

BANC OF CALIFORNIA, INC.
Form 10-Q
August 18, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2014

or

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

For the transition period from _____ to _____

Commission file number 001-35522

BANC OF CALIFORNIA, INC.

(Exact name of registrant as specified in its charter)

Maryland

(State or other jurisdiction of
incorporation or organization)

04-3639825

(IRS Employer Identification No.)

18500 Von Karman Ave, Suite 1100, Irvine, California

(Address of principal executive offices)

92612

(Zip Code)

(949) 236-5211

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date.

As of July 31, 2014, the registrant had outstanding 27,759,686 shares of voting common stock and 602,783 shares of Class B non-voting common stock.

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BANC OF CALIFORNIA, INC.
FORM 10-Q QUARTERLY REPORT

June 30, 2014

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Forward-looking Statements

When used in this report and in public shareholder communications, in other documents of Banc of California, Inc. (the Company, we, us and our) filed with or furnished to the Securities and Exchange Commission (the SEC), or in oral statements made with the approval of an authorized executive officer, the words or phrases believe, will, should, will likely result, are expected to, will continue, is anticipated, estimate, plans, guidance or similar expressions are intended to identify forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. You are cautioned not to place undue reliance on any forward-looking statements, which speak only as of the date made. These statements may relate to our future financial performance, strategic plans or objectives, revenue, expense or earnings projections, or other financial items. By their nature, these statements are subject to numerous uncertainties that could cause actual results to differ materially from those anticipated in the statements.

Factors that could cause actual results to differ materially from the results anticipated or projected include, but are not limited to, the following:

- i. the ability of the Company to successfully integrate the branches its wholly owned bank subsidiary, Banc of California, N.A. (the Bank), has agreed to acquire from Banco Popular North America (BPNA);
- ii. the Company s ability to receive regulatory approval and otherwise satisfy the closing conditions for the pending acquisition of branches from BPNA, including raising sufficient financing from public or private offerings to complete the acquisition of branches from BPNA;
- iii. risks that the Company s merger and acquisition activities, including but not limited to the pending acquisition of the BPNA branches and the recently completed acquisitions of The Private Bank of California (PBOC), The Palisades Group, LLC and CS Financial, Inc., as well as the recent merger of the Company s subsidiary banks, may disrupt current plans and operations and lead to difficulties in customer and employee retention, risks that the amount of the costs, fees, expenses and charges related to these transactions could be significantly higher than anticipated and risks that the expected revenues, cost savings, synergies and other benefits of these transactions might not be realized within the anticipated timetables or at all;
- iv. risks that funds obtained from capital raising activities will not be utilized efficiently or effectively;
- v. a worsening of current economic conditions, as well as turmoil in the financial markets;
- vi. the credit risks of lending activities, