efforts to identify loans and other financial instruments that are impacted by the discontinuance of LIBOR. The Company has also completed its review for fallback language contained in contracts for LIBOR-based loans and other financial instruments and has begun to execute a transition plan to amend those legacy contracts maturing after June 30, 2023 that do not have or have inadequate fallback language by adding fallback language or to convert the base rate of the contract to a SOFR-based rate or another rate or index offered by the Company. The Company will also continue to assess impacts to its operations, financial models, data and technology as part of our transition plan. The Company is currently evaluating the impact of this Update on its consolidated financial statements but does not expect it to have a material impact.

Standard	Description	Effective Date	Effect on the Financial Statements or Other Significant Matters
ASU 2021-08, *Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*	This standard requires that an entity (acquirer) recognizes and measures contract assets and contract liabilities acquired in a business combination in accordance with Topic 606. At acquisition date, an acquirer should account for the related revenue contracts with customers in accordance with Topic 606 as if it had originated the contracts. The acquirer should consider the terms of the acquired contracts, such as timing of payment, identify each performance obligation in the contracts and allocate the total transaction price to each identified performance obligation on a relative standalone selling price basis as of contract inception or contract modification to determine what should be recorded at the acquisition date. The amendments improve comparability by providing consistent recognition and measurement guidance for revenue contracts with customers whether they are acquired and not acquired in a business combination. The amendments should be applied prospectively to business combinations occurring on or after the effective date. Additionally, early adoption is permitted.	January 1, 2023	The Company has not yet determined the effect of the adoption of ASU 2021-08 on the Company's consolidated financial statements.

NOTE 2. ACQUISITIONS

The following assets acquired and liabilities assumed, both tangible and intangible, of the acquired entity are presented at estimated fair value as of the acquisition date:

	Acquisition and Date Acquired	Acquisition and Date Acquired
	Homeowners Association Services Division of MUFG Union Bank	Civic Financial Services, LLC
	October 8, 2021	February 1, 2021
	(In thousands)	
Assets Acquired:		
Cash and due from banks	$ 4,118,009	$ 37,331
Loans and leases	6,486	67,294
Premises and equipment	331	1,197
Goodwill	201,618	125,448
Core deposit and customer relationship intangibles	33,300	750
Other assets	3,149	75,977
Total assets acquired	$ 4,362,893	$ 307,997
Liabilities Assumed:		
Noninterest-bearing demand deposits	$ 1,585,810	$ 37,339
Interest-bearing deposits	2,536,965	—
Total deposits	4,122,775	37,339
Borrowings	—	50,210
Accrued interest payable and other liabilities	2,320	60,028
Total liabilities assumed	$ 4,125,095	$ 147,577
Total consideration - paid in cash	$ 237,798	$ 160,420

Acquisition of Civic

On February 1, 2021, the Bank completed the acquisition of Civic in an all-cash transaction. Civic, located in Redondo Beach, California, is one of the leading lenders in the United States specializing in business-purpose residential non-owner-occupied investment properties. The acquisition of Civic advances the Bank's strategy to diversify and expand its lending portfolio, diversify its revenue streams, and deploy excess liquidity into higher-yielding assets. Civic operates as a subsidiary of the Bank.

The Civic acquisition has been accounted for under the acquisition method of accounting. We acquired $308.0 million of assets and assumed $147.6 million of liabilities upon closing of the acquisition. We made significant estimates and exercised significant judgment in estimating fair values and accounting for such acquired assets and assumed liabilities. Such fair values are preliminary estimates and are subject to adjustment for up to one year after the acquisition date or when additional information relative to the closing date fair values becomes available and such information is considered final, whichever is earlier. The application of the acquisition method of accounting resulted in the recognition of goodwill of $125.4 million. All of the recognized goodwill is expected to be deductible for tax purposes.

Acquisition of HOA Business

On October 8, 2021, the Bank completed the acquisition of the HOA Business in an all-cash transaction. The HOA Business is a long-time provider of specialized HOA banking services to a national base of community HOA management companies and their homeowners associations. This acquisition significantly expanded the Bank's existing HOA banking practice, which provides lockbox, electronic receivables processing and other financial services to HOA management companies. This acquisition advanced the Bank's strategy to expand its product offerings to its customers and to diversify its revenue and funding sources.

The Bank paid cash consideration of $237.8 million, which represented the aggregate of a 5.9% deposit premium and the net book value of certain acquired assets and assumed liabilities. The HOA Business acquisition has been accounted for under the acquisition method of accounting. We acquired $4.4 billion of assets and assumed $4.1 billion of liabilities upon closing of the acquisition. We made significant estimates and exercised significant judgment in estimating fair values and accounting for such acquired assets and assumed liabilities. Such fair values are preliminary estimates and are subject to adjustment for up to one year after the acquisition date or when additional information relative to the closing date fair values becomes available and such information is considered final, whichever is earlier. The application of the acquisition method of accounting resulted in the recognition of goodwill of $201.6 million. All of the recognized goodwill is expected to be deductible for tax purposes.

NOTE 3. 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 year ended December 31, 2021 and 2020 were $0 and $41.3 million. As of December 31, 2021 and 2020, we pledged cash collateral for our derivative contracts of $2.0 million and $2.9 million.

NOTE 4. 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:

	December 31,							
	2021				2020			
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 MBS	$ 2,921,993	$ 8,866	$ (32,649)	$ 2,898,210	$ 329,488	$ 12,483	$ (897)	$ 341,074
Municipal securities	2,248,749	75,192	(7,973)	2,315,968	1,438,004	93,631	(18)	1,531,617
Agency commercial MBS	1,660,516	37,664	(9,213)	1,688,967	1,207,676	74,238	(37)	1,281,877
Agency residential CMOs	1,021,716	22,288	(5,870)	1,038,134	1,172,166	47,994	(280)	1,219,880
U.S. Treasury securities	973,555	1,641	(8,298)	966,898	4,989	313	—	5,302
Corporate debt securities	514,077	13,774	(757)	527,094	308,803	3,490	(404)	311,889
Private label commercial MBS	453,314	147	(3,244)	450,217	81,878	1,089	(10)	82,957
Collateralized loan obligations	385,410	396	(444)	385,362	136,777	23	(924)	135,876
Private label residential CMOs	265,851	1,857	(3,291)	264,417	110,891	6,076	(21)	116,946
Asset-backed securities	129,387	484	(324)	129,547	166,861	445	(760)	166,546
SBA securities	28,950	726	(32)	29,644	39,437	2,217	(27)	41,627
Total	$ 10,603,518	$ 163,035	$ (72,095)	$ 10,694,458	$ 4,996,970	$ 241,999	$ (3,378)	$ 5,235,591

See Note 15. *Fair Value Measurements* for information on fair value measurements and methodology.

As of December 31, 2021, securities available-for-sale with a fair value of $532.4 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

The following table presents the amortized cost of securities sold with related gross realized gains, gross realized losses, and net realized gains for the years indicated:

	Year Ended December 31,		
Sales of Securities Available-for-Sale	2021	2020	2019
	(In thousands)		
Amortized cost of securities sold	$ 365,733	$ 160,254	$ 1,559,415
Gross realized gains	$ 1,680	$ 13,222	$ 29,584
Gross realized losses	(65)	(51)	(4,139)
Net realized gains	$ 1,615	$ 13,171	$ 25,445

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 as of the dates indicated:

	December 31, 2021					
	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 MBS	$ 2,502,536	$ (31,670)	$ 57,329	$ (979)	$ 2,559,865	$ (32,649)
Municipal securities	505,080	(6,965)	29,726	(1,008)	534,806	(7,973)
Agency commercial MBS	440,938	(5,066)	106,745	(4,147)	547,683	(9,213)
Agency residential CMOs	216,445	(3,757)	67,340	(2,113)	283,785	(5,870)
U.S. Treasury securities	628,767	(8,298)	—	—	628,767	(8,298)
Corporate debt securities	32,761	(757)	—	—	32,761	(757)
Private label commercial MBS	397,619	(3,244)	—	—	397,619	(3,244)
Collateralized loan obligations	137,619	(374)	43,730	(70)	181,349	(444)
Private label residential CMOs	201,988	(3,291)	—	—	201,988	(3,291)
Asset-backed securities	38,742	(137)	15,762	(187)	54,504	(324)
SBA securities	—	—	1,864	(31)	1,864	(32)
Total	$ 5,102,495	$ (63,559)	$ 322,496	$ (8,535)	$ 5,424,991	$ (72,095)

	December 31, 2020					
	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 MBS	$ 90,722	$ (897)	$ —	$ —	$ 90,722	$ (897)
Municipal securities	5,919	(18)	—	—	5,919	(18)
Agency commercial MBS	58,408	(37)	—	—	58,408	(37)
Agency residential CMOs	97,863	(280)	—	—	97,863	(280)
Corporate debt securities	87,596	(404)	—	—	87,596	(404)
Private label commercial MBS	3,058	(10)	—	—	3,058	(10)
Collateralized loan obligations	96,442	(729)	28,972	(195)	125,414	(924)
Private label residential CMOs	788	(19)	74	(2)	862	(21)
Asset-backed securities	14,636	(53)	61,031	(707)	75,667	(760)
SBA securities	2,127	(27)	—	—	2,127	(27)
Total	$ 457,559	$ (2,474)	$ 90,077	$ (904)	$ 547,636	$ (3,378)

The securities that were in an unrealized loss position at December 31, 2021, were considered impaired and required further review to determine if the unrealized losses were credit-related. We 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. We also considered the seniority of the tranches and U.S. government agency guarantees, if any, to assess whether an unrealized loss was credit-related. Accordingly, we determined the unrealized losses were not credit-related and recognized the unrealized losses in "other comprehensive income" in stockholders' equity. Although we periodically sell securities for portfolio management purposes, we do not foresee having to sell any impaired securities strictly for liquidity needs and believe that it is more likely than not we would not be required to sell any impaired securities before recovery of their amortized cost.

Contractual Maturities of Securities Available-for-Sale

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

	December 31, 2021	
Maturity	Amortized Cost	Fair Value
	(In thousands)	
Due in one year or less	$ 54,301	$ 54,685
Due after one year through five years	635,456	662,377
Due after five years through ten years	3,526,824	3,544,687
Due after ten years	6,386,937	6,432,709
Total securities available-for-sale	$ 10,603,518	$ 10,694,458

MBS and CMOs have contractual maturity dates, but require periodic payments based upon scheduled amortization terms. Actual principal collections on these securities usually occur more rapidly than the scheduled amortization terms because of prepayments made by obligors of the underlying loan collateral.

FHLB Stock

In connection with outstanding FHLB advances, the Bank owned FHLB stock carried at cost of $17.3 million at December 31, 2021 and 2020. At December 31, 2021 and 2020, the Bank was required to own FHLB stock equal to a percentage of outstanding FHLB advances. We evaluated the carrying value of our FHLB stock investment at December 31, 2021 and determined that it was not impaired. Our evaluation considered the long-term nature of the investment, the current financial and liquidity position of the FHLB, repurchase activity of excess stock by the FHLB at its carrying value, the return on the investment from recurring dividends, and our intent and ability to hold this investment for a period of time sufficient to recover our recorded investment.

Interest Income on Investment Securities

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

	Year Ended December 31,		
	2021	2020	2019
		(In thousands)	
Taxable interest	$ 118,561	$ 80,426	$ 85,968
Non-taxable interest	33,916	24,771	27,955
Dividend income	991	1,573	1,646
Total interest income on investment securities	$ 153,468	$ 106,770	$ 115,569

NOTE 5. LOANS AND LEASES

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:

	December 31,	
	2021	**2020**
	(In thousands)	
Real estate mortgage	$ 11,189,278	$ 7,90
Real estate construction and land	3,491,340	3,39
Commercial	7,888,068	7,53
Consumer	457,622	32
Total gross loans and leases held for investment	23,026,308	19,15
Deferred fees, net	(84,760)	(6
Total loans and leases held for investment, net of deferred fees	22,941,548	19,08
Allowance for loan and lease losses	(200,564)	(34
Total loans and leases held for investment, net (1)	$ 22,740,984	$ 18,73

(1) Excludes accrued interest receivable of $80.3 million and $79.7 million at December 31, 2021 and December 31, 2019, respectively, which is recorded in "Other assets" on the consolidated balance sheets.

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:

	December 31, 2021				
	30 - 89 Days Past Due	**90 or More Days Past Due**	**Total Past Due**	**Current**	**Total**
			(In thousands)		
Real estate mortgage:					
Commercial	$ 5,307	$ 2,236	$ 7,543	$ 3,754,756	$ 3,762,299
Income producing and other residential	40,505	9,666	50,171	7,366,250	7,416,421
Total real estate mortgage	45,812	11,902	57,714	11,121,006	11,178,720
Real estate construction and land:					
Commercial	—	—	—	832,591	832,591
Residential	7,271	2,223	9,494	2,595,042	2,604,536
Total real estate construction and land	7,271	2,223	9,494	3,427,633	3,437,127
Commercial:					
Asset-based	—	464	464	4,075,013	4,075,477
Venture capital	—	—	—	2,320,593	2,320,593
Other commercial	955	3,601	4,556	1,467,425	1,471,981
Total commercial	955	4,065	5,020	7,863,031	7,868,051
Consumer	1,004	276	1,280	456,370	457,650
Total	$ 55,042	$ 18,466	$ 73,508	$ 22,868,040	$ 22,941,548

	December 31, 2020				
	30 - 89 Days Past Due	90 or More Days Past Due	Total Past Due	Current	Total
			(In thousands)		
Real estate mortgage:					
Commercial	$ 6,750	$ 29,145	$ 35,895	$ 4,060,776	$ 4,096,671
Income producing and other residential	600	373	973	3,802,292	3,803,265
Total real estate mortgage	7,350	29,518	36,868	7,863,068	7,899,936
Real estate construction and land:					
Commercial	—	—	—	1,117,121	1,117,121
Residential	759	—	759	2,242,401	2,243,160
Total real estate construction and land	759	—	759	3,359,522	3,360,281
Commercial:					
Asset-based	—	2,128	2,128	3,427,155	3,429,283
Venture capital	540	—	540	1,697,968	1,698,508
Other commercial	2,323	4,766	7,089	2,368,025	2,375,114
Total commercial	2,863	6,894	9,757	7,493,148	7,502,905
Consumer	1,260	111	1,371	318,884	320,255
Total	$ 12,232	$ 36,523	$ 48,755	$ 19,034,622	$ 19,083,377

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:

	December 31,					
	2021			2020		
	Nonaccrual	Performing	Total	Nonaccrual	Performing	Total
			(In thousands)			
Real estate mortgage:						
Commercial	$ 27,540	$ 3,734,759	$ 3,762,299	$ 43,731	$ 4,052,940	$ 4,096,671
Income producing and other residential	12,292	7,404,129	7,416,421	1,826	3,801,439	3,803,265
Total real estate mortgage	39,832	11,138,888	11,178,720	45,557	7,854,379	7,899,936
Real estate construction and land:						
Commercial	—	832,591	832,591	315	1,116,806	1,117,121
Residential	4,715	2,599,821	2,604,536	—	2,243,160	2,243,160
Total real estate construction and land	4,715	3,432,412	3,437,127	315	3,359,966	3,360,281
Commercial:						
Asset-based	1,464	4,074,013	4,075,477	2,679	3,426,604	3,429,283
Venture capital	2,799	2,317,794	2,320,593	1,980	1,696,528	1,698,508
Other commercial	11,950	1,460,031	1,471,981	40,243	2,334,871	2,375,114
Total commercial	16,213	7,851,838	7,868,051	44,902	7,458,003	7,502,905
Consumer	414	457,236	457,650	389	319,866	320,255
Total	$ 61,174	$ 22,880,374	$ 22,941,548	$ 91,163	$ 18,992,214	$ 19,083,377

The amount of interest income that would have been recorded on nonaccrual loans and leases at December 31, 2021 and 2020 had such loans and leases been current in accordance with their original terms was $4.9 million and $7.5 million for 2021 and 2020.

At December 31, 2021, nonaccrual loans and leases included $18.5 million of loans and leases 90 or more days past due, $6.3 million of loans 30 to 89 days past due and $36.4 million of current loans that were placed on nonaccrual status based on management's judgment regarding their collectability. At December 31, 2020, nonaccrual loans and leases included $36.5 million of loans and leases 90 or more days past due, $3.4 million of loans 30 to 89 days past due and $51.3 million of current loans that were placed on nonaccrual status based on management's judgment regarding their collectability.

As of December 31, 2021, our three largest loan relationships on nonaccrual status had an aggregate carrying value of $14.2 million and represented 23% of total nonaccrual loans and leases.

The following tables present the credit risk rating categories for loans and leases held for investment 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.

	December 31, 2021			
	Classified	Special Mention	Pass	Total
	(In thousands)			
Real estate mortgage:				
Commercial	$ 62,206	$ 191,809	$ 3,508,284	$ 3,762,299
Income producing and other residential	17,700	19,848	7,378,873	7,416,421
Total real estate mortgage	79,906	211,657	10,887,157	11,178,720
Real estate construction and land:				
Commercial	—	67,727	764,864	832,591
Residential	4,715	1,720	2,598,101	2,604,536
Total real estate construction and land	4,715	69,447	3,362,965	3,437,127
Commercial:				
Asset-based	4,591	78,305	3,992,581	4,075,477
Venture capital	4,794	14,833	2,300,966	2,320,593
Other commercial	21,659	15,528	1,434,794	1,471,981
Total commercial	31,044	108,666	7,728,341	7,868,051
Consumer	439	1,841	455,370	457,650
Total	$ 116,104	$ 391,611	$ 22,433,833	$ 22,941,548

	December 31, 2020			
	Classified	Special Mention	Pass	Total
	(In thousands)			
Real estate mortgage:				
Commercial	$ 91,543	$ 262,462	$ 3,742,666	$ 4,096,671
Income producing and other residential	8,767	61,384	3,733,114	3,803,265
Total real estate mortgage	100,310	323,846	7,475,780	7,899,936
Real estate construction and land:				
Commercial	42,558	107,592	966,971	1,117,121
Residential	—	759	2,242,401	2,243,160
Total real estate construction and land	42,558	108,351	3,209,372	3,360,281
Commercial:				
Asset-based	27,867	153,301	3,248,115	3,429,283
Venture capital	6,508	118,125	1,573,875	1,698,508
Other commercial	87,557	14,930	2,272,627	2,375,114
Total commercial	121,932	286,356	7,094,617	7,502,905
Consumer	462	2,732	317,061	320,255
Total	$ 265,262	$ 721,285	$ 18,096,830	$ 19,083,377

The following table presents our nonaccrual loans and leases by loan portfolio segment and class and by with and without an allowance recorded as of the date indicated and interest income recognized on nonaccrual loans and leases for the year indicated:

	At and For the Year Ended December 31, 2021		At and For the Year Ended December 31, 2020	
	Nonaccrual Recorded Investment	Interest Income Recognized	Nonaccrual Recorded Investment	Interest Income Recognized
	(In thousands)			
With An Allowance Recorded:				
Real estate mortgage:				
Commercial	$ 70	$ —	$ 78	$ —
Income producing and other residential	3,555	—	1,260	—
Real estate construction and land:				
Commercial	—	—	—	—
Residential	616	—	—	—
Commercial:				
Asset based	1,000	—	2,128	—
Venture capital	2,799	—	1,980	—
Other commercial	1,081	—	2,438	—
Consumer	19	—	389	—
With No Related Allowance Recorded:				
Real estate mortgage:				
Commercial	$ 27,470	$ 596	$ 43,653	$ 524
Income producing and other residential	8,737	—	566	—
Real estate construction and land:				
Commercial	—	—	315	—
Residential	4,099	—	—	—
Commercial:				
Asset based	464	—	551	—
Venture capital	—	—	—	—
Other commercial	10,869	169	37,805	5,052
Consumer	395	—	—	—
Total Loans and Leases With and Without an Allowance Recorded:				
Real estate mortgage	$ 39,832	$ 596	$ 45,557	$ 524
Real estate construction and land	4,715	—	315	—
Commercial	16,213	169	44,902	5,052
Consumer	414	—	389	—
Total	$ 61,174	$ 765	$ 91,163	$ 5,576

The following tables present our loans held for investment by loan portfolio segment and class, by credit quality indicator (internal risk ratings), and by year of origination (vintage year) as of the date indicated:

Amortized Cost Basis	Term Loans by Origination Year						Revolving	Revolving Converted to Term	
December 31, 2021	2021	2020	2019	2018	2017	Prior	Loans	Loans	Total
					(In thousands)				
Real Estate Mortgage: Commercial									
Internal risk rating:									
1-2 High pass	$ 561	$ 9,148	$ 32,304	$ 8,289	$ 6,248	$ 33,493	$ 3	$ —	$ 90,046
3-4 Pass	499,626	531,989	321,728	578,436	489,727	932,950	51,805	11,977	3,418,238
5 Special mention	—	4,811	63,381	76,372	6,533	40,712	—	—	191,809
6-8 Classified	—	488	17,037	5,340	6,278	33,063	—	—	62,206
Total	$ 500,187	$ 546,436	$ 434,450	$ 668,437	$ 508,786	$ 1,040,218	$ 51,808	$ 11,977	$ 3,762,299
Current YTD period:									
Gross charge-offs	$ —	$ —	$ 189	$ 168	$ 344	$ 264	$ —	$ —	$ 965
Gross recoveries	—	—	—	—	(8)	(6,073)	—	—	(6,081)
Net	$ —	$ —	$ 189	$ 168	$ 336	$ (5,809)	$ —	$ —	$ (5,116)
Real Estate Mortgage: Income Producing and Other Residential									
Internal risk rating:									
1-2 High pass	$ 95,016	$ 29,339	$ 57,874	$ 47,688	$ 11,776	$ 16,703	$ 28,115	$ —	$ 286,511
3-4 Pass	4,405,055	623,207	573,718	616,515	547,531	234,525	91,655	156	7,092,362
5 Special mention	2,871	3,810	13,007	—	—	—	160	—	19,848
6-8 Classified	5,161	5,217	—	3,323	304	3,424	—	271	17,700
Total	$ 4,508,103	$ 661,573	$ 644,599	$ 667,526	$ 559,611	$ 254,652	$ 119,930	$ 427	$ 7,416,421
Current YTD period:									
Gross charge-offs	$ 28	$ 80	$ —	$ —	$ —	$ 55	$ —	$ —	$ 163
Gross recoveries	(28)	—	—	—	—	(357)	—	(301)	(686)
Net	$ —	$ 80	$ —	$ —	$ —	$ (302)	$ —	$ (301)	$ (523)
Real Estate Construction and Land: Commercial									
Internal risk rating:									
1-2 High pass	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
3-4 Pass	96,108	96,448	386,832	152,444	720	14,122	18,190	—	764,864
5 Special mention	—	—	—	—	67,727	—	—	—	67,727
6-8 Classified	—	—	—	—	—	—	—	—	—
Total	$ 96,108	$ 96,448	$ 386,832	$ 152,444	$ 68,447	$ 14,122	$ 18,190	$ —	$ 832,591
Current YTD period:									
Gross charge-offs	$ —	$ —	$ —	$ 775	$ —	$ —	$ —	$ —	$ 775
Gross recoveries	—	—	—	—	—	—	—	—	—
Net	$ —	$ —	$ —	$ 775	$ —	$ —	$ —	$ —	$ 775

Amortized Cost Basis December 31, 2021	Term Loans by Origination Year 2021	2020	2019	2018	2017	Prior	Revolving Loans	Revolving Converted to Term Loans	Total
					(In thousands)				
Real Estate Construction and Land: Residential									
Internal risk rating:									
1-2 High pass	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
3-4 Pass	849,188	672,864	851,127	163,950	17,526	3,970	28,804	10,672	2,598,101
5 Special mention	276	1,185	—	—	259	—	—	—	1,720
6-8 Classified	849	3,278	588	—	—	—	—	—	4,715
Total	$ 850,313	$ 677,327	$ 851,715	$ 163,950	$ 17,785	$ 3,970	$ 28,804	$ 10,672	$ 2,604,536
Current YTD period:									
Gross charge-offs	$ 7	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 7
Gross recoveries	—	—	—	—	—	—	—	—	—
Net	$ 7	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 7
Commercial: Asset-Based									
Internal risk rating:									
1-2 High pass	$ 138,836	$ 72,725	$ 178,291	$ 123,947	$ 71,940	$ 188,411	$ 706,656	$ 50,495	$ 1,531,301
3-4 Pass	242,209	71,930	59,748	45,375	8,350	34,833	1,992,677	6,158	2,461,280
5 Special mention	—	—	48,796	13,138	—	—	12,393	3,978	78,305
6-8 Classified	—	—	—	—	—	464	4,027	100	4,591
Total	$ 381,045	$ 144,655	$ 286,835	$ 182,460	$ 80,290	$ 223,708	$ 2,715,753	$ 60,731	$ 4,075,477
Current YTD period:									
Gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 232	$ 232
Gross recoveries	—	—	—	—	—	(691)	(28)	—	(719)
Net	$ —	$ —	$ —	$ —	$ —	$ (691)	$ (28)	$ 232	$ (487)
Commercial: Venture Capital									
Internal risk rating:									
1-2 High pass [(1)]	$ —	$ 1,999	$ —	$ —	$ (4)	$ 14	$ 228,820	$ —	$ 230,829
3-4 Pass	229,567	58,283	46,007	7,241	1,614	4,166	1,715,057	8,202	2,070,137
5 Special mention	8,980	2,778	499	—	—	2,593	(17)	—	14,833
6-8 Classified	500	—	—	2,000	—	—	(6)	2,300	4,794
Total	$ 239,047	$ 63,060	$ 46,506	$ 9,241	$ 1,610	$ 6,773	$ 1,943,854	$ 10,502	$ 2,320,593
Current YTD period:									
Gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ 620	$ —	$ —	$ 620
Gross recoveries	—	—	(127)	(37)	(158)	(82)	—	—	(404)
Net	$ —	$ —	$ (127)	$ (37)	$ (158)	$ 538	$ —	$ —	$ 216

(1) Amounts with negative balances are loans with zero principal balances and deferred loan origination fees.

Amortized Cost Basis December 31, 2021	Term Loans by Origination Year 2021	2020	2019	2018	2017	Prior	Revolving Loans	Revolving Converted to Term Loans	Total
					(In thousands)				
Commercial: Other Commercial									
Internal risk rating:									
1-2 High pass [(1)]	$ 134,825	$ 22,556	$ 261	$ 4	$ 246	$ (50)	$ 18,206	$ 693	$ 176,741
3-4 Pass	286,281	73,328	77,487	67,591	46,939	89,408	607,197	9,822	1,258,053
5 Special mention	—	291	1	2,088	115	11,911	1,061	61	15,528
6-8 Classified	53	1	395	(3)	223	4,212	15,731	1,047	21,659
Total	$ 421,159	$ 96,176	$ 78,144	$ 69,680	$ 47,523	$ 105,481	$ 642,195	$ 11,623	$ 1,471,981
Current YTD period:									
Gross charge-offs	$ 1,992	$ —	$ 122	$ 47	$ 139	$ 797	$ 985	$ 2,364	$ 6,446
Gross recoveries	—	—	(42)	—	(268)	(4,076)	(57)	(145)	(4,588)
Net	$ 1,992	$ —	$ 80	$ 47	$ (129)	$ (3,279)	$ 928	$ 2,219	$ 1,858
Consumer									
Internal risk rating:									
1-2 High pass	$ 36	$ 11	$ —	$ 5	$ 4	$ —	$ 646	$ —	$ 702
3-4 Pass	261,678	24,195	73,860	35,623	21,707	31,916	5,689	—	454,668
5 Special mention	797	363	496	—	50	135	—	—	1,841
6-8 Classified	—	22	123	111	21	143	—	19	439
Total	$ 262,511	$ 24,591	$ 74,479	$ 35,739	$ 21,782	$ 32,194	$ 6,335	$ 19	$ 457,650
Current YTD period:									
Gross charge-offs	$ —	$ 185	$ 654	$ 156	$ 270	$ 188	$ —	$ 54	$ 1,507
Gross recoveries	—	—	—	(27)	(13)	(79)	(1)	—	(120)
Net	$ —	$ 185	$ 654	$ 129	$ 257	$ 109	$ (1)	$ 54	$ 1,387
Total Loans and Leases									
Internal risk rating:									
1-2 High pass	$ 369,274	$ 135,778	$ 268,730	$ 179,933	$ 90,210	$ 238,571	$ 982,446	$ 51,188	$ 2,316,130
3-4 Pass	6,869,712	2,152,244	2,390,507	1,667,175	1,134,114	1,345,890	4,511,074	46,987	20,117,703
5 Special mention	12,924	13,238	126,180	91,598	74,684	55,351	13,597	4,039	391,611
6-8 Classified	6,563	9,006	18,143	10,771	6,826	41,306	19,752	3,737	116,104
Total	$ 7,258,473	$ 2,310,266	$ 2,803,560	$ 1,949,477	$ 1,305,834	$ 1,681,118	$ 5,526,869	$ 105,951	$ 22,941,548
Current YTD period:									
Gross charge-offs	$ 2,027	$ 265	$ 965	$ 1,146	$ 753	$ 1,924	$ 985	$ 2,650	$ 10,715
Gross recoveries	(28)	—	(169)	(64)	(447)	(11,358)	(86)	(446)	(12,598)
Net	$ 1,999	$ 265	$ 796	$ 1,082	$ 306	$ (9,434)	$ 899	$ 2,204	$ (1,883)

(1) Amounts with negative balances are loans with zero principal balances and deferred loan origination fees.

Amortized Cost Basis [1] **December 31, 2020**	**Term Loans by Origination Year 2020**	**2019**	**2018**	**2017**	**2016**	**Prior**	**Revolving Loans**	**Revolving Converted to Term Loans**	**Total**
					(In thousands)				
Real Estate Mortgage: Commercial									
Internal risk rating:									
1-2 High pass	$ —	$ 28,304	$ 4,848	$ 13,184	$ 12,241	$ 41,222	$ —	$ —	$ 99,799
3-4 Pass	554,143	413,785	574,497	725,503	405,367	893,008	62,586	13,978	3,642,867
5 Special mention	2,622	78,484	99,397	14,625	9,967	57,367	—	—	262,462
6-8 Classified	504	1,255	7,489	7,869	16,797	57,629	—	—	91,543
Total	$ 557,269	$ 521,828	$ 686,231	$ 761,181	$ 444,372	$ 1,049,226	$ 62,586	$ 13,978	$ 4,096,671
Current YTD period:									
Gross charge-offs	$ —	$ —	$ 154	$ 3,330	$ —	$ 6,694	$ —	$ —	$ 10,178
Gross recoveries	—	—	—	(9)	—	(280)	—	—	(289)
Net	$ —	$ —	$ 154	$ 3,321	$ —	$ 6,414	$ —	$ —	$ 9,889
Real Estate Mortgage: Income Producing and Other Residential									
Internal risk rating:									
1-2 High pass	$ 58,714	$ 55,826	$ 28,831	$ 33,017	$ 18,991	$ 9,265	$ —	$ —	$ 204,644
3-4 Pass	491,504	850,978	1,067,109	577,906	238,499	187,959	113,987	528	3,528,470
5 Special mention	12,307	4,207	42,455	1,554	—	—	861	—	61,384
6-8 Classified	—	—	2,862	—	—	4,950	118	837	8,767
Total	$ 562,525	$ 911,011	$ 1,141,257	$ 612,477	$ 257,490	$ 202,174	$ 114,966	$ 1,365	$ 3,803,265
Current YTD period:									
Gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ 51	$ —	$ 457	$ 508
Gross recoveries	—	—	—	—	—	(327)	(1)	—	(328)
Net	$ —	$ —	$ —	$ —	$ —	$ (276)	$ (1)	$ 457	$ 180
Real Estate Construction and Land: Commercial									
Internal risk rating:									
1-2 High pass	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
3-4 Pass	66,114	369,588	357,295	118,586	36,027	11,778	7,583	—	966,971
5 Special mention	—	—	40,396	67,196	—	—	—	—	107,592
6-8 Classified	—	—	—	—	42,243	315	—	—	42,558
Total	$ 66,114	$ 369,588	$ 397,691	$ 185,782	$ 78,270	$ 12,093	$ 7,583	$ —	$ 1,117,121
Current YTD period:									
Gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Gross recoveries	—	—	—	—	—	—	—	—	—
Net	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —

Amortized Cost Basis [(1)] December 31, 2020	Term Loans by Origination Year 2020	2019	2018	2017	2016	Prior	Revolving Loans	Revolving Converted to Term Loans	Total
					(In thousands)				
Real Estate Construction and Land: Residential									
Internal risk rating:									
1-2 High pass	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
3-4 Pass	345,134	670,894	849,819	285,072	28,725	688	9,034	53,035	2,242,401
5 Special mention	759	—	—	—	—	—	—	—	759
6-8 Classified	—	—	—	—	—	—	—	—	—
Total	$ 345,893	$ 670,894	$ 849,819	$ 285,072	$ 28,725	$ 688	$ 9,034	$ 53,035	$ 2,243,160
Current YTD period:									
Gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Gross recoveries	—	—	—	—	—	(21)	—	—	(21)
Net	$ —	$ —	$ —	$ —	$ —	$ (21)	$ —	$ —	$ (21)
Commercial: Asset-Based									
Internal risk rating:									
1-2 High pass	$ 116,247	$ 173,457	$ 111,630	$ 69,244	$ 121,838	$ 88,201	$ 275,093	$ 72,017	$ 1,027,727
3-4 Pass	155,221	84,798	85,539	42,928	8,227	46,663	1,750,934	46,078	2,220,388
5 Special mention	—	59,822	41,789	9,022	14,274	482	23,257	4,655	153,301
6-8 Classified	—	—	—	—	19,417	551	8,799	(900)	27,867
Total	$ 271,468	$ 318,077	$ 238,958	$ 121,194	$ 163,756	$ 135,897	$ 2,058,083	$ 121,850	$ 3,429,283
Current YTD period:									
Gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ 11,817	$ —	$ —	$ 11,817
Gross recoveries	(52)	—	—	—	—	(420)	(236)	—	(708)
Net	$ (52)	$ —	$ —	$ —	$ —	$ 11,397	$ (236)	$ —	$ 11,109
Commercial: Venture Capital									
Internal risk rating:									
1-2 High pass	$ 1,999	$ 4,797	$ —	$ (4)	$ (4)	$ 52	$ 167,296	$ —	$ 174,136
3-4 Pass	48,132	103,437	37,818	7,789	29,738	5,494	1,161,606	5,725	1,399,739
5 Special mention	21,645	42,499	2,202	—	—	—	46,765	5,014	118,125
6-8 Classified	—	(1,710)	4,000	—	—	3,690	528	—	6,508
Total	$ 71,776	$ 149,023	$ 44,020	$ 7,785	$ 29,734	$ 9,236	$ 1,376,195	$ 10,739	$ 1,698,508
Current YTD period:									
Gross charge-offs	$ —	$ —	$ 6,533	$ —	$ (8)	$ 150	$ 144	$ —	$ 6,819
Gross recoveries	—	—	(478)	(176)	(154)	(3)	(450)	—	(1,261)
Net	$ —	$ —	$ 6,055	$ (176)	$ (162)	$ 147	$ (306)	$ —	$ 5,558

Amortized Cost Basis (1) December 31, 2020	Term Loans by Origination Year 2020	2019	2018	2017	2016	Prior	Revolving Loans	Revolving Converted to Term Loans	Total
	(In thousands)								
Commercial: Other Commercial									
Internal risk rating:									
1-2 High pass	$ 1,057,405	$ 380	$ 4	$ 366	$ 69	$ 1,350	$ 74,206	$ 80	$ 1,133,860
3-4 Pass	88,875	95,110	99,434	77,557	23,305	89,865	657,088	7,533	1,138,767
5 Special mention	—	40	2,145	564	484	10,440	335	922	14,930
6-8 Classified	2	564	80	230	755	3,813	75,046	7,067	87,557
Total	$ 1,146,282	$ 96,094	$ 101,663	$ 78,717	$ 24,613	$ 105,468	$ 806,675	$ 15,602	$ 2,375,114
Current YTD period:									
Gross charge-offs	$ —	$ —	$ —	$ 506	$ 239	$ 33,521	$ 27,332	$ 1,871	$ 63,469
Gross recoveries	—	(18)	(8)	(34)	(226)	(3,155)	(100)	(19)	(3,560)
Net	$ —	$ (18)	$ (8)	$ 472	$ 13	$ 30,366	$ 27,232	$ 1,852	$ 59,909
Consumer									
Internal risk rating:									
1-2 High pass	$ 15	$ —	$ 8	$ 14	$ —	$ —	$ 509	$ —	$ 546
3-4 Pass	40,585	110,993	62,833	39,036	41,623	12,831	8,536	78	316,515
5 Special mention	45	137	1,628	261	422	239	—	—	2,732
6-8 Classified	—	35	—	36	56	306	2	27	462
Total	$ 40,645	$ 111,165	$ 64,469	$ 39,347	$ 42,101	$ 13,376	$ 9,047	$ 105	$ 320,255
Current YTD period:									
Gross charge-offs	$ —	$ 97	$ 86	$ 177	$ 363	$ 44	$ 22	$ 9	$ 798
Gross recoveries	—	—	(1)	(10)	(16)	(174)	—	—	(201)
Net	$ —	$ 97	$ 85	$ 167	$ 347	$ (130)	$ 22	$ 9	$ 597
Total Loans and Leases									
Internal risk rating:									
1-2 High pass	$ 1,234,380	$ 262,764	$ 145,321	$ 115,821	$ 153,135	$ 140,090	$ 517,104	$ 72,097	$ 2,640,712
3-4 Pass	1,789,708	2,699,583	3,134,344	1,874,377	811,511	1,248,286	3,771,354	126,955	15,456,118
5 Special mention	37,378	185,189	230,012	93,222	25,147	68,528	71,218	10,591	721,285
6-8 Classified	506	144	14,431	8,135	79,268	71,254	84,493	7,031	265,262
Total	$ 3,061,972	$ 3,147,680	$ 3,524,108	$ 2,091,555	$ 1,069,061	$ 1,528,158	$ 4,444,169	$ 216,674	$ 19,083,377
Current YTD period:									
Gross charge-offs	$ —	$ 97	$ 6,773	$ 4,013	$ 594	$ 52,277	$ 27,498	$ 2,337	$ 93,589
Gross recoveries	(52)	(18)	(487)	(229)	(396)	(4,380)	(787)	(19)	(6,368)
Net	$ (52)	$ 79	$ 6,286	$ 3,784	$ 198	$ 47,897	$ 26,711	$ 2,318	$ 87,221

(1) Amounts with negative balances are loans with zero principal balances and deferred loan origination fees.

TDRs are a result of rate reductions, term extensions, fee concessions, transfers to foreclosed assets, discounted loan payoffs, and debt forgiveness, or a combination thereof. Between March 2020 and December 2021, the Company granted various commercial and consumer loan modifications to provide borrowers relief from the economic impacts of COVID-19. In accordance with the CARES Act, the Company elected to not apply TDR classification to COVID-19 related loan modifications that met all of the requisite criteria as stipulated in the CARES Act. The following table presents our troubled debt restructurings of loans held for investment by loan portfolio segment and class for the years indicated:

	Troubled Debt Restructurings			Troubled Debt Restructurings That Subsequently Defaulted(1)	
	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Loans	Recorded Investment(1)
			(Dollars In thousands)		
Year Ended December 31, 2021					
Real estate mortgage:					
Commercial	2	$ 647	$ —	—	$ —
Income producing and other residential	6	802	802	—	—
Real estate construction and land:					
Residential	1	208	208	—	—
Commercial:					
Asset-based	2	1,987	1,987	1	464
Venture capital	5	4,502	2,529	—	—
Other commercial	40	48,760	30,786	3	2,066
Consumer	1	20	20	—	—
Total	57	$ 56,926	$ 36,332	4	$ 2,530
Year Ended December 31, 2020					
Real estate mortgage:					
Commercial	12	$ 17,201	$ 4,222	1	$ 412
Income producing and other residential	9	1,816	1,816	—	—
Commercial:					
Asset-based	8	17,008	1,741	—	—
Venture capital	2	2,047	2,047	—	—
Other commercial	37	41,906	27,403	1	92
Consumer	3	212	212	—	—
Total	71	$ 80,190	$ 37,441	2	$ 504
Year Ended December 31, 2019					
Real estate mortgage:					
Commercial	3	$ 121	$ —	—	$ —
Income producing and other residential	9	1,591	1,591	1	254
Commercial:					
Asset-based	5	3,082	3,082	—	—
Venture capital	14	19,017	19,155	—	—
Other commercial	20	3,835	3,835	4	154
Total	51	$ 27,646	$ 27,663	5	$ 408

(1) The population of defaulted TDRs for the period indicated includes only those loans restructured during the preceding 12-month period. For example, for the year ended December 31, 2021, the population of defaulted TDRs includes only those loans restructured after December 31, 2020. The table excludes defaulted TDRs in those classes for which the recorded investment was zero at the end of the period.

At December 31, 2021 and 2020, we had unfunded commitments related to TDRs of $2.0 million and $0.9 million.

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 accounting for allowance for loan and lease losses. See Note 10. *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:

	Year Ended December 31,		
	2021	2020	2019
	(In thousands)		
Component of leases receivable income:			
Interest income on net investments in leases	$ 8,976	$ 8,049	$ 11,061

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

	December 31,	
	2021	2020
	(In thousands)	
Net investment in direct financing leases:		
Lease payments receivable	$ 190,025	$ 158,740
Unguaranteed residual assets	21,487	19,303
Deferred costs and other	1,373	996
Aggregate net investment in leases	$ 212,885	$ 179,039

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

	December 31, 2021
	(In thousands)
Year Ending December 31,	
2022	$ 54,831
2023	46,499
2024	42,154
2025	25,653
2026	17,829
Thereafter	26,423
Total undiscounted cash flows	213,389
Less: Unearned income	(23,364)
Present value of lease payments	$ 190,025

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 years indicated:

	Year Ended December 31, 2021				
	Real Estate Mortgage	Real Estate Construction and Land	Commercial	Consumer	Total
			(In thousands)		
Allowance for Loan and Lease Losses:					
Balance, beginning of year	$ 138,342	$ 78,356	$ 126,403	$ 5,080	$ 348,181
Charge-offs	(1,128)	(782)	(7,298)	(1,507)	(10,715)
Recoveries	6,767	—	5,711	120	12,598
Net recoveries (charge-offs)	5,639	(782)	(1,587)	(1,387)	1,883
Provision	(45,928)	(32,495)	(76,098)	5,021	(149,500)
Balance, end of year	$ 98,053	$ 45,079	$ 48,718	$ 8,714	$ 200,564
Ending Allowance by Evaluation Methodology:					
Individually evaluated	$ 161	$ —	$ 2,433	$ —	$ 2,594
Collectively evaluated	$ 97,892	$ 45,079	$ 46,285	$ 8,714	$ 197,970
Ending Loans and Leases by Evaluation Methodology:					
Individually evaluated	$ 37,030	$ 10,043	$ 31,317	$ —	$ 78,390
Collectively evaluated	11,141,690	3,427,084	7,836,734	457,650	22,863,158
Ending balance	$ 11,178,720	$ 3,437,127	$ 7,868,051	$ 457,650	$ 22,941,548

	Year Ended December 31, 2020				
	Real Estate Mortgage	Real Estate Construction and Land	Commercial	Consumer	Total
			(In thousands)		
Allowance for Loan and Lease Losses:					
Balance, beginning of year	$ 44,575	$ 30,544	$ 61,528	$ 2,138	$ 138,785
Cumulative effect of change in accounting principle - CECL	5,308	(8,592)	6,860	41	3,617
Balance, January 1, 2020	49,883	21,952	68,388	2,179	142,402
Charge-offs	(10,686)	—	(82,105)	(798)	(93,589)
Recoveries	617	21	5,529	201	6,368
Net (charge-offs) recoveries	(10,069)	21	(76,576)	(597)	(87,221)
Provision	98,528	56,383	134,591	3,498	293,000
Balance, end of year	$ 138,342	$ 78,356	$ 126,403	$ 5,080	$ 348,181
Ending Allowance by Evaluation Methodology:					
Individually evaluated	$ 237	$ —	$ 3,422	$ —	$ 3,659
Collectively evaluated	$ 138,105	$ 78,356	$ 122,981	$ 5,080	$ 344,522
Ending Loans and Leases by Evaluation Methodology:					
Individually evaluated	$ 50,139	$ 1,766	$ 81,171	$ —	$ 133,076
Collectively evaluated	7,849,797	3,358,515	7,421,734	320,255	18,950,301
Ending balance	$ 7,899,936	$ 3,360,281	$ 7,502,905	$ 320,255	$ 19,083,377

The allowance for loan and lease losses decreased by $147.6 million in 2021 due primarily to a provision benefit for loan and lease losses of $149.5 million. The lower provision for loan and lease losses in 2021 was primarily a result of improvement in both macroeconomic forecast variables and loan portfolio credit quality metrics.

We actively participated in both rounds of the Paycheck Protection Program ("PPP"), under the provisions of the CARES Act during 2020 and 2021, originating $1.65 billion of such loans. As of December 31, 2021, PPP loans totaled $156.7 million, net of deferred fees. The loans have two or five year terms, are fully guaranteed by the SBA, and do not carry an allowance.

A loan is considered collateral-dependent, and is individually evaluated for reserve purposes, when the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral. The following table summarizes collateral-dependent loans held for investment by collateral type as of the following date:

	December 31,					
	2021			2020		
	Real Property	Business Assets	Total	Real Property	Business Assets	Total
	(In thousands)			(In thousands)		
Real estate mortgage	$ 30,817	$ —	$ 30,817	$ 43,656	$ —	$ 43,656
Real estate construction and land	10,421	—	10,421	1,766	—	1,766
Commercial	—	7,586	7,586	—	31,100	31,100
Total	$ 41,238	$ 7,586	$ 48,824	$ 45,422	$ 31,100	$ 76,522

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 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 years indicated:

	Year Ended December 31, 2021		
	Allowance for Loan and Lease Losses	**Reserve for Unfunded Loan Commitments**	**Total Allowance for Credit Losses**
		(In thousands)	
Balance, beginning of year	$ 348,181	$ 85,571	$ 433,752
Charge-offs	(10,715)	—	(10,715)
Recoveries	12,598	—	12,598
Net recoveries	1,883	—	1,883
Provision	(149,500)	(12,500)	(162,000)
Balance, end of year	$ 200,564	$ 73,071	$ 273,635

	Year Ended December 31, 2020		
	Allowance for Loan and Lease Losses	**Reserve for Unfunded Loan Commitments**	**Total Allowance for Credit Losses**
		(In thousands)	
Balance, beginning of year	$ 138,785	$ 35,861	$ 174,646
Cumulative effect of change in accounting principle - CECL	3,617	3,710	7,327
Balance, January 1, 2020	142,402	39,571	181,973
Charge-offs	(93,589)	—	(93,589)
Recoveries	6,368	—	6,368
Net charge-offs	(87,221)	—	(87,221)
Provision	293,000	46,000	339,000
Balance, end of year	$ 348,181	$ 85,571	$ 433,752

NOTE 6. FORECLOSED ASSETS, NET

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

Property Type	December 31, 2021	December 31, 2020
	(In thousands)	
Commercial real estate	$ 12,594	$ 12,979
Construction and land development	—	219
Total other real estate owned, net	12,594	13,198
Other foreclosed assets	249	829
Total foreclosed assets, net	$ 12,843	$ 14,027

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

Foreclosed Assets	Year Ended December 31, 2021	2020	2019
		(In thousands)	
Balance, beginning of year	$ 14,027	$ 440	$ 5,299
Transfers to foreclosed assets from loans	1,062	14,755	120
Provision for losses	(14)	(267)	(78)
Reductions related to sales	(2,232)	(901)	(4,901)
Balance, end of year	$ 12,843	$ 14,027	$ 440

The following table presents the changes in the foreclosed assets valuation allowance for the years indicated:

Foreclosed Assets Valuation Allowance	Year Ended December 31, 2021	2020	2019
		(In thousands)	
Balance, beginning of year	$ 354	$ 87	$ 88
Provision for losses	14	267	78
Reductions related to sales	(176)	—	(79)
Balance, end of year	$ 192	$ 354	$ 87

NOTE 7. PREMISES AND EQUIPMENT, NET

The following table presents the components of premises and equipment as of the dates indicated:

	December 31, 2021	December 31, 2020
	(In thousands)	
Land	$ 1,243	$ 1,243
Buildings	9,488	8,459
Furniture, fixtures and equipment	50,509	50,892
Leasehold improvements	66,143	60,622
Other assets	6,882	—
Premises and equipment, gross	134,265	121,216
Less: accumulated depreciation and amortization	(87,525)	(81,982)
Premises and equipment, net	$ 46,740	$ 39,234

Depreciation and amortization expense was $11.1 million, $11.5 million, and $10.5 million for the years ended December 31, 2021, 2020, and 2019.

NOTE 8. GOODWILL AND OTHER INTANGIBLE ASSETS, NET

The unprecedented decline in economic conditions triggered by the COVID-19 pandemic caused a significant decline in stock market valuations in March 2020, including our stock price. These triggering events indicated that goodwill related to our single reporting unit may be impaired and resulted in us performing a goodwill impairment assessment in the first quarter of 2020. We applied the market approach using an average share price of the Company's stock and a control premium to determine the fair value of the reporting unit. The control premium was based upon management judgment using historical information of control premiums for completed bank acquisitions. As a result, we recorded a goodwill impairment charge of $1.47 billion in the first quarter of 2020 as the estimated fair value of equity was less than book value. This was a non-cash charge to earnings and had no impact on our regulatory capital ratios, cash flows, or liquidity position.

In performing our annual goodwill assessment in the fourth quarter of 2020, we considered relevant events and circumstances that may affect the fair value or carrying amount of our reporting unit. The events and circumstances we considered included macroeconomic conditions, industry conditions, and our financial performance. Based on our qualitative assessment, we concluded that there were no conditions, changes in operations, or results that indicated a triggering event had occurred in the fourth quarter of 2020. Thus, a quantitative assessment was not required and we determined that it was more likely than not that the fair value of the reporting unit was greater than its carrying value and there was no evidence of impairment.

We performed our annual goodwill impairment testing in the fourth quarter of 2021. We evaluated the carrying value of our goodwill and determined that it was not impaired. The following table presents the changes in the carrying amount of goodwill for the years indicated:

	Goodwill
	(In thousands)
Balance, December 31, 2019	$ 2,548,670
Impairment	(1,470,000)
Balance, December 31, 2020	1,078,670
Addition from the Civic acquisition	125,448
Addition from the HOA Business acquisition	201,618
Balance, December 31, 2021	$ 1,405,736

Our other intangible assets with definite lives are 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 following table presents the changes in CDI and CRI and the related accumulated amortization for the years indicated:

	Year Ended December 31,		
	2021	2020	2019
		(In thousands)	
Gross Amount of CDI and CRI:			
Balance, beginning of year	$ 109,646	$ 117,573	$ 119,497
Addition from the Civic acquisition	750	—	—
Addition from the HOA Business acquisition	33,300	—	—
Fully amortized portion	(9,846)	(7,927)	(1,924)
Balance, end of year	133,850	109,646	117,573
Accumulated Amortization:			
Balance, beginning of year	(86,005)	(79,179)	(62,377)
Amortization expense	(12,734)	(14,753)	(18,726)
Fully amortized portion	9,846	7,927	1,924
Balance, end of year	(88,893)	(86,005)	(79,179)
Net CDI and CRI, end of year	$ 44,957	$ 23,641	$ 38,394

The following table presents the estimated aggregate future amortization expense for our current intangible assets as of the date indicated:

	December 31, 2021
	(In thousands)
Year Ending December 31,	
2022	$ 13,575
2023	9,085
2024	6,404
2025	4,087
2026	3,482
Thereafter	8,324
Net CDI and CRI	$ 44,957

NOTE 9. OTHER ASSETS

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

Other Assets	December 31, 2021	December 31, 2020
	(In thousands)	
LIHTC investments	$ 297,746	$ 213,034
Cash surrender value of BOLI	203,836	203,031
Operating lease ROU assets, net (1)	123,225	119,787
Interest receivable	120,329	101,596
Equity investments without readily determinable fair values	62,975	34,304
SBIC investments	46,861	32,327
Taxes receivable	36,011	59,565
Equity investments with readily determinable fair values	28,578	6,147
Prepaid expenses	27,632	22,999
Equity warrants (2)	3,555	4,520
Other receivables/assets	133,244	63,016
Total other assets	$ 1,083,992	$ 860,326

(1) See Note 10. *Leases* for further details regarding the operating lease ROU assets.
(2) See Note 13. *Derivatives for* information regarding equity warrants.

The Company invests as a limited partner in LIHTC partnerships that operate qualified affordable housing projects and generate tax benefits for investors, including federal low income housing tax credits. The partnerships are deemed to be VIEs because they do not have sufficient equity investment at risk and are structured with non-substantive voting rights; however, we are not the primary beneficiary of the VIEs and do not consolidate them. We amortize the investment in proportion to the allocated tax benefits using the proportional amortization method of accounting and record such benefits net of investment amortization in income tax expense.

The Company has purchased life insurance policies on certain employees and has also acquired life insurance policies through acquisitions. BOLI is recorded at the amount that can be realized under the insurance contract, which is the cash surrender value. The increase in the cash surrender value each period and the receipt of death benefit proceeds in excess of the cash surrender value are recorded to "Noninterest income - other."

The Company's equity investments without readily determinable fair values include investments in privately held companies, limited partnerships, entities from which we issued trust preferred securities, CRA-related loan pool investments, and CRA-related equity investments. The CRA-related loan pool and equity investments primarily consist of investments in partnerships which provide affordable housing and participations in loan pools which provide low-cost loans to low and moderate income applicants. We measure our equity investments without readily determinable fair values using the measurement alternative. Carrying values of these investments are adjusted to fair value upon observable transactions for identical or similar investments of the same issuer. Unrealized and realized gains and losses on equity investments without readily determinable fair values are recorded in "Noninterest income - other" on the consolidated statements of earnings (loss).

The Company's equity investments with readily determinable fair values include investments in public companies, often from the exercise of warrants, and publicly-traded mutual funds. Unrealized and realized gains and losses on equity investments with readily determinable fair values are recorded in "Noninterest income - other" on the consolidated statements of earnings (loss).

NOTE 10. LEASES

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. ASC Topic 842 also requires a lessee to classify a lease as either finance or operating.

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. We amortize the operating lease ROU assets and record interest expense on the operating lease liabilities over the lease terms.

Operating leases with a term of more than one year are included in operating lease ROU assets and operating lease liabilities, which are reported in "Other assets" and "Accrued interest payable and other liabilities" on the Company's consolidated balance sheets. 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 consolidated statements of earnings (loss). The following table presents the components of lease expense for the period indicated:

	Year Ended December 31,	
	2021	2020
	(In thousands)	
Operating lease expense:		
Fixed costs	$ 34,541	$ 34,393
Variable costs	59	51
Short-term lease costs	1,347	385
Sublease income	(4,474)	(4,171)
Net lease expense	$ 31,473	$ 30,658

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

	Year Ended December 31,	
	2021	2020
	(In thousands)	
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 36,212	$ 33,889
ROU assets obtained in exchange for lease obligations:		
Operating leases	$ 35,820	$ 24,309

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

	December 31, 2021	December 31, 2020
	(Dollars in thousands)	
Operating leases:		
Operating lease right-of-use assets, net	$ 123,225	$ 119,787
Operating lease liabilities	$ 142,117	$ 139,501
Weighted average remaining lease term (in years)	5.6	5.8
Weighted average discount rate	2.23 %	2.54 %

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

	December 31, 2021
	(In thousands)
Year Ending December 31,	
2022	$ 35,102
2023	32,945
2024	25,816
2025	18,900
2026	13,706
Thereafter	25,715
Total operating lease liabilities	152,184
Less: Imputed interest	(10,067)
Present value of operating lease liabilities	$ 142,117

Operating Leases as a Lessor

We provide equipment financing to our customers through operating leases where we facilitate the purchase of equipment leased to our customers. The equipment is shown on our consolidated balance sheets 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 consolidated statements of earnings (loss), according to our fixed asset accounting policy. We receive periodic rental income payments under the leases, which are recorded as "Leased equipment income" in the consolidated statements of earnings (loss). The equipment is tested periodically for impairment. No impairment was recorded on "Equipment leased to others under operating leases" for the years ended December 31, 2021 and 2020.

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

	December 31, 2021
	(In thousands)
Year Ending December 31,	
2022	$ 49,300
2023	40,825
2024	35,186
2025	25,008
2026	19,245
Thereafter	35,172
Total undiscounted cash flows	$ 204,736

NOTE 11. DEPOSITS

The following table presents the components of interest-bearing deposits as of the dates indicated:

Deposit Composition	December 31, 2021	December 31, 2020
	(In thousands)	
Interest checking	$ 7,386,269	$ 5,999,245
Money market	11,064,870	7,658,049
Savings	630,653	562,826
Time deposits $250,000 and under	885,938	994,197
Time deposits over $250,000	486,894	532,573
Total interest-bearing deposits	$ 20,454,624	$ 15,746,890

Brokered time deposits totaled $195.7 million at both December 31, 2021 and 2020. Brokered non-maturity deposits totaled $0.9 billion and $1.1 billion at December 31, 2021 and 2020.

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

December 31, 2021	Time Deposits $250,000 and Under	Time Deposits Over $250,000	Total
		(In thousands)	
Year of Maturity:			
2022	$ 663,169	$ 473,700	$ 1,136,869
2023	110,917	10,824	121,741
2024	52,897	505	53,402
2025	56,067	546	56,613
2026	2,859	1,319	4,178
Thereafter	29	—	29
Total	$ 885,938	$ 486,894	$ 1,372,832

NOTE 12. BORROWINGS AND SUBORDINATED DEBT

Borrowings

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

	December 31,			
	2021		2020	
Borrowing Type	Balance	Weighted Average Rate	Balance	Weighted Average Rate
	(Dollars in thousands)			
FHLB secured advances	$ —	— %	$ 5,000	— %
Total borrowings	$ —	— %	$ 5,000	— %

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 borrowing capacity with the FHLB of $4.0 billion as of December 31, 2021, collateralized by a blanket lien on $6.2 billion of qualifying loans.

The following table presents the interest rates and maturity dates of FHLB secured advances as of the dates indicated:

	December 31,					
	2021			2020		
	Balance	Rate	Maturity Date	Balance	Rate	Maturity Date
	(Dollars in thousands)					
Term advance	—	— %		5,000	— %	5/6/2021
Total FHLB secured advances	$ —	— %		$ 5,000	— %	

FRBSF Secured Line of Credit. The Bank had secured borrowing capacity with the FRBSF of $1.4 billion as of December 31, 2021, collateralized by liens on $1.8 billion of qualifying loans. As of December 31, 2021 and 2020, there was no balances outstanding.

FHLB Unsecured Line of Credit. As of December 31, 2021, the Bank had a $112.0 million unsecured line of credit with the FHLB for the borrowing of overnight funds. As of December 31, 2021 and 2020, there was no balance outstanding.

Federal Funds Arrangements with Commercial Banks. As of December 31, 2021, the Bank had unsecured lines of credit of $180.0 million in the aggregate with several correspondent banks for the borrowing of overnight funds, subject to availability of funds. These lines are renewable annually and have no unused commitment fees. As of December 31, 2021 and 2020, 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 December 31, 2021 and 2020, there was no borrowing.

Subordinated Debt

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

	December 31,						
	2021		2020		Issue	Maturity	Rate Index
Series	Balance	Rate (1)	Balance	Rate (1)	Date	Date	(Quarterly Reset) (6)
	(Dollars in thousands)						
Subordinated notes, net (2)	$ 394,634	3.25 %	$ —	— %	4/30/2021	5/1/2031	Fixed rate (3)
Trust V	10,310	3.32 %	10,310	3.33 %	8/15/2003	9/17/2033	3-month LIBOR + 3.10
Trust VI	10,310	3.25 %	10,310	3.27 %	9/3/2003	9/15/2033	3-month LIBOR + 3.05
Trust CII	5,155	3.17 %	5,155	3.18 %	9/17/2003	9/17/2033	3-month LIBOR + 2.95
Trust VII	61,856	2.88 %	61,856	2.96 %	2/5/2004	4/23/2034	3-month LIBOR + 2.75
Trust CIII	20,619	1.89 %	20,619	1.91 %	8/15/2005	9/15/2035	3-month LIBOR + 1.69
Trust FCCI	16,495	1.80 %	16,495	1.82 %	1/25/2007	3/15/2037	3-month LIBOR + 1.60
Trust FCBI	10,310	1.75 %	10,310	1.77 %	9/30/2005	12/15/2035	3-month LIBOR + 1.55
Trust CS 2005-1	82,475	2.15 %	82,475	2.17 %	11/21/2005	12/15/2035	3-month LIBOR + 1.95
Trust CS 2005-2	128,866	2.08 %	128,866	2.16 %	12/14/2005	1/30/2036	3-month LIBOR + 1.95
Trust CS 2006-1	51,545	2.08 %	51,545	2.16 %	2/22/2006	4/30/2036	3-month LIBOR + 1.95
Trust CS 2006-2	51,550	2.08 %	51,550	2.16 %	9/27/2006	10/30/2036	3-month LIBOR + 1.95
Trust CS 2006-3 (4)	29,306	1.49 %	31,487	1.54 %	9/29/2006	10/30/2036	3-month EURIBOR + 2.05
Trust CS 2006-4	16,470	2.08 %	16,470	2.16 %	12/5/2006	1/30/2037	3-month LIBOR + 1.95
Trust CS 2006-5	6,650	2.08 %	6,650	2.16 %	12/19/2006	1/30/2037	3-month LIBOR + 1.95
Trust CS 2007-2	39,177	2.08 %	39,177	2.16 %	6/13/2007	7/30/2037	3-month LIBOR + 1.95
Total subordinated debt	935,728	2.64 %	543,275	2.24 %			
Acquisition discount (5)	(72,445)		(77,463)				
Net subordinated debt	$ 863,283		$ 465,812				

(1) Rates do not include the effects of discounts and issuance costs.
(2) Net of unamortized issuance costs of $5.4 million.
(3) Interest rate is fixed until May 1, 2026, when it changes to a floating rate and resets quarterly at a benchmark rate plus 252 basis points.
(4) Denomination is in Euros with a value of €25.8 million.
(5) Amount represents the fair value adjustment on trust preferred securities assumed in acquisitions.
(6) Interest rate will default to the last published or determined rate of LIBOR, and for Trust CS 2006-4, the Base Rate, defined as the greater of Prime and the federal funds rate, upon cessation of LIBOR and effectively converting these instruments to fixed rate, if not modified prior to June 30, 2023.

Subordinated Notes Offering

On April 30, 2021, the Bank completed the sale of $400 million aggregate principal amount of 3.25% Fixed-to-Floating Rate Subordinated Notes (the "Notes") due May 1, 2031 (the “Maturity Date”). Subject to any redemption prior to the Maturity Date, the Notes will bear interest from and including the original issue date to, but excluding, May 1, 2026 (the “Reset Date”), at a fixed rate of 3.25% per annum and from and including the Reset Date, but excluding the Maturity Date, the Notes will bear interest at a floating per annum rate equal to a benchmark rate (which is expected to be the Three-Month Term SOFR) plus 252 basis points.

Interest on the Notes will be payable on May 1 and November 1 of each year through, but not including, the Reset Date, and quarterly thereafter on February 1, May 1, August 1, and November 1 of each year to, but not including, the Maturity Date or earlier redemption date. The first interest payment will be made on November 1, 2021. The Bank may, at its option, beginning with the interest payment date of May 1, 2026, and on any scheduled interest payment date thereafter, redeem the Notes, in whole or in part, from time to time, subject to any required regulatory approval to the extent such approval is then required, at a redemption price equal to 100% of the principal amount of the Notes to be redeemed plus accrued and unpaid interest to, but excluding, the date of redemption, subject to certain conditions. The costs incurred in connection with the Notes offering amortize to interest expense over the term of the Notes. The Notes qualify as Tier 2 capital for regulatory capital purposes.

NOTE 13. DERIVATIVES

The Company uses derivatives to manage exposure to market risk, primarily foreign currency risk and interest rate risk, and to assist customers with their risk management objectives. Our derivatives are carried at fair value and recorded in "Other assets" or "Accrued interest payable and other liabilities," as appropriate, in the consolidated balance sheets. The changes in fair value of our derivatives and the related fees are recognized in "Noninterest income - other" in the consolidated statements of earnings (loss). For the year ended December 31, 2021, changes in fair value and fees recorded to noninterest income in the consolidated statements of earnings (loss) were immaterial. See Note 9. *Other Assets* for additional information regarding equity warrant assets.

The following table presents the U.S. dollar notional amounts and fair values of our derivative instruments included in the consolidated balance sheets as of the dates indicated:

Derivatives Not Designated As Hedging Instruments	December 31, 2021 Notional Amount	December 31, 2021 Fair Value	December 31, 2020 Notional Amount	December 31, 2020 Fair Value
	(In thousands)			
Derivative Assets:				
Interest rate contracts	$ 87,470	$ 992	$ 59,867	$ 1,028
Foreign exchange contracts	28,463	1,517	73,108	3,202
Interest rate and economic contracts	115,933	2,509	132,975	4,230
Equity warrant assets	18,539	3,555	24,081	4,520
Total	$ 134,472	$ 6,064	$ 157,056	$ 8,750
Derivative Liabilities:				
Interest rate contracts	$ 87,470	$ 931	$ 59,867	$ 1,004
Foreign exchange contracts	28,463	—	73,108	146
Total	$ 115,933	$ 931	$ 132,975	$ 1,150

NOTE 14. COMMITMENTS AND CONTINGENCIES

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

	December 31, 2021	December 31, 2020
	(In thousands)	
Loan commitments to extend credit	$ 9,006,350	$ 7,601,390
Standby letters of credit	345,769	337,336
Total	$ 9,352,119	$ 7,938,726

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 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 under these arrangements.

Additionally, we have commitments to invest in SBICs that call for capital contributions up to an amount specified in the partnership agreements, and in CRA-related loan pools. As of December 31, 2021 and 2020, such commitments totaled $85.9 million and $55.5 million.

The following table presents the years in which commitments are expected to be paid for our commitments to contribute capital to SBICs and CRA-related loan pools as of the date indicated:

	December 31, 2021
	(In thousands)
Year Ending December 31,	
2022	$ 38,950
2023	41,417
2024	5,557
Total	$ 85,924

Legal Matters

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. The range of any reasonably possible liabilities is also not significant.

NOTE 15. 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 agency residential CMOs, agency commercial and residential MBS, municipal securities, 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 residential CMOs, non-rated private label commercial MBS, and equity warrants.

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

The Company also holds SBIC investments measured at fair value using the NAV per share practical expedient that are not required to be classified in the fair value hierarchy. At December 31, 2021, the fair value of these investments was $46.9 million.

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:

Measured on a Recurring Basis	**Fair Value Measurements as of December 31, 2021** Total	Level 1	Level 2	Level 3
	(In thousands)			
Securities available-for-sale:				
Agency residential MBS	$ 2,898,210	$ —	$ 2,898,210	$ —
Municipal securities	2,315,968	—	2,315,968	—
Agency commercial MBS	1,688,967	—	1,688,967	—
Agency residential CMOs	1,038,134	—	1,038,134	—
U.S. Treasury securities	966,898	966,898	—	—
Corporate debt securities	527,094	—	527,094	—
Private label commercial MBS	450,217	—	435,216	15,001
Collateralized loan obligations	385,362	—	385,362	—
Private label residential CMOs	264,417	—	264,417	—
Asset-backed securities	129,547	—	129,547	—
SBA securities	29,644	—	29,644	—
Total securities available-for-sale	$ 10,694,458	$ 966,898	$ 9,712,559	$ 15,001
Equity investments with readily determinable fair values	$ 28,578	$ 28,578	$ —	$ —
Derivatives (1):				
Equity warrants	3,555	—	—	3,555
Interest rate and economic contracts	2,509	—	2,509	—
Derivative liabilities	931	—	931	—

Measured on a Recurring Basis	**Fair Value Measurements as of December 31, 2020** Total	Level 1	Level 2	Level 3
	(In thousands)			
Securities available-for-sale:				
Municipal securities	$ 1,531,617	$ —	$ 1,531,617	$ —
Agency commercial MBS	1,281,877	—	1,281,877	—
Agency residential CMOs	1,219,880	—	1,219,880	—
Agency residential MBS	341,074	—	341,074	—
Corporate debt securities	311,889	—	311,889	—
Asset-backed securities	166,546	—	166,546	—
Collateralized loan obligations	135,876	—	135,876	—
Private label residential CMOs	116,946	—	112,299	4,647
Private label commercial MBS	82,957	—	57,232	25,725
SBA securities	41,627	—	41,627	—
U.S. Treasury securities	5,302	5,302	—	—
Total securities available-for-sale	$ 5,235,591	$ 5,302	$ 5,199,917	$ 30,372
Equity investments with readily determinable fair values	$ 6,147	$ 6,147	$ —	$ —
Derivatives (1):				
Equity warrants	4,520	—	—	4,520
Interest rate and economic contracts	4,230	—	4,230	—
Derivative liabilities	1,150	—	1,150	—

(1) For information regarding derivative instruments, see Note 13. *Derivatives*.

During the year ended December 31, 2021, there was a $646,000 transfer from Level 3 equity warrants to Level 1 equity investments with readily determinable fair values measured on a recurring basis. During the year ended December 31, 2020, there was a $119,000 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 the quantitative inputs and assumptions used to determine the fair values provided by our third party pricing service for our Level 3 private label commercial MBS available-for-sale measured at fair value on a recurring basis as of the date indicated:

	December 31, 2021	
	Private Label Commercial MBS	
Unobservable Inputs	Input or Range of Inputs	Weighted Average Input [1]
Voluntary annual prepayment speeds	10.0% - 15.0%	12.1%
Annual default rates [2]	2.0%	2.0%
Loss severity rates [2]	60.0%	60.0%
Discount rates	3.0% - 3.4%	3.3%

(1) Voluntary annual prepayment speeds and discount rates for private label commercial MBS were weighted by the relative fair values of the instruments.
(2) Annual default rates and loss severity rates were the same for all of the private label commercial MBS.

The following table presents information about the 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:

	December 31, 2021	
	Equity Warrants	
Unobservable Inputs	Range of Inputs	Weighted Average Input
Volatility	21.0% - 139.9%	28.6%
Risk-free interest rate	0.1% - 1.3%	0.9%
Remaining life assumption (in years)	0.08 - 4.99	3.00

The following table summarizes activity for our Level 3 private label residential CMOs measured at fair value on a recurring basis for the years indicated:

	Year Ended December 31,		
Level 3 Private Label Residential CMOs	2021	2020	2019
		(In thousands)	
Balance, beginning of year	$ 4,647	$ 6,264	$ 7,288
Total included in earnings	2,287	485	432
Total unrealized loss in comprehensive income	(1,094)	(592)	(265)
Sales	(2,903)	—	—
Net settlements	(2,937)	(1,510)	(1,191)
Balance, end of year	$ —	$ 4,647	$ 6,264
Unrealized net gains (losses) for the period included in other comprehensive income for securities held at year-end	$ —		

The following table summarizes activity for our Level 3 private label commercial MBS measured at fair value on a recurring basis for the years indicated:

Level 3 Private Label Commercial MBS	Year Ended December 31, 2021	2020	2019
	(In thousands)		
Balance, beginning of year	$ 25,725	$ 16,435	$ 39,945
Total included in earnings	(77)	5	(77)
Total unrealized gain (loss) in comprehensive income	(115)	(41)	463
Purchases	—	20,100	—
Net settlements	(10,532)	(10,774)	(23,896)
Balance, end of year	$ 15,001	$ 25,725	$ 16,435
Unrealized net gains (losses) for the period included in other comprehensive income for securities held at year-end	$ 41		

The following table summarizes activity for our Level 3 equity warrants measured at fair value on a recurring basis for the years indicated:

Level 3 Equity Warrants	Year Ended December 31, 2021	2020	2019
	(In thousands)		
Balance, beginning of year	$ 4,520	$ 3,434	$ 4,793
Total included in earnings	49,341	10,609	8,669
Exercises and settlements (1)	(50,092)	(9,828)	(10,239)
Issuances	432	424	324
Transfers to Level 1 (equity investments with readily determinable fair values)	(646)	(119)	(113)
Balance, end of year	$ 3,555	$ 4,520	$ 3,434

(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:

Measured on a Non-Recurring Basis	Fair Value Measurement as of December 31, 2021			
	Total	Level 1	Level 2	Level 3
	(In thousands)			
Individually evaluated loans and leases	$ 30,882	$ —	$ 2,915	$ 27,967
Total non-recurring	$ 30,882	$ —	$ 2,915	$ 27,967

Measured on a Non-Recurring Basis	Fair Value Measurement as of December 31, 2020			
	Total	Level 1	Level 2	Level 3
	(In thousands)			
Individually evaluated loans and leases	$ 102,274	$ —	$ 4,160	$ 98,114
Total non-recurring	$ 102,274	$ —	$ 4,160	$ 98,114

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

Loss on Assets Measured on a Non-Recurring Basis	Year Ended December 31, 2021	2020	2019
	(In thousands)		
Individually evaluated loans and leases [(1)]	$ 5,772	$ 24,607	$ 6,797
OREO	14	267	78
Total net loss	$ 5,786	$ 24,874	$ 6,875

(1) For 2021 and 2020, losses were based on individually evaluated loans and leases. For 2019, losses were based on impaired loans and leases.

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:

	December 31, 2021				
Asset	Fair Value	Valuation Technique	Unobservable Inputs	Input or Range	Weighted Average
	(In thousands)				
Individually evaluated loans and leases	$ 15,426	Discounted cash flows	Discount rates	0.00% - 9.25%	6.46%
Individually evaluated loans and leases	12,541	Third party appraisals	No discounts		
Total non-recurring Level 3	$ 27,967				

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

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

	December 31, 2021				
	Carrying	Estimated Fair Value			
	Amount	Total	Level 1	Level 2	Level 3
	(*In thousands*)				
Financial Assets:					
Cash and due from banks	$ 112,548	$ 112,548	$ 112,548	$ —	$ —
Interest-earning deposits in financial institutions	3,944,686	3,944,686	3,944,686	—	—
Securities available-for-sale	10,694,458	10,694,458	966,898	9,712,559	15,001
Investment in FHLB stock	17,250	17,250	—	17,250	—
Loans and leases held for investment, net	22,740,984	23,461,156	—	2,915	23,458,241
Equity investments with readily determinable fair values	28,578	28,578	28,578	—	—
Equity warrants	3,555	3,555	—	—	3,555
Interest rate and economic contracts	2,509	2,509	—	2,509	—
Servicing rights	1,228	1,228	—	—	1,228
Financial Liabilities:					
Core deposits	32,734,949	32,734,949	—	32,734,949	—
Non-core non-maturity deposits	889,976	889,976	—	889,976	—
Time deposits	1,372,832	1,371,527	—	1,371,527	—
Borrowings	—	—	—	—	—
Subordinated debt	863,283	917,342	—	917,342	—
Derivative liabilities	931	931	—	931	—

	December 31, 2020				
	Carrying	Estimated Fair Value			
	Amount	Total	Level 1	Level 2	Level 3
	(*In thousands*)				
Financial Assets:					
Cash and due from banks	$ 150,464	$ 150,464	$ 150,464	$ —	$ —
Interest-earning deposits in financial institutions	3,010,197	3,010,197	3,010,197	—	—
Securities available-for-sale	5,235,591	5,235,591	5,302	5,199,917	30,372
Investment in FHLB stock	17,250	17,250	—	17,250	—
Loans and leases held for investment, net	18,735,196	19,305,998	—	4,160	19,301,838
Equity investments with readily determinable fair values	6,147	6,147	6,147	—	—
Equity warrants	4,520	4,520	—	—	4,520
Interest rate and economic contracts	4,230	4,230	—	4,230	—
Financial Liabilities:					
Core deposits	22,264,480	22,264,480	—	22,264,480	—
Non-core non-maturity deposits	1,149,467	1,149,467	—	1,149,467	—
Time deposits	1,526,770	1,527,639	—	1,527,639	—
Borrowings	5,000	4,995	—	4,995	—
Subordinated debt	465,812	448,036	—	448,036	—
Derivative liabilities	1,150	1,150	—	1,150	—

The following is a description of the valuation methodologies used to measure our assets recorded at fair value (under ASC Topic 820, "*Fair Value Measurement*") and for estimating fair value for financial instruments not recorded at fair value (under ASC Topic 825).

Cash and due from banks. The carrying amount is assumed to be the fair value because of the liquidity of these instruments.

Interest-earning deposits in financial institutions. The carrying amount is assumed to be the fair value given the short-term nature of these deposits.

Securities available-for-sale. Securities available-for-sale are measured and carried at fair value on a recurring basis. Unrealized gains and losses on available-for-sale securities are reported as a component of "Accumulated other comprehensive income" in the consolidated balance sheets. See Note 4. *Investment Securities* for further information on unrealized gains and losses on securities available-for-sale.

Fair value for securities categorized as Level 1, which are publicly traded securities, are based on readily available quoted prices. In determining the fair value of the securities categorized as Level 2, we obtain a report from a nationally recognized broker-dealer detailing the fair value of each investment security we hold as of each reporting date. The broker-dealer uses observable market information to value our securities, with the primary source being a nationally recognized pricing service. We review the market prices provided by the broker-dealer for our securities for reasonableness based on our understanding of the marketplace and we consider any credit issues related to the securities. As we have not made any adjustments to the market quotes provided to us and they are based on observable market data, they have been categorized as Level 2 within the fair value hierarchy.

Our non-rated private label residential CMOs and non-rated private label commercial MBS (collectively, "the Level 3 AFS Securities") were categorized as Level 3 due in part to the inactive market for such securities. There is a wide range of prices quoted for our Level 3 AFS Securities among independent third party pricing services, and this range reflects the significant judgment being exercised over the assumptions and variables that determine the pricing of such securities. We consider this subjectivity relating to our Level 3 AFS Securities to be a significant unobservable input. Had significant changes in default expectations, loss severity factors, or discount rates occurred all together or in isolation, it would have resulted in different fair value measurements at December 31, 2021.

FHLB stock. Investments in FHLB stock are recorded at cost and measured for impairment quarterly. Ownership of FHLB stock is restricted to member banks and the securities do not have a readily determinable market value. Purchases and sales of these securities are at par value with the issuer. The fair value of investments in FHLB stock is equal to the carrying amount.

Loans and leases. As loans and leases are not measured at fair value, the following discussion relates to estimating the fair value disclosures under ASC Topic 825. Fair values are measured using the exit price and are estimated for portfolios of loans and leases with similar characteristics. Loans are segregated by type and further segmented into fixed and adjustable rate interest buckets by credit risk categories and by maturity dates. To determine the exit price of a loan or lease, the cash flows are estimated using a model which utilizes credit spreads and illiquidity premiums. The credit spread for a loan is determined by mapping loans' credit risk ratings to an equivalent corporate bond rating. Once the corporate bond rating is assigned, the credit spread is determined using corporate credit curves for corporate bonds that have a similar corporate bond rating and remaining term as the loan being valued. Illiquidity premiums are assigned to individual loans in a similar manner as an illiquidity premium amount is determined for each corporate bond rating. The credit spread above the appropriate rate curve and the illiquidity premium are considered to arrive at the discount rate curve applied to loan cash flows. The Community Bank group originates and purchases a number of similar, homogeneous loans. For this portfolio, management may make adjustments to the discount rate arrived at using the previously described methodology based upon the pricing for recent loan pool purchases and/or rates on recent originations.

Individually evaluated loans and leases. Defaulted loans and leases with outstanding balances over $250,000 are reviewed individually for expected credit loss, if any, and are recorded at fair value on a non-recurring basis. These defaulted loans and leases are excluded from the loan pools used within the collective evaluation of estimated credit losses. The criteria for default may include any one of the following: (1) on nonaccrual status, (2) modified under a TDR, (3) payment delinquency of 90 days or more, (4) partial charge-off recognized, (5) risk rated doubtful or loss, or (6) reasonably expected to be modified under a TDR.

To the extent a defaulted loan or lease is collateral dependent, we measure expected credit loss based on the estimated fair value of the underlying collateral. The fair value of each loan's collateral is generally based on estimated market prices from an independently prepared appraisal, which is then adjusted for the cost related to liquidating such collateral; such valuation inputs result in a nonrecurring fair value measurement that is categorized as a Level 2 measurement. The Level 2 measurement is based on appraisals obtained within the last 12 months and for which a charge-off was recognized or a change in the specific valuation allowance was made during the year ended December 31, 2021.

When adjustments are made to an appraised value to reflect various factors such as the age of the appraisal or known changes in the market or the collateral, such valuation inputs are considered unobservable and the fair value measurement is categorized as a Level 3 measurement. The individually evaluated loans and leases categorized as Level 3 also include unsecured loans and other secured loans whose fair values are based significantly on unobservable inputs such as the strength of a guarantor, including an SBA government guarantee, cash flows discounted at the effective loan rate, and management's judgment.

The individually evaluated loan and lease balances shown above as measured on a non-recurring basis represent those defaulted loans and leases for which expected credit loss was recognized during the year ended December 31, 2021. The amounts shown as net losses include the expected credit loss recognized during the year ended December 31, 2021, for the loan and lease balances shown.

OREO. The fair value of OREO is generally based on the lower of estimated market prices from independently prepared current appraisals or negotiated sales prices with potential buyers, less estimated costs to sell; such valuation inputs result in a fair value measurement that is categorized as a Level 2 measurement on a nonrecurring basis. As a matter of policy, appraisals are required annually and may be updated more frequently as circumstances require in the opinion of management. The Level 2 measurement for OREO is based on appraisals obtained within the last 12 months and for which a write-down was recognized during the year ended December 31, 2021.

When a current appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value as a result of known changes in the market or the collateral and there is no observable market price, such valuation inputs result in a fair value measurement that is categorized as a Level 3 measurement. To the extent a negotiated sales price or reduced listing price represents a significant discount to an observable market price, such valuation input would result in a fair value measurement that is also considered a Level 3 measurement. The OREO losses disclosed are write-downs based on either a recent appraisal obtained after foreclosure or an accepted purchase offer by an independent third party received after foreclosure.

Equity warrants. Equity warrants with net settlement terms are received in connection with extending loan commitments to certain of our customers. We estimate the fair value of equity warrants using a Black-Scholes option pricing model to approximate fair market value. We typically classify our equity warrant derivatives in Level 3 of the fair value hierarchy.

Equity investments with readily determinable fair values. Our equity investments with readily determinable fair values include investments in public companies and publicly-traded mutual funds. Equity investments with readily determinable fair values are recorded at fair value with changes in fair value recorded in "Noninterest income - other." Fair value measurements related to these investments are typically classified within Level 1 of the fair value hierarchy.

Deposits. Deposits are carried at historical cost. The fair values of deposits with no stated maturity, such as core deposits (defined as noninterest-bearing demand, interest checking, money market, and savings accounts) and non-core non-maturity deposits, are equal to the amount payable on demand as of the balance sheet date and considered Level 2. The fair value of time deposits is based on the discounted value of contractual cash flows and considered Level 2. The discount rate is estimated using the rates currently offered for deposits of similar remaining maturities. No value has been separately assigned to the Company's long-term relationships with its deposit customers, such as a core deposit intangible.

Borrowings. Borrowings include overnight FHLB advances and other fixed-rate term borrowings. Borrowings are carried at amortized cost. The fair value of overnight FHLB advances is equal to the carrying value and considered Level 1. The fair value of fixed-rate borrowings is calculated by discounting scheduled cash flows through the maturity dates or call dates, if applicable, using estimated market discount rates that reflect current rates offered for borrowings with similar remaining maturities and characteristics and are considered Level 2.

Subordinated debt. Subordinated debt is carried at amortized cost. The fair value of subordinated debt is determined using a market discount rate on the expected cash flows and is considered Level 2.

Derivative assets and liabilities. Derivatives are carried at fair value on a recurring basis and primarily relate to forward exchange contracts which we enter into to manage foreign exchange risk. Our derivatives are principally traded in over-the-counter markets where quoted market prices are not readily available. Instead, the fair value of derivatives is estimated using market observable inputs such as foreign exchange forward rates, interest rate yield curves, volatilities and basis spreads. We also consider counter-party credit risk in valuing our derivatives. We typically classify our foreign exchange derivatives in Level 2 of the fair value hierarchy.

Commitments to extend credit. The majority of our commitments to extend credit carry current market interest rates if converted to loans. Because these commitments are generally not assignable by either the borrower or us, they only have value to the borrower and us. The estimated fair value approximates the recorded deferred fee amounts and is excluded from the table above because it is not material.

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 December 31, 2021, the amounts that will actually be realized or paid at settlement or maturity of the instruments could be significantly different.

NOTE 16. INCOME TAXES

The following table presents the components of income tax expense for the years indicated:

	Year Ended December 31,		
	2021	**2020**	**2019**
		(In thousands)	
Current Income Tax Expense:			
Federal	$ 131,559	$ 78,161	$ 113,807
State	54,744	27,530	34,575
Total current income tax expense	186,303	105,691	148,382
Deferred Income Tax Expense (Benefit):			
Federal	15,799	(28,740)	5,062
State	13,273	(1,778)	10,860
Total deferred income tax expense (benefit)	29,072	(30,518)	15,922
Total income tax expense	$ 215,375	$ 75,173	$ 164,304

The following table presents a reconciliation of the recorded income tax expense to the amount of taxes computed by applying the applicable federal statutory income tax rates of 21% for 2021, 2020, and 2019 to earnings before income taxes:

	Year Ended December 31,		
	2021	2020	2019
		(In thousands)	
Computed expected income tax (benefit) expense at federal statutory rate	$ 172,690	$ (244,104)	$ 132,917
State tax (benefit) expense, net of federal tax benefit	55,682	(77,934)	43,575
Goodwill impairment	—	407,232	—
Tax-exempt interest benefit	(12,312)	(5,202)	(8,092)
Increase in cash surrender value of life insurance	(1,367)	(1,309)	(1,298)
Low income housing tax credits, net of amortization	(6,430)	(4,605)	(3,217)
Nondeductible employee compensation	4,660	2,830	4,430
Nondeductible FDIC premiums	2,535	2,383	1,302
Change in unrecognized tax benefits	(860)	(187)	941
Valuation allowance change	(16,201)	(5,288)	(32,036)
Expired capital loss carryforward	—	—	3,136
State tax refunds	—	(2,554)	—
State rate and apportionment changes	16,330	4,217	19,138
Other, net	648	(306)	3,508
Recorded income tax expense	$ 215,375	$ 75,173	$ 164,304

The Company recognized $33.6 million, $28.1 million, and $20.0 million of tax credits and other tax benefits associated with its investments in LIHTC partnerships for the years ended December 31, 2021, 2020, and 2019. The amount of amortization of such investments reported in income tax expense under the proportional amortization method of accounting was $27.1 million for 2021, $23.5 million for 2020, and $16.7 million for 2019.

At December 31, 2021, we had no federal net operating loss carryforwards and approximately $314.4 million of unused state net operating loss carryforwards available to be applied against future taxable income. A majority of the state net operating loss carryforwards will expire in varying amounts from 2022 through 2040. A portion of the state net operating loss carryforwards generated after December 31, 2017 will carry forward indefinitely due to the state conformity to the federal net operating loss carryforward provisions as modified by the Tax Cuts and Jobs Act.

As of December 31, 2021, for federal tax purposes, we had no foreign tax credit carryforwards. The foreign tax credit carryforward was fully utilized in 2021.

The following table presents the tax effects of temporary differences that give rise to significant portions of deferred tax assets and deferred tax liabilities as of the dates indicated:

	December 31,	
	2021	2020
	(In thousands)	
Deferred Tax Assets:		
Book allowance for loan losses in excess of tax specific charge-offs	$ 76,384	$ 122,753
Interest on nonaccrual loans	3,150	3,335
Deferred compensation	5,209	5,298
Foreclosed assets valuation allowance	289	334
State tax benefit	6,768	3,108
Net operating losses	19,646	34,658
Accrued liabilities	29,057	20,477
Unrealized loss from FDIC-assisted acquisitions	886	1,310
Tax mark-to-market on loans	6,543	2,155
Equity investments	—	2,115
Goodwill	—	451
Tax credits	—	2,232
Lease liability	39,095	38,521
Gross deferred tax assets	187,027	236,747
Valuation allowance	(24,882)	(41,083)
Deferred tax assets, net of valuation allowance	162,145	195,664
Deferred Tax Liabilities:		
Core deposit and customer relationship intangibles	1,746	5,877
Deferred loan fees and costs	2,337	3,763
Unrealized gain on securities available-for-sale	24,972	66,098
Premises and equipment, principally due to differences in depreciation	1,466	3,120
FHLB stock	613	637
Subordinated debt	17,110	18,639
Equity investments	5,475	—
Goodwill	6,166	—
Operating leases	86,000	95,026
ROU assets	34,129	33,345
Other	1,712	794
Gross deferred tax liabilities	181,726	227,299
Total net deferred tax liabilities	$ (19,581)	$ (31,635)

Based upon our taxpaying history and estimates of taxable income over the years in which the items giving rise to the deferred tax assets are deductible, management believes it is more likely than not the Company will realize the benefits of these deferred tax assets.

The Company had net income taxes receivable of $36.3 million and $59.3 million at December 31, 2021 and December 31, 2020.

As of December 31, 2021 and 2020, the Company had a valuation allowance of $24.9 million and $41.1 million against DTAs. Periodic reviews of the carrying amount of DTAs are made to determine if a valuation allowance is necessary. A valuation allowance is required, based on available evidence, when it is more likely than not that all or a portion of a DTA will not be realized due to the inability to generate sufficient taxable income in the period and/or of the character necessary to utilize the benefit of the DTA. All available evidence, both positive and negative, that may affect the realizability of the DTA is identified and considered in determining the appropriate amount of the valuation allowance. It is more likely than not that these deferred tax assets subject to a valuation allowance will not be realized primarily due to their character and/or the expiration of the carryforward periods.

The net reduction in the total valuation allowance during the year ended December 31, 2021 was $16.2 million. Of this amount, $14.3 million consisted principally of adjustments to state net operating loss DTAs. The adjustment to the state operating loss DTAs at December 31, 2021, was a result of changes in state apportionments. The DTAs had been subjected to a full valuation allowance because the Company had previously determined that they were more likely than not to be expired unused. As a result, the change in the tax attributes supporting the $14.3 million of deferred tax assets had no impact on the Company's effective tax rate for the year ended December 31, 2021. The remaining $1.9 million reduction in the valuation allowance was primarily due to an increase in the amount of foreign tax credit expected to be utilized prior to expiration and adjustments to capital deferred tax assets.

The following table summarizes the activity related to the Company's unrecognized tax benefits for the years indicated:

	Year Ended December 31,	
Unrecognized Tax Benefits	**2021**	**2020**
	(In thousands)	
Balance, beginning of year	$ 3,376	$ 10,748
Increase based on tax positions related to prior years	—	879
Reductions for tax positions related to prior years	(698)	(7,813)
Reductions for tax positions as a result of a lapse of the applicable statute of limitations	(123)	(438)
Balance, end of year	$ 2,555	$ 3,376
Unrecognized tax benefits that would affect the effective tax rate if recognized	$ 2,555	$ 3,376

Due to the potential for the resolution of federal and state examinations and the expiration of various statutes of limitations, it is reasonably possible that our gross unrecognized tax benefits may decrease within the next twelve months by as much as $2.1 million.

We recognize interest and penalties related to unrecognized tax benefits as a component of income tax expense. For the years ended December 31, 2021 and December 31, 2020, we reduced our accrual for interest expense and penalties and recognized tax benefits of $0.2 million for 2021 and $0.2 million for 2020. For the year ended December 31, 2019, we recognized $0.7 million in expense for interest expense and penalties. We had $1.1 million and $1.3 million accrued for the payment of interest and penalties as of December 31, 2021 and 2020.

We file federal and state income tax returns with the Internal Revenue Service ("IRS") and various state and local jurisdictions and generally remain subject to examinations by these tax jurisdictions for tax years 2017 through 2020. We are currently under examination by certain state jurisdictions for tax years 2015 through 2018.

NOTE 17. EARNINGS (LOSS) PER SHARE

The following table presents the computation of basic and diluted net earnings (loss) per share for the years indicated:

	Year Ended December 31,		
	2021	2020	2019
	(Dollars in thousands, except per share data)		
Basic Earnings (Loss) Per Share:			
Net earnings (loss)	$ 606,959	$ (1,237,574)	$ 468,636
Less: earnings allocated to unvested restricted stock[1]	(10,248)	(1,782)	(5,182)
Net earnings (loss) allocated to common shares	$ 596,711	$ (1,239,356)	$ 463,454
Weighted-average basic shares and unvested restricted stock outstanding	119,349	118,463	120,468
Less: weighted-average unvested restricted stock outstanding	(2,255)	(1,610)	(1,502)
Weighted-average basic shares outstanding	117,094	116,853	118,966
Basic earnings (loss) per share	$ 5.10	$ (10.61)	$ 3.90
Diluted Earnings (Loss) Per Share:			
Net earnings (loss) allocated to common shares	$ 596,711	$ (1,239,356)	$ 463,454
Weighted-average diluted shares outstanding	117,094	116,853	118,966
Diluted earnings (loss) per share	$ 5.10	$ (10.61)	$ 3.90

(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 18. REVENUE FROM CONTRACTS WITH CUSTOMERS

Revenue from contracts with customers is measured based on the consideration specified in the contract with a customer, and excludes amounts collected on behalf of third parties. The Company recognizes revenue from contracts with customers when it satisfies its performance obligations. Such performance obligations are typically satisfied as services are rendered and payment is generally collected at the time services are rendered, or on a monthly, quarterly, or annual basis. The Company had no material unsatisfied performance obligations as of December 31, 2021.

In certain cases, other parties are involved with providing products and services to our customers. If the Company is a principal in the transaction (providing goods or services itself), revenues are reported based on the gross consideration received from the customer and any related expenses are reported gross in noninterest expense. If the Company is an agent in the transaction (arranging for another party to provide goods or services), the Company reports its net fee or commission retained as revenue. Rebates, waivers, and reversals are recorded as a reduction of revenue either when the revenue is recognized by the Company or at the time the rebate, waiver, or reversal is earned by the customer.

The Company has elected the following practical expedients: (1) we do not disclose information about remaining performance obligations that have original expected durations of one year or less; and (2) we do not adjust the consideration from customers for the effects of a significant financing component if at contract inception the period between when the Company transfers the goods or services and when the customer pays for that good or service will be one year or less.

Nature of Goods and Services

Substantially all of the Company's revenue, such as interest income on loans, investment securities, and interest-earning deposits in financial institutions, is specifically out-of-scope of ASC Topic 606. For the revenue that is in-scope, the following is a description of principal activities, separated by the timing of revenue recognition, from which the Company generates its revenue from contracts with customers:

- *Revenue earned at a point in time.* Examples of revenue earned at a point in time are ATM transaction fees, wire transfer fees, NSF fees, and credit and debit card interchange fees. Revenue is generally derived from transactional information accumulated by our systems and is recognized as revenue immediately as the transactions occur or upon providing the service to complete the customer's transaction. The Company is the principal in each of these contracts with the exception of credit and debit card interchange fees, in which case the Company is acting as the agent and records revenue net of expenses paid to the principal.
- *Revenue earned over time.* The Company earns certain revenue from contracts with customers monthly. Examples of this type of revenue are deposit account service fees, investment management fees, merchant referral services, MasterCard marketing incentives, and safe deposit box fees. Account service charges, management fees, and referral fees are recognized on a monthly basis while any transaction-based revenue is recorded as the activity occurs. Revenue is primarily based on the number and type of transactions and is generally derived from transactional information accumulated by our systems. Revenue is recorded in the same period as the related transactions occur or services are rendered to the customer.

Disaggregation of Revenue

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

	Year Ended December 31,					
	2021		2020		2019	
	Total Recorded Revenue	Revenue from Contracts with Customers	Total Recorded Revenue	Revenue from Contracts with Customers	Total Recorded Revenue	Revenue from Contracts with Customers
	(In thousands)					
Total interest income	$ 1,158,729	$ —	$ 1,103,491	$ —	$ 1,219,893	$ —
Noninterest income:						
Other commissions and fees	42,287	11,018	40,347	13,412	43,623	19,216
Leased equipment income	45,746	—	43,628	—	38,727	—
Service charges on deposit accounts	13,269	13,269	10,351	10,351	14,637	14,637
Gain on sale of loans	1,733	—	2,139	—	1,114	—
Gain on sale of securities	1,615	—	13,171	—	25,445	—
Dividends and gains (losses) on equity investments	23,115	—	14,984	—	(567)	—
Warrant income	49,341	—	10,609	—	8,669	—
Other income	16,821	556	10,831	2,000	10,914	1,617
Total noninterest income	193,927	24,843	146,060	25,763	142,562	35,470
Total revenue	$ 1,352,656	$ 24,843	$ 1,249,551	$ 25,763	$ 1,362,455	$ 35,470

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

	Year Ended December 31,		
	2021	2020	2019
	(In thousands)		
Products and services transferred at a point in time	$ 11,713	$ 14,190	$ 19,253
Products and services transferred over time	13,130	11,573	16,217
Total revenue from contracts with customers	$ 24,843	$ 25,763	$ 35,470

Contract Balances

The following table provides information about receivables, contract assets and contract liabilities from contracts with customers as of the dates indicated:

	December 31,	
	2021	2020
	(In thousands)	
Receivables, which are included in "Other assets"	$ 1,066	$ 1,046
Contract assets, which are included in "Other assets"	$ —	$ —
Contract liabilities, which are included in "Accrued interest payable and other liabilities"	$ 229	$ 359

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 year ended December 31, 2021 due to revenue recognized that was included in the contract liability balance at the beginning of the year was $130,000.

NOTE 19. STOCK-BASED COMPENSATION

At the annual meeting of stockholders held on May 11, 2021, the Company's stockholders approved the Amended and Restated PacWest Bancorp 2017 Stock Incentive Plan (the “Amended and Restated 2017 Plan”). The Company’s Amended and Restated 2017 Plan permits stock-based compensation awards to officers, directors, employees, and consultants and will remain in effect until December 31, 2026.

The Amended and Restated 2017 Plan authorizes grants of stock-based compensation instruments to purchase or issue up to 6,650,000 shares, representing 4,000,000 shares originally approved for grant under the Original 2017 Stock Incentive Plan plus 2,650,000 shares added as result of the approval of the Amended and Restated 2017 Plan. As of December 31, 2021, there were 3,014,995 shares available for grant under the Amended and Restated 2017 Plan.

Restricted Stock

Restricted stock amortization totaled $31.4 million, $23.7 million, and $26.2 million for the years ended December 31, 2021, 2020, and 2019. Such amounts are included in compensation expense on the accompanying consolidated statements of earnings (loss) and exclude $859,000, $627,000, and $598,000 of stock-based compensation expense for the years ended December 31, 2021, 2020, and 2019 related to our directors, which is included in other expense on the accompanying consolidated statement of earnings (loss). The income tax benefit recognized in the consolidated statements of earnings (loss) related to this expense was $6.0 million, $5.8 million, and $6.8 million for the years ended December 31, 2021, 2020, and 2019. The amount of unrecognized compensation expense related to all unvested TRSAs and PRSUs as of December 31, 2021 totaled $69.0 million. Such expense is expected to be recognized over a weighted average period of 1.5 years.

The following table presents a summary of restricted stock transactions during the year ended December 31, 2021:

	TRSAs		PRSUs	
Year Ended December 31, 2021	Number of Shares	Weighted Average Grant Date Fair Value (Per Share)	Number of Units	Weighted Average Grant Date Fair Value (Per Unit)
Unvested restricted stock, beginning of year	1,608,126	$32.83	315,008	$42.77
Granted	1,433,698	$37.65	324,351	$32.19
Vested	622,572	$37.96	22,320	$54.07
Forfeited	107,172	$37.80	104,176	$49.00
Unvested restricted stock, end of year	2,312,080	$34.21	512,863	$34.32

The table above excludes 20,173 of immediately vested shares awarded to our directors at a weighted average price of $42.59.

Time-Based Restricted Stock Awards

At December 31, 2021, there were 2,312,080 shares of unvested TRSAs outstanding pursuant to the Company's 2003 and 2017 Stock Incentive Plans (the "Plans"). The TRSAs generally vest 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.

TRSA grants are subject to "double-trigger" vesting in the event of a change in control of the Company, as defined in the Plans, and in the event an employee's employment is terminated within 24 months after the change in control by the Company without Cause or by the employee for Good Reason, as defined in the Plans, such awards will vest.

The weighted average grant date fair value per share of TRSAs granted during 2021, 2020, and 2019 were $37.65, $20.84, and $38.66. The vesting date fair value of TRSAs that vested during 2021, 2020, and 2019 were $26.7 million, $13.1 million, and $18.1 million.

Performance-Based Restricted Stock Units

At December 31, 2021, there were 512,863 units of unvested PRSUs that have been granted. 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 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's is based on a market condition (such as total shareholder return), the amortization is neither reversed nor suspended if it is subsequently determined that the attainment of the performance target is less than probable or improbable and the employee continues to meet the service requirement of the award.

Upon a change in control, each PRSU will (i) be deemed earned at the target level with respect to all open performance periods if the change in control occurs within six months after the grant date, and (ii) be deemed earned at the actual performance level as of the date of the change in control if a change in control occurs more than six months after the grant date, and in both cases, the PRSU will cease to be subject to any further performance conditions, but will be subject to time-based service vesting following the change in control in accordance with the original performance period.

The weighted average grant date fair value per share of PRSUs granted during 2021, 2020, and 2019 was \$32.19, \$36.20 and \$40.39. The vesting date fair value of PRSUs that vested during 2021 and 2020 was \$0.8 million, \$2.7 million, and \$5.6 million.

NOTE 20. BENEFIT PLANS

401(K) Plans

The Company sponsors a defined contribution plan for the benefit of its employees. Participants are eligible to participate immediately as long as they are scheduled to work a minimum of 1,000 hours and are at least 18 years of age. Eligible participants may contribute up to 60% of their annual compensation, not to exceed the dollar limit imposed by the Internal Revenue Code. Employer contributions are determined annually by the Board of Directors in accordance with plan requirements and applicable tax code. Plan participants are immediately vested in matching contributions received from the Company. During 2021, the Company matched 50% of the first 6% contributed by plan participants. Effective January 1, 2022, the Company matches 50% of the first 8% contributed by plan participants. Expense related to 401(k) employer matching contributions was \$5.7 million, \$4.6 million and \$4.1 million for the years ended December 31, 2021, 2020, and 2019.

NOTE 21. STOCKHOLDERS' EQUITY

Common Stock Repurchased

The Company's common stock repurchased consisted of: (1) restricted stock surrendered as treasury shares and (2) stock purchased under the Company's Stock Repurchase Programs and retired.

Treasury Shares

As a Delaware corporation, the Company records treasury shares for shares surrendered to the Company resulting from statutory payroll tax obligations arising from the vesting of restricted stock.

The following table shows the dollar amount of shares surrendered, shares surrendered, and weighted average price per share for restricted stock surrendered as treasury shares for the years indicated:

	Year Ended December 31,		
Restricted Stock Surrendered as Treasury Shares	**2021**	**2020**	**2019**
Dollar amount of shares surrendered (*in thousands*)	$ 8,505	$ 5,369	$ 8,449
Number of shares surrendered	199,018	213,578	218,531
Weighted average price per share	$ 42.73	$ 25.14	$ 38.66

Stock Repurchase Programs

The Stock Repurchase Program was initially authorized by PacWest's Board of Directors on October 17, 2016. On February 12, 2020, 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 $200 million, effective February 29, 2020. No shares were repurchased under the new Stock Repurchase Program prior to expiration on February 28, 2021.

The following table shows the repurchase amounts, shares repurchased, and weighted average price per share for stock repurchases under the various Stock Repurchase Programs for the years indicated:

	Year Ended December 31,		
Stock Repurchases Under Stock Repurchase Programs	**2021**	**2020**	**2019**
Dollar amount of repurchases (*in thousands*)	$ —	$ 70,000	$ 154,516
Number of shares repurchased	—	1,953,711	3,987,945
Weighted average price per share	$ —	$ 35.83	$ 38.75

NOTE 22. DIVIDEND AVAILABILITY AND REGULATORY MATTERS

Holders of Company common stock may receive dividends declared by the Board of Directors out of funds legally available under DGCL and certain federal laws and regulations governing the banking and financial services business. Our ability to pay dividends to our stockholders is subject to the restrictions set forth in DGCL and certain covenants contained in our subordinated debt and borrowing agreements. Notification to the FRB is also required prior to our declaring and paying dividends during any period in which our quarterly and/or cumulative twelve-month net earnings are insufficient to fund the dividend amount, among other requirements. Should the FRB object to payment of dividends, we would not be able to make the payment until approval is received or we no longer need to provide notice under applicable regulations.

It is possible, depending upon the financial condition of the Bank and other factors, that the FRB, the FDIC, or the DFPI, could assert that payment of dividends or other payments is an unsafe or unsound practice. The Bank is subject to restrictions under certain federal and state laws and regulations governing banks which limit its ability to transfer funds to the holding company through intercompany loans, advances or cash dividends. Dividends paid by California state-chartered banks such as Pacific Western are regulated by the DFPI and FDIC 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 DFPI 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 dividend paid during such period. The Bank had a cumulative net loss of $155.3 million during the three fiscal years of 2021, 2020, and 2019, compared to dividends of $776.0 million paid by the Bank during that same period. During 2021, PacWest received $182.0 million in dividends from the Bank. Since the Bank had an accumulated deficit of $1.5 billion at December 31, 2021, for the foreseeable future, dividends from the Bank to PacWest will continue to require DFPI and FDIC approval.

PacWest, as a bank holding company, is subject to regulation by the FRB under the BHCA. The FDICIA required that the federal regulatory agencies adopt regulations defining capital tiers for banks: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company’s consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of the Company’s and the Bank’s assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios of common equity Tier 1, Tier 1, and total capital to risk-weighted assets ("total capital ratio"), and of Tier I capital to average assets, adjusted for goodwill and other non-qualifying intangible assets and other assets (“leverage ratio”). Common equity Tier 1 capital includes common stockholders’ equity less goodwill and certain other deductions (including a portion of servicing assets and the after-tax unrealized net gains and losses on securities available-for-sale). Tier 1 capital includes common equity Tier 1 plus additional Tier 1 capital instruments meeting certain requirements. Total capital includes Tier 1 capital and other items such as subordinated debt and the allowance for credit losses. All three measures are stated as a percentage of risk-weighted assets, which are measured based on their perceived credit risk and include certain off-balance sheet exposures, such as unfunded loan commitments and letters of credit.

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 December 31, 2021, such disallowed amounts were $10,000 for the Company and $41.0 million 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.

Banks considered to be "adequately capitalized" are required to maintain a minimum total capital ratio of 8.0%, a minimum Tier 1 capital ratio of 6.0%, a minimum common equity Tier 1 capital ratio of 4.5%, and a minimum leverage ratio of 4.0%. Banks considered to be "well capitalized" must maintain a minimum total capital ratio of 10.0%, a minimum Tier 1 capital ratio of 8.0%, a minimum common equity Tier 1 capital ratio of 6.5%, and a minimum leverage ratio of 5.0%. As of December 31, 2021, the most recent notification date to the regulatory agencies, the Company and the Bank are each "well capitalized" under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Company's or any of the Bank's categories.

Management believes, as of December 31, 2021, that the Company and the Bank met all capital adequacy requirements to which we are subject.

Basel III, the comprehensive regulatory capital rules for U.S. banking organizations, requires all banking organizations to maintain a capital conservation buffer above the minimum risk-based capital requirements in order 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. Effective January 1, 2019, the capital conservation buffer is fully phased-in at 2.5%, such that the common equity Tier 1, Tier 1 and total capital ratio minimums inclusive of the capital conservation buffers were 7%, 8.5%, and 10.5%. At December 31, 2021, the Company and Bank were in compliance with the capital conservation buffer requirements.

The Company and Bank elected the CECL 5-year regulatory transition guidance for calculating regulatory capital ratios and the December 31, 2021 ratios include this election. This guidance allows an entity to add back to capital 100% of the capital impact from the day one CECL transition adjustment and 25% of subsequent increases to the allowance for credit losses through December 31, 2022. This cumulative amount will then be phased out of regulatory capital over the next three years.

The following tables present actual capital amounts and ratios for the Company and the Bank as of the dates indicated:

	Actual		Well Capitalized Minimum Requirement		Capital Conservation Buffer Requirement
	Balance	Ratio	Balance	Ratio	
			(Dollars in thousands)		
December 31, 2021					
Tier I leverage capital (to average assets):					
PacWest Bancorp Consolidated	$ 2,657,575	6.84%	$ 1,942,017	5.00%	N/A
Pacific Western Bank	$ 2,717,374	7.00%	$ 1,940,510	5.00%	N/A
CET1 capital (to risk-weighted assets):					
PacWest Bancorp Consolidated	$ 2,526,575	8.86%	$ 1,853,073	6.50%	7.00%
Pacific Western Bank	$ 2,717,374	9.56%	$ 1,847,853	6.50%	7.00%
Tier I capital (to risk-weighted assets)					
PacWest Bancorp Consolidated	$ 2,657,575	9.32%	$ 2,280,705	8.00%	8.50%
Pacific Western Bank	$ 2,717,374	9.56%	$ 2,274,281	8.00%	8.50%
Total capital (to risk-weighted assets):					
PacWest Bancorp Consolidated	$ 3,619,190	12.69%	$ 2,850,881	10.00%	10.50%
Pacific Western Bank	$ 3,355,403	11.80%	$ 2,842,851	10.00%	10.50%

	Actual		Well Capitalized Minimum Requirement		Capital Conservation Buffer
	Balance	Ratio	Balance	Ratio	Requirement
			(Dollars in thousands)		
December 31, 2020					
Tier I leverage capital (to average assets):					
PacWest Bancorp Consolidated	$ 2,403,721	8.55%	$ 1,404,880	5.00%	N/A
Pacific Western Bank	$ 2,673,960	9.53%	$ 1,403,208	5.00%	N/A
CET1 capital (to risk-weighted assets):					
PacWest Bancorp Consolidated	$ 2,403,721	10.53%	$ 1,484,450	6.50%	7.00%
Pacific Western Bank	$ 2,673,960	11.73%	$ 1,481,599	6.50%	7.00%
Tier I capital (to risk-weighted assets)					
PacWest Bancorp Consolidated	$ 2,403,721	10.53%	$ 1,827,015	8.00%	8.50%
Pacific Western Bank	$ 2,673,960	11.73%	$ 1,823,506	8.00%	8.50%
Total capital (to risk-weighted assets):					
PacWest Bancorp Consolidated	$ 3,141,992	13.76%	$ 2,283,769	10.00%	10.50%
Pacific Western Bank	$ 2,959,853	12.99%	$ 2,279,383	10.00%	10.50%

We issued or assumed through mergers subordinated debt to trusts that were established by us or entities we acquired, which, in turn, issued trust preferred securities. On April 30, 2021, the Bank completed the sale of $400 million aggregate principal amount of 3.25% Fixed-to-Floating Rate Subordinated Notes due May 1, 2031. For further information, see Note 12. *Borrowings and Subordinated Debt.*

The carrying value of subordinated debt totaled $863.3 million at December 31, 2021. At December 31, 2021, $131.0 million of the trust preferred securities were included in the Company's Tier I capital under the phase-out limitations of Basel III, and $718.2 million was included in Tier II capital.

Interest payments on subordinated debt are considered dividend payments under the FRB regulations and subject to the same notification requirements for declaring and paying dividends on common stock.

NOTE 23. CONDENSED FINANCIAL INFORMATION OF PARENT COMPANY

The following tables present the parent company only condensed balance sheets and the related condensed statements of earnings (loss) and condensed statements of cash flows as of and for the years indicated:

Parent Company Only	**December 31,**	
Condensed Balance Sheets	**2021**	**2020**
	(In thousands)	
Assets:		
Cash and cash equivalents	$ 176,923	$ 127,849
Investments in subsidiaries	3,845,653	3,530,823
Other assets	122,324	75,835
Total assets	$ 4,144,900	$ 3,734,507
Liabilities:		
Subordinated debt	$ 135,055	$ 135,055
Other liabilities	10,215	4,501
Total liabilities	145,270	139,556
Stockholders' equity	3,999,630	3,594,951
Total liabilities and stockholders' equity	$ 4,144,900	$ 3,734,507

Parent Company Only	**Year Ended December 31,**		
Condensed Statements of Earnings (Loss)	**2021**	**2020**	**2019**
		(In thousands)	
Miscellaneous income	$ 52,955	$ 14,276	$ 9,739
Dividends from Bank subsidiary	182,000	258,000	336,000
Total income	234,955	272,276	345,739
Interest expense	3,527	4,394	6,637
Operating expenses	18,913	11,184	9,833
Total expenses	22,440	15,578	16,470
Earnings before income taxes and equity in undistributed earnings of subsidiaries	212,515	256,698	329,269
Income tax (expense) benefit	(6,188)	(3,268)	2,202
Earnings before equity in undistributed earnings of subsidiaries	206,327	253,430	331,471
Equity in (distributions in excess of) undistributed earnings or loss of subsidiaries	400,632	(1,491,004)	137,165
Net earnings (loss)	$ 606,959	$ (1,237,574)	$ 468,636

Parent Company Only Condensed Statements of Cash Flows	Year Ended December 31, 2021	2020	2019
	(In thousands)		
Cash flows from operating activities:			
Net earnings (loss)	$ 606,959	$ (1,237,574)	$ 468,636
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:			
Change in other assets	(67,242)	(29,568)	(35,510)
Change in liabilities	5,714	780	(1,661)
Earned stock compensation	32,223	24,363	26,815
(Equity in) distributions in excess of undistributed earnings or loss of subsidiaries	(400,632)	1,491,004	(137,165)
Net cash provided by operating activities	177,022	249,005	321,115
Cash flows from investing activities:			
Net cash used in investing activities	—	—	—
Cash flows from financing activities:			
Common stock repurchased and restricted stock surrendered	(8,505)	(75,369)	(162,965)
Cash dividends paid, net	(119,443)	(159,748)	(289,048)
Net cash used in financing activities	(127,948)	(235,117)	(452,013)
Net increase (decrease) in cash and cash equivalents	49,074	13,888	(130,898)
Cash and cash equivalents, beginning of year	127,849	113,961	244,859
Cash and cash equivalents, end of year	$ 176,923	$ 127,849	$ 113,961

NOTE 24. RELATED PARTY TRANSACTIONS

On December 30, 2021, the Company purchased in a private placement 1,000,000 depository shares each representing an ownership interest in a share of non-voting Fixed-Rate, Non-Cumulative Perpetual Preferred Stock of a privately owned non-affiliated bank holding company for the purchase price of $25 per depository share for a total of $25.0 million for investment purposes. The Company’s Chairman of the Board of Directors (the "Chairman") is also a director of the non-affiliated bank holding company.

In the normal course of business, the Bank purchases corporate securities for investment purposes. At December 31, 2021, one senior debt security with a par value of $25.0 million and three subordinated debt securities with par values totaling $24.5 million were in our securities portfolio. These four securities were issued by non-affiliated bank holding companies of which the Chairman is also a board member.

The transactions described above were approved by the Audit Committee of the Board of Directors in accordance with our related party transactions policy.

NOTE 25. SUBSEQUENT EVENTS

Stock Repurchase Program

On February 15, 2022, PacWest's Board of Directors authorized a new Stock Repurchase Program, effective March 1, 2022, to repurchase shares of its common stock for an aggregate purchase price not to exceed $100 million with a program maturity date of February 28, 2023.

Common Stock Dividend

On February 1, 2022, the Company announced that the Board of Directors had declared a quarterly cash dividend of $0.25 per common share. The cash dividend is payable on February 28, 2022 to stockholders of record at the close of business on February 15, 2022.

We have evaluated events that have occurred subsequent to December 31, 2021 and have concluded there are no subsequent events that would require recognition in the accompanying consolidated financial statements.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures. Our Chief Executive Officer and Chief Financial Officer have evaluated our disclosure controls and procedures as of December 31, 2021 and have concluded that these disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. These disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports we file or submit is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

(b) Management's Report on Internal Control over Financial Reporting. Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in the Securities Exchange Act of 1934 Rules 13a-15(f). Our management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation under the framework in *Internal Control-Integrated Framework (2013)*, our management concluded that our internal control over financial reporting was effective as of December 31, 2021. See "Management's Report on Internal Control Over Financial Reporting" set forth in Part II, Item 8 for additional information regarding management's evaluation.

(c) Report of the Independent Registered Public Accounting Firm. KPMG LLP, an independent registered public accounting firm, has audited the consolidated financial statements included in this Annual Report on Form 10-K and, as part of their audit, has issued their report, included herein, on the effectiveness of our internal control over financial reporting.

(d) Changes in Internal Control Over Financial Reporting. There were no changes in our internal control over financial reporting that occurred during the fourth quarter of 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information required by this Item regarding the Company's directors and executive officers, and corporate governance, including information with respect to beneficial ownership reporting compliance, will appear in the Proxy Statement we will deliver to our stockholders in connection with our 2022 Annual Meeting of Stockholders. Such information is incorporated herein by reference. Information relating to the registrant's Code of Business Conduct and Ethics that applies to its employees, including its senior financial officers, is included in Part I of this Annual Report on Form 10-K under "Available Information."

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item will appear in the Proxy Statement we will deliver to our stockholders in connection with our 2022 Annual Meeting of Stockholders. Such information is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item regarding security ownership of certain beneficial owners and management will appear in the Proxy Statement we will deliver to our stockholders in connection with our 2022 Annual Meeting of Stockholders. Such information is incorporated herein by reference. Information relating to securities authorized for issuance under the Company's equity compensation plans is included in Part II of this Annual Report on Form 10-K under "Item 5. Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities."

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item will appear in the Proxy Statement we will deliver to our stockholders in connection with our 2022 Annual Meeting of Stockholders. Such information is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Our independent registered public accounting firm is KPMG LLP, Irvine, CA, Auditor Firm ID: 185.

The information required by this Item will appear in the Proxy Statement we will deliver to our stockholders in connection with our 2022 Annual Meeting of Stockholders. Such information is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) 1. Financial Statements

The consolidated financial statements of PacWest Bancorp and its subsidiaries and independent auditors’ report are included in Item 8 under Part II of this Form 10-K.

2. Financial Statement Schedules

All financial statement schedules have been omitted, as they are either inapplicable or included in the Notes to Consolidated Financial Statements.

3. Exhibits

The following documents are included or incorporated by reference in this Annual Report on Form 10-K:

3.1 Certificate of Incorporation of PacWest Bancorp, as amended as of June 5, 2014 (Filed herewith).

3.2 Second Amended and Restated Bylaws of PacWest Bancorp, dated October 25, 2019 (Filed herewith).

4.1 Other long-term borrowing instruments are omitted pursuant to Item 601(b)(4)(iii) of Regulation S-K. The Company undertakes to furnish copies of such instruments to the Commission upon request.

4.2 Description of Registered Securities (Exhibit 4.2 to Form 10-K filed on February 28, 2020 and incorporated herein by this reference).

10.1* PacWest Bancorp 2017 Stock Incentive Plan, dated May 15, 2017 (Exhibit 10.1 to Form S-8 filed on May 15, 2017 and incorporated herein by this reference).

10.2* Form of Stock Unit Award Agreement and Grant Notice pursuant to the Company’s 2017 Stock Incentive Plan (Exhibit 10.2 to Form 8-K filed on May 18, 2017 and incorporated herein by this reference).

10.3* Form of Stock Award Agreement and Grant Notice pursuant to the Company’s 2017 Stock Incentive Plan (Exhibit 10.3 to Form 8-K filed on May 18, 2017 and incorporated herein by this reference).

10.4* Form of Stock Unit Award Agreement and Grant Notice pursuant to the Company's 2017 Stock Incentive Plan, as amended (Exhibit 10.7 to Form 10-Q filed on August 8, 2019 and incorporated herein by this reference).

10.5* Form of Stock Award Agreement and Grant Notice pursuant to the Company's 2017 Stock Incentive Plan, as amended (Exhibit 10.8 to Form 10-Q filed on August 8, 2019 and incorporated herein by this reference).

10.6* Amended and Restated PacWest Bancorp 2017 Stock Incentive Plan, effective as of May 11, 2021 (Appendix A to the Definitive Proxy Statement filed on March 26, 2021 and incorporated herein by this reference).

10.7* Form of Stock Award Agreement and Grant Notice pursuant to the Amended and Restated PacWest Bancorp 2017 Stock Incentive Plan (Exhibit 10.10 to Form 10-Q filed on August 6, 2021 and incorporated herein by this reference).

10.8* 2018 Executive Incentive Plan, as amended and restated February 14, 2018 (Exhibit 10.1 to Form 8-K filed on February 16, 2018 and incorporated herein by this reference).

10.9* Indemnification Agreement applicable to the directors and executive officers of the Company (Exhibit 10.10 to Form 10-K filed on February 28, 2020 and incorporated herein by this reference).

10.10*	PacWest Bancorp Change in Control Severance Plan, dated February 12, 2020 (Exhibit 10.1 to Form 8-K filed on February 14, 2020 and incorporated herein by this reference).
21.1	Subsidiaries of the Registrant (Filed herewith).
23.1	Consent of KPMG LLP (Filed herewith).
24.1	Powers of Attorney (included on signature page).
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 Consolidated Balance Sheets as of December 31, 2021 and 2020, (ii) the Consolidated Statements of Earnings (Loss) for the years ended December 31, 2021, 2020, and 2019, (iii) the Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2021, 2020 and 2019, (iv) the Consolidated Statement of Changes in Stockholders' Equity for the years ended December 31, 2021, 2020 and 20189 (v) the Consolidated Statements of Cash Flows for the years ended December 31, 2021, 2020 and 2019, and (vi) the Notes to Consolidated Financial Statements. (Pursuant to Rule 406T of Regulation S-T, this information is deemed furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.) (Filed herewith).
104	Cover page of PacWest Bancorp's Annual Report on Form 10-K formatted in Inline XBRL (contained in Exhibit 101)

* Management contract or compensatory plan or arrangement.

(b) Exhibits

The exhibits listed in Item 15(a)3 are incorporated by reference or attached hereto.

(c) Excluded Financial Statements

Not Applicable

ITEM 16. FORM 10-K SUMMARY

None

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	
Dated:	February 28, 2022	By:	/s/ Matthew P. Wagner Matthew P. Wagner *(Chief Executive Officer)*

POWERS OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints John M. Eggemeyer, Matthew P. Wagner, Bart R. Olson, and Angela M. W. Kelley, and each of them severally, his or her true and lawful attorney-in-fact with power of substitution and resubstitution to sign in his or her name, place and stead, in any and all capacities, to do any and all things and execute any and all instruments that such attorney may deem necessary or advisable under the Securities Exchange Act of 1934 and any rules, regulations and requirements of the U.S. Securities and Exchange Commission in connection with this Annual Report on Form 10-K and any and all amendments hereto, as fully for all intents and purposes as he or she might or could do in person, and hereby ratifies and confirms all said attorneys-in-fact and agents, each acting alone, and his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ JOHN M. EGGEMEYER John M. Eggemeyer	Chairman of the Board of Directors	February 28, 2022
/s/ MATTHEW P. WAGNER Matthew P. Wagner	Chief Executive Officer and Director (Principal Executive Officer)	February 28, 2022
/s/ BART R. OLSON Bart R. Olson	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	February 28, 2022
/s/ MONICA L. SPARKS Monica L. Sparks	Executive Vice President and Chief Accounting Officer (Principal Accounting Officer)	February 28, 2022
/s/ TANYA M. ACKER Tanya M. Acker	Director	February 28, 2022
/s/ PAUL R. BURKE Paul R. Burke	Director	February 28, 2022
/s/ CRAIG A. CARLSON Craig A. Carlson	Director	February 28, 2022
/s/ C. WILLIAM HOSLER C. William Hosler	Director	February 28, 2022
/s/ POLLY B. JENSEN Polly B. Jensen	Director	February 28, 2022
/s/ SUSAN E. LESTER Susan E. Lester	Director	February 28, 2022
/s/ ROGER H. MOLVAR Roger H. Molvar	Director	February 28, 2022
/s/ DANIEL B. PLATT Daniel B. Platt	Director	February 28, 2022
/s/ ROBERT A. STINE Robert A. Stine	Director	February 28, 2022
/s/ PAUL W. TAYLOR Paul W. Taylor	Director	February 28, 2022

EXHIBIT 3.1

Amended to and including
Amendments of June 5, 2014

CERTIFICATE OF INCORPORATION

OF

PACWEST BANCORP

(Original Certificate Filed on March 24, 2008)

FIRST. The name of the corporation is PacWest Bancorp.

SECOND. The address of the corporation's registered office in the State of Delaware is Corporation Trust Center, 1209 Orange in the City of Wilmington, County of New Castle, Delaware 19801. The name of its registered agent at such address is The Corporation Trust Company.

THIRD. The purpose of the corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of Delaware.

FOURTH. The total number of shares of all classes of stock which the corporation shall have authority to issue is 205,000,000, of which 200,000,000 shares of the par value of $0.01 per share shall be designated as Common Stock and 5,000,000 shares of the par value of $0.01 per share shall be designated as Preferred Stock. Shares of Preferred Stock may be issued in one or more series from time to time by the board of directors, and the board of directors is expressly authorized to fix by resolution or resolutions the designations and the powers, preferences and rights, and the qualifications, limitations and restrictions thereof, of the shares of each series of Preferred Stock, including without limitation the following:

(a) the distinctive serial designation of such series which shall distinguish it from other series;

(b) the number of shares included in such series;

(c) the dividend rate (or method of determining such rate) payable to the holders of the shares of such series, any conditions upon which such dividends shall be paid and the date or dates upon which such dividends shall be payable;

(d) whether dividends on the shares of such series shall be cumulative and, in the case of shares of any series having cumulative dividend rights, the date or dates or method of determining the date or dates from which dividends on the shares of such series shall be cumulative;

(e) the amount or amounts which shall be payable out of the assets of the corporation to the holders of the shares of such series upon voluntary or involuntary liquidation, dissolution or winding up the corporation, and the relative rights of priority, if any, of payment of the shares of such series;

(f) the price or prices at which, the period or periods within which and the terms and conditions upon which the shares of such series may be redeemed, in whole or in part, at the option of the corporation or at the option of the holder or holders thereof or upon the happening of a specified event or events;

(g) the obligation, if any, of the corporation to purchase or redeem shares of such series pursuant to a sinking fund or otherwise and the price or prices at which, the period or periods within which and the terms and conditions upon which the shares of such series shall be redeemed or purchased, in whole or in part, pursuant to such obligation;

(h) whether or not the shares of such series shall be convertible or exchangeable, at any time or times at the option of the holder or holders thereof or at the option of the corporation or upon the happening of a specified event or events, into shares of any other class or classes or any other series of the same or any other class or classes of stock of the corporation, and the price or prices or rate or rates of exchange or conversion and any adjustments applicable thereto; and

(i) whether or not the holders of the shares of such series shall have voting rights, in addition to the voting rights provided by law, and if so the terms of such voting rights.

Subject to the rights of the holders of any series of Preferred Stock, the number of authorized shares of any class or series of Preferred Stock may be increased or decreased (but not below the number of shares thereof then outstanding) by the affirmative vote of the holders of a majority of the outstanding shares of such class or series, voting together as a single class, irrespective of the provisions of Section 242(b)(2) of the General Corporation Law of Delaware or any corresponding provision hereafter enacted.

FIFTH. Intentionally omitted.

SIXTH. The board of directors of the corporation is expressly authorized to adopt, amend or repeal bylaws of the corporation.

SEVENTH. Elections of directors need not be by written ballot except and to the extent provided in the bylaws of the corporation.

EIGHTH. At all elections of directors of the corporation, a holder of any class or series of stock then entitled to vote in such election shall be entitled to as many votes as shall equal the number of votes which such holder would be entitled to cast for the election of directors with respect to such holder’s shares of stock multiplied by the number of directors to be elected in the election in which such holder’s class or series of shares is entitled to vote, and such holder may cast all of such votes for a single director or may distribute them among the number to be voted for, or for any two or more of them as such holder may see fit. No stockholder shall be entitled to cumulate votes unless the name of the candidate or candidates for whom such votes would be cast has been placed in nomination prior to the voting and at least one stockholder has given notice at the meeting prior to the voting, of such stockholder’s intention to cumulate his votes.

NINTH.

(a) A director of the corporation shall not be liable to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except to the extent that such exemption from liability or limitation thereof is not permitted under the Delaware General Corporation Law as currently in effect or as the same may hereafter be amended.

(b) The corporation is authorized to indemnify any person serving as director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, to the fullest extent permissible under Delaware law.

(c) No amendment, modification or repeal of this Article NINTH shall adversely affect any right or protection of any person that exists at the time of such amendment, modification or repeal.

TENTH. The corporation elects not to be governed by Section 203 of the Delaware General Corporation Code.

EXHIBIT 3.2

SECOND AMENDED AND RESTATED BYLAWS

OF

PACWEST BANCORP

October 25, 2019

ARTICLE I

Stockholders

Section 1.1. *Annual Meetings*. An annual meeting of stockholders shall be held for the election of directors at such date, time and place either within or without the State of Delaware as may be designated by the Board of Directors from time to time. Any other proper business may be transacted at the annual meeting.

Section 1.2. *Special Meetings*. Special meetings of stockholders may be called at any time by the Chairman of the Board, if any, the Vice Chairman of the Board, if any, the Chief Executive Officer, the Board of Directors or the holders of shares entitled to cast not less than ten percent of the votes at the meeting, such meeting, such meeting to be held at such date, time and place either within or without the State of Delaware as may be stated in the notice of the meeting.

Section 1.3. *Notice of Meetings*. Whenever stockholders are required or permitted to take any action at a meeting, a written notice of the meeting shall be given which shall state the place, date and hour of the meeting, and, in the case of a special meeting, the purpose or purposes for which the meeting is called. The notice of any meeting at which directors are to be elected shall include a list of the names of the nominees intended at the time of the mailing of the notice to be presented by the Board for election. Unless otherwise provided by law, the written notice of any meeting shall be given not less than ten nor more than sixty days before the date of the meeting to each stockholder entitled to vote at such meeting. If mailed, such notice shall be deemed to be given when deposited in the United States mail, postage prepaid, directed to the stockholder at such stockholder's address as it appears on the records of the Corporation.

Section 1.4. *Adjournments*. Any meeting of stockholders, annual or special, may be adjourned from time to time, to reconvene at the same or some other place, and notice need not be given of any such adjourned meeting if the time and place thereof are announced at the meeting at which the adjournment is taken. At the adjourned meeting the Corporation may transact any business which might have been transacted at the original meeting. If the adjournment is for more than thirty days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

Section 1.5. *Quorum*. At each meeting of stockholders, except where otherwise provided by law or the certificate of incorporation or these bylaws, the holders of a majority of the outstanding shares of stock entitled to vote on a matter at the meeting, present in person or represented by proxy, shall constitute a quorum. For purposes of the foregoing, where a separate vote by class or classes is required for any matter, the holders of a majority of the outstanding shares of such class or classes, present in person or represented by proxy, shall constitute a quorum to take action with respect to that vote on that matter. Two or more classes or series of stock shall be considered a single class if the holders thereof are entitled to vote together as a single class at the meeting. In the absence of a quorum of the holders of any class of stock entitled to vote on a matter, the holders of such class so present or represented may, by majority vote, adjourn the meeting of such class from time to time in the manner provided by Section 1.4 of these bylaws until a quorum of such class shall be so present or represented. Shares of its own capital stock belonging on the record date for the meeting to the Corporation or to another corporation, if a majority of the shares entitled to vote in the election of directors of such other corporation is held, directly or indirectly, by the Corporation, shall neither be entitled to vote nor be counted for quorum purposes; provided, however, that the foregoing shall not limit the right of the Corporation to vote stock, including but not limited to its own stock, held by it in a fiduciary capacity.

Section 1.6. *Organization*. Meetings of stockholders shall be presided over by the Chairman of the Board, if any, or in the absence of the Chairman of the Board by the Vice Chairman of the Board, if any, or in the absence of the Vice Chairman of the Board by the Chief Executive Officer, or in the absence of the foregoing persons by a chairman designated by the Board of Directors, or in the absence of such designation by a chairman chosen at the meeting. The Secretary, or in the absence of the Secretary an Assistant Secretary, shall act as secretary of the meeting, but in the absence of the Secretary and any Assistant Secretary the chairman of the meeting may appoint any person to act as secretary of the meeting.

Section 1.7. *Inspectors*. Prior to any meeting of stockholders, the Board of Directors or the President shall appoint one or more inspectors to act at such meeting and any adjournment thereof and make a written report thereof and may designate one or more persons as alternate inspectors to replace any inspector who fails to act. If no inspector or alternate is able to act at the meeting of stockholders, the person presiding at the meeting shall appoint one or more inspectors to act at the meeting. Each inspector, before entering upon the discharge of his or her duties, shall take and sign an oath faithfully to execute the duties of inspector with strict impartiality and according to the best of his or her ability. The inspectors shall ascertain the number of shares outstanding and the voting power of each, determine the shares represented at the meeting and the validity of proxies and ballots, count all votes and ballots, determine and retain for a reasonable period a record of the disposition of any challenges made to any determination by the inspectors and certify their determination of the number of shares represented at the meeting and their count of all votes and ballots. The inspectors may appoint or retain other persons to assist them in the performance of their duties. The date and time of the opening and closing of the polls for each matter upon which the stockholders will vote at a meeting shall be announced at the meeting. No ballot, proxy or vote, nor any revocation thereof or change thereto, shall be accepted by the inspectors after the closing of the polls. In determining the validity and counting of proxies and ballots, the inspectors shall be limited to an examination of the proxies, any envelopes submitted therewith, any information provided by a stockholder who submits a proxy by telegram, cablegram or other electronic transmission from which it can be determined that the proxy was authorized by the stockholder, ballots and the regular books and records of the Corporation, and they may also consider other reliable information for the limited purpose of reconciling proxies and ballots submitted by or on behalf of banks, brokers, their nominees or similar persons which represent more votes than the holder of a proxy is authorized by the record owner to cast or more votes than the stockholder holds of record. If the inspectors consider other reliable information for such purpose, they shall, at the time they make their certification, specify the precise information considered by them, including the person or persons from whom they obtained the information, when the information was obtained, the means by which the information was obtained and the basis for the inspectors' belief that such information is accurate and reliable. If there are three inspectors of election, the decision, act or certificate of a majority is effective in all respects as the decision, act or certificate of all. Any report or certificate made by the inspectors of election is prima facie evidence of the facts stated therein.

Section 1.8. *Voting; Proxies*. Unless otherwise provided in the certificate of incorporation, each stockholder entitled to vote at any meeting of stockholders shall be entitled to one vote for each share of stock held by such stockholder which has voting power upon the matter in question. Each stockholder entitled to vote at a meeting of stockholders or to express consent or dissent to corporate action in writing without a meeting may authorize another person or persons to act for such stockholder by proxy, but no such proxy shall be voted or acted upon after three years from its date, unless the proxy provides for a longer period. A duly executed proxy shall be irrevocable if it states that it is irrevocable and if, and only as long as, it is coupled with an interest sufficient in law to support an irrevocable power, regardless of whether the interest with which it is coupled is an interest in the stock itself or an interest in the Corporation generally. A stockholder may revoke any proxy which is not irrevocable by attending the meeting and voting in person or by filing an instrument in writing revoking the proxy or another duly executed proxy bearing a later date with the Secretary of the Corporation. Voting at meetings of stockholders need not be by written ballot unless the holders of a majority of the outstanding shares of all classes of stock entitled to vote thereon present in person or represented by proxy at such meeting shall so determine. Except as may be otherwise required by the certificate of incorporation, each director shall be elected by the vote of the majority of the votes cast (meaning the number of shares voted "for" a nominee must exceed the number of shares voted "against" such nominee) at any meeting for the election of directors at which a quorum is present, provided that the directors shall be elected by a plurality of the votes cast (instead of by votes cast for or against a nominee) at any meeting at which a quorum is present for which (i) the Secretary of the Corporation receives a notice pursuant to these bylaws that a stockholder intends to nominate a director or directors and (ii) such proposed nomination has not been withdrawn by such stockholder on or prior to the tenth day preceding the date the Corporation first mails its notice of meeting for such meeting to the stockholders. In all other matters, unless otherwise provided by law or by the certificate of incorporation or these bylaws, the affirmative vote of the holders of a majority of the shares present in person or represented by proxy at the meeting and entitled to vote on the subject matter shall be the act of the stockholders. Where a separate vote by class or classes is required, the affirmative vote of the holders of a majority of the shares of such class or classes present in person or represented by proxy at the meeting shall be the act of such class or classes, except as otherwise provided by law or by the certificate of incorporation or these bylaws.

Section 1.9. *Fixing Date for Determination of Stockholders of Record*. In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, the Board of Directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors, and which record date shall not be more than sixty nor less than ten days before the date of such meeting. If no record date is fixed by the Board of Directors, the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

In order that the Corporation may determine the stockholders entitled to consent to corporate action in writing without a meeting, the Board of Directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors, and which date shall not be more than ten days after the date upon which the resolution fixing the record date is adopted by the Board of Directors. If no record date has been fixed by the Board of Directors, the record date for determining stockholders entitled to consent to corporate action in writing without a meeting, when no prior action by the Board of Directors is required by law, shall be the first date on which a signed written consent setting forth the action taken or proposed to be taken is delivered to the Corporation by delivery to its registered office in the State of Delaware, its principal place of business, or an officer or agent of the Corporation having custody of the book in which proceedings of meetings of stockholders are recorded. Delivery made to the Corporation's registered office shall be by hand or by certified or registered mail, return receipt requested. If no record date has been fixed by the Board of Directors and prior action by the Board of Directors is required by law, the record date for determining stockholders entitled to consent to corporate action in writing without a meeting shall be at the close of business on the day on which the Board of Directors adopts the resolution taking such prior action.

In order that the Corporation may determine the stockholders entitled to receive payment of any dividend or other distribution or allotment of any rights or the stockholders entitled to exercise any rights in respect of any change, conversion or exchange of stock, or for the purpose of any other lawful action, the Board of Directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted, and which record date shall be not more than sixty days prior to such action. If no record date is fixed, the record date for determining stockholders for any such purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating thereto.

Section 1.10. *List of Stockholders Entitled to Vote*. The Secretary shall prepare and make, at least ten days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof and may be inspected by any stockholder who is present.

Section 1.11. *Consent of Stockholders in Lieu of Meeting*. Unless otherwise provided in the certificate of incorporation or these bylaws, any action required by law to be taken at any annual or special meeting of stockholders of the Corporation, or any action which may be taken at any annual or special meeting of such stockholders, may be taken without a meeting, without prior notice and without a vote, if a consent or consents in writing, setting forth the action so taken, shall be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted and shall be delivered to the Corporation by delivery to (a) its registered office in the State of Delaware by hand or by certified mail or registered mail, return receipt requested, (b) its principal place of business, or (c) an officer or agent of the Corporation having custody of the book in which proceedings of meetings of stockholders are recorded. Every written consent shall bear the date of signature of each stockholder who signs the consent and no written consent shall be effective to take the corporate action referred to therein unless, within sixty days of the earliest dated consent delivered in the manner required by this bylaw to the Corporation, written consents signed by a sufficient number of holders to take action are delivered to the Corporation by delivery to (a) its registered office in the State of Delaware by hand or by certified or registered mail, return receipt requested, (b) its principal place of business, or (c) an officer or agent of the Corporation having custody of the book in which proceedings of meetings of stockholders are recorded. Prompt notice of the taking of the corporate action without a meeting by less than unanimous written consent shall be given to those stockholders who have not consented in writing and who, if the action had been taken at a meeting, would have been entitled to notice of the meeting if the record date for such meeting had been the date that written consents signed by a sufficient number of stockholders to take the action were delivered to the Corporation as provided in this Section 1.11.

Section 1.12. *Advance Notice of Stockholder Nominees for Director and Other Stockholder Proposals*. (a) The matters to be considered and brought before any annual or special meeting of stockholders of the Corporation shall be limited to only such matters, including the nomination and election of directors, as shall be brought properly before such meeting in compliance with the procedures set forth in this Section 1.12.

(b) For any matter to be properly before any annual meeting of stockholders, the matter must be (i) specified in the notice of annual meeting given by or at the direction of the Board of Directors, (ii) otherwise brought before the annual meeting by or at the direction of the Board of Directors or (iii) brought before the annual meeting in the manner specified in this Section 1.12(b) by a stockholder of record. In addition to any other requirements under applicable law and these bylaws, persons nominated by stockholders for election as directors of the Corporation and any other proposals by stockholders shall be properly brought before the meeting only if notice in the manner contemplated hereby of any such matter to be presented by a stockholder at such meeting of stockholders (the “Stockholder Notice”) is delivered to the Secretary of the Corporation at the principal executive office of the Corporation not less than 90 nor more than 120 days prior to the first anniversary date of the annual meeting for the preceding year; provided, however, if and only if the annual meeting is not scheduled to be held within a period that commences 30 days before such anniversary date and ends 30 days after such anniversary date (an annual meeting date outside such period being referred to herein as an “Other Meeting Date”), such Stockholder Notice shall be given in the manner provided herein by the later of the close of business on (i) the date 90 days prior to such Other Meeting Date or (ii) the tenth day following the date such Other Annual Meeting Date is first publicly announced or disclosed. Any stockholder entitled to nominate any person or persons (as the case may be) for election as a director or directors of the Corporation shall deliver, as part of such Stockholder Notice, a statement in writing setting forth the name of the person or persons to be nominated, the number and class of all shares of each class of stock of the Corporation owned of record and beneficially by each such person, as reported to such stockholder by such nominee(s), the information regarding each such person required by paragraphs (a), (e) and (f) of Item 401 of Regulation S-K adopted by the Securities and Exchange Commission (or the corresponding provisions of any regulation subsequently adopted by the Securities and Exchange Commission applicable to the Corporation), each such person’s signed consent to serve as a director of the Corporation if elected, such stockholder’s name and address and the number and class of all shares of each class of stock of the Corporation owned of record and beneficially by such stockholder. Any stockholder who gives a Stockholder Notice of any matter proposed to be brought before the meeting (not involving nominees for director) shall deliver, as part of such Stockholder Notice, the text of the proposal to be presented (including the text of any resolutions to be proposed for consideration by stockholders) and a brief written statement of the reasons why such stockholder favors the proposal and setting forth such stockholder's name and address, the number and class of all shares of each class of stock of the Corporation owned of record and beneficially by such stockholder and, if applicable, any material interest of such stockholder in the matter proposed (other than as a stockholder). As used herein, shares "beneficially owned" shall mean all shares which such person is deemed to beneficially own pursuant to Rules 13d-3 and 13d-5 under the Securities Exchange Act of 1934 (the "Exchange Act"). The Corporation may require any proposed nominee to furnish such other information as it may reasonably require to determine whether the nominee would be considered "independent" under the various rules and standards applicable to the Corporation.

Notwithstanding anything in this Section 1.12(b) to the contrary, in the event that the number of directors to be elected to the Board of Directors of the Corporation is increased and either all of the nominees for director or the size of the increased Board of Directors is not publicly announced or disclosed by the Corporation at least 100 days prior to the first anniversary of the preceding year's annual meeting, a Stockholder Notice shall also be considered timely hereunder, but only with respect to nominees for any new positions created by such increase, if it shall be delivered to the Secretary of the Corporation at the principal executive office of the Corporation not later than the close of business on the tenth day following the first date all of such nominees or the size of the increased Board of Directors shall have been publicly announced or disclosed.

(c) Only such matters shall be properly brought before a special meeting of stockholders as shall have been brought before the meeting pursuant to the Corporation's notice of meeting. In the event the Corporation calls a special meeting of stockholders for the purpose of electing one or more directors to the Board of Directors, any stockholder may nominate a person or persons (as the case may be), for election to such position(s) as specified in the Corporation's notice of meeting, if the Stockholder Notice required by Section 1.12(b) hereof shall be delivered to the Secretary of the Corporation at the principal executive office of the Corporation not later than the close of business on the tenth day following the day on which the date of the special meeting and of the nominees proposed by the Board of Directors to be elected at such meeting is publicly announced or disclosed.

(d) For purposes of this Section 1.12, a matter shall be deemed to have been "publicly announced or disclosed" if such matter is disclosed in a press release reported by the Dow Jones News Service, Associated Press or comparable national news service or in a document publicly filed by the Corporation with the Securities and Exchange Commission.

(e) Only persons who are nominated in accordance with the procedures set forth in this Section 1.12 shall be eligible for election as directors of the Corporation. In no event shall the postponement or adjournment of an annual meeting already publicly noticed, or any announcement of such postponement or adjournment, commence a new period (or extend any time period) for the giving of notice as provided in this Section 1.12. This Section 1.12 shall not apply to (i) stockholders proposals made pursuant to Rule 14a-8 under the Exchange Act or (ii) the election of directors selected by or pursuant to the provisions of Article Four of the Certificate of Incorporation relating to the rights of the holders of any class or series of stock of the Corporation having a preference over the Common Stock as to dividends or upon liquidation to elect directors under specified circumstances.

(f) The person presiding at any meeting of stockholders, in addition to making any other determinations that may be appropriate to the conduct of the meeting, shall have the power and duty to determine whether notice of nominees and other matters proposed to be brought before a meeting has been duly given in the manner provided in this Section 1.12 and, if not so given, shall direct and declare at the meeting that such nominees and other matters are not properly before the meeting and shall not be considered.

ARTICLE II

Board of Directors

Section 2.1. *Powers; Number; Qualifications*. The business and affairs of the Corporation shall be managed by or under the direction of the Board of Directors, except as may be otherwise provided by law or in the certificate of incorporation. The number of directors of the Corporation shall be from seven to fifteen, the exact number thereof to be determined from time to time by the Board by resolution. Directors need not be stockholders.

Section 2.2. *Election; Term of Office; Resignation; Removal; Vacancies*. Each director shall hold office until his or her successor is elected and qualified or until his or her earlier resignation or removal. Any director may resign effective upon giving written notice to the Chairman of the Board, the Board of Directors or to the Secretary of the Corporation unless the notice specifies a time for the effectiveness of such notice. If the resignation is effective at a future time, a successor may be elected to take office when the resignation becomes effective. Such resignation shall take effect at the time specified therein, and unless otherwise specified therein no acceptance of such resignation shall be necessary to make it effective. Any director or the entire Board of Directors may be removed, with or without cause, by the holders of a majority of the shares then entitled to vote at an election of directors; except that, if the certificate of incorporation provides for cumulative voting and less than the entire Board is to be removed, no director may be removed without cause if the votes cast against his or her removal would be sufficient to elect him or her if then cumulatively voted at an election of the entire Board. Unless otherwise provided in the certificate of incorporation or these bylaws, vacancies and newly created directorships resulting from any increase in the authorized number of directors elected by all of the stockholders having the right to vote as a single class or from any other cause may be filled by a majority of the directors then in office, although less than a quorum, or by the sole remaining director. Any director elected or appointed to fill a vacancy shall hold office until the next election of the class of directors of the director which such director replaced, and until and his or her successor is elected and qualified or until his or her earlier resignation or removal.

Section 2.3. *Regular Meetings*. Regular meetings of the Board of Directors may be held at such places within or without the State of Delaware and at such times as the Board may from time to time determine, and if so determined notice thereof need not be given.

Section 2.4. *Special Meetings*. Special meetings of the Board of Directors may be held at any time or place within or without the State of Delaware whenever called by the Chairman of the Board, if any, by the Vice Chairman of the Board, if any, or by any two directors. Four days' notice thereof by mail or forty-eight hours' notice thereof delivered personally or by telephone, including a voice messaging system or by electronic transmission, shall be given by the person or persons calling the meeting.

Section 2.5. *Participation in Meetings by Conference Telephone Permitted*. Unless otherwise restricted by the certificate of incorporation or these bylaws, members of the Board of Directors, or any committee designated by the Board, may participate in a meeting of the Board or of such committee, as the case may be, by means of conference telephone or other communications equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting pursuant to this bylaw shall constitute presence in person at such meeting.

Section 2.6. *Quorum; Vote Required for Action*. At all meetings of the Board of Directors, one-third of the entire Board shall constitute a quorum for the transaction of business. The vote of a majority of the directors present at a meeting at which a quorum is present shall be the act of the Board unless the certificate of incorporation or these bylaws shall require a vote of a greater number. In case at any meeting of the Board a quorum shall not be present, the members of the Board present may adjourn the meeting from time to time until a quorum shall be present. If the meeting is adjourned for more than twenty-four hours, notice of an adjournment to another time or place shall be given prior to the time of the adjourned meeting to the directors who were not present at the time of the adjournment.

Section 2.7. *Organization*. Meetings of the Board of Directors shall be presided over by the Chairman of the Board, if any, or in the absence of the Chairman of the Board by the Vice Chairman of the Board, if any, or in the absence of the Vice Chairman of the Board by the President, or in their absence by a chairman chosen at the meeting. The Secretary, or in the absence of the Secretary an Assistant Secretary, shall act as secretary of the meeting, but in the absence of the Secretary and any Assistant Secretary the chairman of the meeting may appoint any person to act as secretary of the meeting.

Section 2.8. *Action by Directors Without a Meeting*. Unless otherwise restricted by the certificate of incorporation or these bylaws, any action required or permitted to be taken at any meeting of the Board of Directors, or of any committee thereof, may be taken without a meeting if all members of the Board or of such committee, as the case may be, consent thereto in writing, or by electronic transmission, and the writing or writings or electronic transmission or transmissions are filed with the minutes of proceedings of the Board or committee. Such filing shall be in paper form if the minutes are maintained in paper form and shall be in electronic form if the minutes are maintained in electronic form.

Section 2.9. *Compensation of Directors*. Unless otherwise restricted by the certificate of incorporation or these bylaws, the Board of Directors shall have the authority to fix the compensation of directors.

ARTICLE III

Committees

Section 3.1. *Committees*. The Board of Directors may designate one or more committees, each committee to consist of one or more of the directors of the Corporation. The Board may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. In the absence or disqualification of a member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not such member or members constitute a quorum, may unanimously appoint another member of the Board to act at the meeting in the place of any such absent or disqualified member. Any such committee, to the extent provided in the resolution of the Board of Directors or in these bylaws, shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation, and may authorize the seal of the Corporation to be affixed to all papers which may require it; but no such committee shall have the power or authority in reference to the following matters: (i) approving or adopting, or recommending to the stockholders, any action or matter (other than the election or removal of directors) expressly required by law to be submitted to stockholders for approval or (ii) adopting, amending or repealing these bylaws.

Section 3.2. *Committee Rules*. Unless the Board of Directors otherwise provides, each committee designated by the Board may adopt, amend and repeal rules for the conduct of its business. In the absence of a provision by the Board or a provision in the rules of such committee to the contrary, a majority of the entire authorized number of members of such committee shall constitute a quorum for the transaction of business, the vote of a majority of the members present at a meeting at the time of such vote if a quorum is then present shall be the act of such committee, and in other respects each committee shall conduct its business in the same manner as the Board conducts its business pursuant to Article II of these bylaws.

ARTICLE IV

Officers

Section 4.1. *Officers; Election*. As soon as practicable after the annual meeting of stockholders in each year, the Board of Directors shall elect a Chairman of the Board, a Secretary and a Chief Financial Officer, and it may, if it so determines, elect from among its members a Vice Chairman of the Board. The Board may also elect one or more Managing Directors, one or more Assistant Secretaries, a Treasurer and one or more Assistant Treasurers and such other officers as the Board may deem desirable or appropriate and may give any of them such further designations or alternate titles as it considers desirable. Any number of offices may be held by the same person unless the certificate of incorporation or these bylaws otherwise provide.

Section 4.2. *Term of Office; Resignation; Removal; Vacancies*. Except as otherwise provided in the resolution of the Board of Directors electing any officer, each officer shall hold office until the first meeting of the Board after the annual meeting of shareholders next succeeding his or her election, and until his or her successor is elected and qualified or until his or her earlier resignation or removal. Any officer may resign at any time upon written notice to the Board or to the Chairman of the Board or the Secretary of the Corporation. Such resignation shall take effect at the time specified therein, and unless otherwise specified therein no acceptance of such resignation shall be necessary to make it effective. The Board may remove any officer with or without cause at any time. Any such removal shall be without prejudice to the contractual rights of such officer, if any, with the Corporation, but the election of an officer shall not of itself create contractual rights. Any vacancy occurring in any office of the Corporation by death, resignation, removal or otherwise may be filled for the unexpired portion of the term by the Board at any regular or special meeting.

Section 4.3. *Powers and Duties*. The officers of the Corporation shall have such powers and duties in the management of the Corporation as shall be stated in these bylaws or in a resolution of the Board of Directors which is not inconsistent with these bylaws and, to the extent not so stated, as generally pertain to their respective offices, subject to the control of the Board. The Secretary shall have the duty to record the proceedings of the meetings of the stockholders, the Board of Directors and any committees in a book to be kept for that purpose. The Board may require any officer, agent or employee to give security for the faithful performance of his or her duties.

ARTICLE V

Stock

Section 5.1. *Certificates*. The shares of stock in the Corporation shall be represented by certificates, provided that the Board of Directors may provide by resolution or resolutions that some or all of any or all classes or series of the Corporation’s stock shall be uncertificated shares. Any such resolution shall not apply to shares represented by a certificate theretofore issued until such certificate is surrendered to the Corporation. Notwithstanding the adoption of such a resolution by the Board, every holder of stock represented by certificates, and upon request every holder of uncertificated shares, shall be entitled to have a certificate signed by or in the name of the Corporation by the Chairman or Vice Chairman of the Board, if any, or the President or a Vice President, and by the Chief Financial Officer or Treasurer or an Assistant Treasurer, or the Secretary or an Assistant Secretary, of the Corporation, representing the number of shares of stock registered in certificate form owned by such holder. If such certificate is manually signed by one officer or manually countersigned by a transfer agent or by a registrar, any other signature on the certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if such person were such officer, transfer agent or registrar at the date of issue.

If the Corporation is authorized to issue more than one class of stock or more than one series of any class, the powers, designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications or restrictions of such preferences and/or rights shall be set forth in full or summarized on the face or back of the certificate which the Corporation shall issue to represent such class or series of stock, provided that, except as otherwise provided by law, in lieu of the foregoing requirements, there may be set forth on the face or back of the certificate which the Corporation shall issue to represent such class or series of stock a statement that the Corporation will furnish without charge to each stockholder who so requests the powers, designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights. Within a reasonable time after the issuance or transfer of uncertificated shares, the Corporation shall send to the registered owner thereof a written notice containing the information required by law to be set forth or stated on certificates or a statement that the Corporation will furnish without charge to each stockholder who so requests the powers, designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights.

Except as otherwise expressly provided by law, the rights and obligations of the holders of uncertificated shares and the rights and obligations of the holders of certificates representing stock of the same class and series shall be identical.

Section 5.2. *Lost, Stolen or Destroyed Stock Certificates; Issuance of New Certificates*. The Corporation may issue a new certificate of stock or uncertificated shares in the place of any certificate theretofore issued by it, alleged to have been lost, stolen or destroyed, and the Corporation may require the owner of the lost, stolen or destroyed certificate, or such owner's legal representative, to give the Corporation a bond sufficient to indemnify it against any claim that may be made against it on account of the alleged loss, theft or destruction of any such certificate or the issuance of such new certificate or uncertificated shares.

ARTICLE VI

Miscellaneous

Section 6.1. *Fiscal Year*. The fiscal year of the Corporation shall be determined by the Board of Directors.

Section 6.2. *Seal*. The Corporation may have a corporate seal which shall have the name of the Corporation inscribed thereon and shall be in such form as may be approved from time to time by the Board of Directors. The corporate seal may be used by causing it or a facsimile thereof to be impressed or affixed or in any other manner reproduced.

Section 6.3. *Waiver of Notice of Meetings of Stockholders, Directors and Committees*. Whenever notice is required to be given by law or under any provision of the certificate of incorporation or these bylaws, a written waiver thereof, signed by the person entitled to notice, whether before or after the time stated therein, shall be deemed equivalent to notice. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the stockholders, directors or members of a committee of directors need be specified in any written waiver of notice unless so required by the certificate of incorporation or these bylaws.

Section 6.4. *Indemnification of Directors, Officers and Employees*. The Corporation shall indemnify to the full extent permitted by law any person made or threatened to be made a party to any action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that such person or such person's testator or intestate is or was a director, officer or employee of the Corporation or serves or served at the request of the Corporation any other enterprise as a director, officer or employee. Expenses, including attorneys' fees, incurred by any such person in defending any such action, suit or proceeding shall be paid or reimbursed by the Corporation promptly upon receipt by it of an undertaking of such person to repay such expenses if it shall ultimately be determined that such person is not entitled to be indemnified by the Corporation. The rights provided to any person by this bylaw shall be enforceable against the Corporation by such person who shall be presumed to have relied upon it in serving or continuing to serve as a director, officer or employee as provided above. No amendment of this bylaw shall impair the rights of any person arising at any time with respect to events occurring prior to such amendment. For purposes of this bylaw, the term "Corporation" shall include any predecessor of the Corporation and any constituent Corporation (including any constituent of a constituent) absorbed by the Corporation in a consolidation or merger; the term "other enterprise" shall include any Corporation, partnership, joint venture, trust or employee benefit plan; service "at the request of the Corporation" shall include service as a director, officer or employee of the Corporation which imposes duties on, or involves services by, such director, officer or employee with respect to an employee benefit plan, its participants or beneficiaries; any excise taxes assessed on a person with respect to an employee benefit plan shall be deemed to be indemnifiable expenses; and action by a person with respect to an employee benefit plan which such person reasonably believes to be in the interest of the participants and beneficiaries of such plan shall be deemed to be action not opposed to the best interests of the Corporation.

Section 6.5. *Interested Directors; Quorum*. No contract or transaction between the Corporation and one or more of its directors or officers, or between the Corporation and any other Corporation, partnership, association or other organization in which one or more of its directors or officers are directors or officers, or have a financial interest, shall be void or voidable solely for this reason, or solely because the director or officer is present at or participates in the meeting of the Board of Directors or committee thereof which authorizes the contract or transaction, or solely because his or her or their votes are counted for such purpose, if: (1) the material facts as to his or her relationship or interest and as to the contract or transaction are disclosed or are known to the Board or the committee, and the Board or committee in good faith authorizes the contract or transaction by the affirmative votes of a majority of the disinterested directors, even though the disinterested directors be less than a quorum; or (2) the material facts as to his or her relationship or interest and as to the contract or transaction are disclosed or are known to the stockholders entitled to vote thereon, and the contract or transaction is specifically approved in good faith by vote of the stockholders; or (3) the contract or transaction is fair as to the Corporation as of the time it is authorized, approved or ratified, by the Board, a committee thereof or the stockholders. Common or interested directors may be counted in determining the presence of a quorum at a meeting of the Board of Directors or of a committee which authorizes the contract or transaction.

Section 6.6. *Form of Records*. Any records maintained by the Corporation in the regular course of its business, including its stock ledger, books of account and minute books, may be kept on, or be in the form of, punch cards, magnetic tape, photographs, microphotographs or any other information storage device, provided that the records so kept can be converted into clearly legible form within a reasonable time. The Corporation shall so convert any records so kept upon the request of any person entitled to inspect the same.

Section 6.7. *Amendment of Bylaws*. These bylaws may be amended or repealed, and new bylaws adopted, by the Board of Directors, but the stockholders entitled to vote may adopt additional bylaws and may amend or repeal any bylaw whether or not adopted by them.

Section 6.8. *Principal Executive or Business Offices*. The Board of Directors shall fix the location of the principal executive office of the Corporation at any place either within or without the State of Delaware. If the principal executive office is located outside Delaware and the Corporation has one or more business offices in Delaware, the Board shall designate one of these offices as the Corporation’s principal business office in Delaware.

PACWEST BANCORP
LIST OF SUBSIDIARIES

December 31, 2021

Subsidiaries of PacWest Bancorp:	**State:**
Pacific Western Bank	California
10700 West Jefferson Avenue SBL LLC	Delaware
12148 Sky Lane SBL LLC	Delaware
1320 West 97th Street CRE LLC	Delaware
1323 Burnet Avenue SBL LLC	Delaware
1335 Darby Street SBL LLC	Delaware
1602 East Central Boulevard SBL LLC	Delaware
1602 Medical Parkway SBL LLC	Delaware
2015 East Marshall Avenue SBL LLC	Delaware
2030 Main Street SBL LLC	Delaware
2499 Futura Parkway LLC	Delaware
272 Fletchwood Road SBL LLC	Delaware
2723 Zinfandel Drive CRE LLC	Delaware
2921 New Highway 51 SBL LLC	Delaware
305 Clyde Morris Boulevard SBL LLC	Delaware
31250 Cedar Valley Drive II CRE LLC	Delaware
3496 Forestdale Drive SBL LLC	Delaware
3889 Highway 69 North SBL LLC	Delaware
4635 North Black Canyon Highway SBL LLC	Delaware
600 North Arrowhead Avenue CRE LLC	Delaware
601 Texas Road II LLC	Delaware
601 Texas Road LLC	Delaware
67400 Ramon Road SBL LLC	Delaware
7120 West McNichols Avenue SBL LLC	Delaware
749 West Main Street SBL LLC	Delaware
75 North Main Street SBL LLC	Delaware
7537-7547 North Clark Street SBL LLC	Delaware
808 West Bartlett Road SBL LLC	Delaware
8805 South McClintock Drive SBL LLC	Delaware
ALTEC Capital Trust	Delaware
CapitalSource CF LLC	Delaware
CapitalSource Finance LLC	Delaware
CapitalSource Funding LLC	Delaware
CapitalSource International LLC	Delaware
CapitalSource Real Estate Loan LLC, 2006-A	Delaware
CapitalSource TRS LLC	Delaware
CapitalSource Trust Preferred Securities 2005-1	Delaware

PACWEST BANCORP
LIST OF SUBSIDIARIES

December 31, 2021

CapitalSource Trust Preferred Securities 2005-2	Delaware
CapitalSource Trust Preferred Securities 2006-1	Delaware
CapitalSource Trust Preferred Securities 2006-2	Delaware
CapitalSource Trust Preferred Securities 2006-3	Delaware
CapitalSource Trust Preferred Securities 2006-4	Delaware
CapitalSource Trust Preferred Securities 2006-5	Delaware
CapitalSource Trust Preferred Securities 2007-2	Delaware
Cheron Holdings LLC	Delaware
Chestnut Assets, LLC	California
CIMC Master Trust	Delaware
Civic 2018-1 Real Estate, LLC	Delaware
Civic Financial Services, LLC	California
Civic Holdings III Trust	Delaware
Civic Holdings III, LLC	Delaware
Civic Real Estate Holdings III, LLC	Delaware
Civic Securitization I, LLC	Delaware
Civic Ventures, LLC	Delaware
Coastline JX Holdings LLC	Delaware
Coastline Michigan LLC	Michigan
Coastline Ohio LLC	Ohio
Coastline RE Holdings Corp.	California
Coastline RE Holdings Moorpark Corp.	California
Coastline RE Holdings NV Corp.	Nevada
Community (CA) Capital Statutory Trust II	Connecticut
Community (CA) Capital Statutory Trust III	Delaware
CRE Assets, LLC	California
CS CF Equity I LLC	Delaware
CS Equity II LLC	Delaware
CS Equity III LLC	Delaware
CS Equity Investments LLC	Delaware
CS Linton Oaks Holdings LLC	Delaware
CS SBA Servicing LLC	Delaware
CSE Equity Holdings LLC	Delaware
CSE Mortgage LLC	Delaware
FCB Statutory Trust I	Delaware
First California Capital Trust I	Delaware
FIRST COMMUNITY BANCORP/CA STATUTORY TRUST VII	Delaware
First Community/CA Statutory Trust V	Connecticut

PACWEST BANCORP
LIST OF SUBSIDIARIES

December 31, 2021

First Community/CA Statutory Trust VI	Delaware
FirstGroup Leasing Nominee Trust No. 2008-SB-1	Delaware
FirstGroup Leasing Trust No. 2008-SB-A	Delaware
Gelco Fleet Trust	Delaware
Granite Hills Ventures, LLC	Delaware
Hudson Housing Tax Credit Fund LXXXIV LP	Delaware
Hudson Kings Canyon LP	Delaware
Hudson Vista del Puente LP	Delaware
Kings Canyon Affordable Housing, L.P.	California
Lot 125 Big Basin Trail CRE LLC	Delaware
Matterhorn 604 LLC	Delaware
Oak Park 3, LP	California
Origin8, LLC	Delaware
Pacific Western Asset Management Inc.	North Carolina
Palace and Jetty CRE LLC	Delaware
PWB ECOM DIRECT LLC	Delaware
PWB OPTICAL LLC	Delaware
R4 OPCA Acquisition LLC	Delaware
SC Financial	California
ServRight II, Inc.	California
ServRight, LLC	Delaware
Stone Eagle Golf Holdings Corp.	California
Textbook Holdings Trust	Delaware
Textbook Holdings, LLC	Delaware
Valley Oaks Financial Corporation	California
Vista del Puente, L.P.	California
Wendy Road Office Development, LLC	California

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the registration statements (Nos. 333-218010 and 333-256041) on Form S-8 and (No. 333-253712) on Form S-3 of our report dated February 28, 2022, with respect to the consolidated financial statements of PacWest Bancorp and the effectiveness of internal control over financial reporting.

/s/ KPMG LLP

Irvine, California
February 28, 2022

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-K for the year ended December 31, 2021 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: February 28, 2022

/s/ Matthew P. Wagner

Matthew P. Wagner
Chief Executive Officer

Exhibit 31.2

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

I, Bart R. Olson, certify that:

1. I have reviewed this report on Form 10-K for the for the year ended December 31, 2021 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: February 28, 2022

/s/ Bart R. Olson

Bart R. Olson
Executive Vice President and Chief Financial Officer

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-K for the year ended December 31, 2021 (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: February 28, 2022

/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.

Exhibit 32.2

Certification of Deputy 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-K for the year ended December 31, 2021 (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: February 28, 2022

/s/ Bart R. Olson

Bart R. Olson
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.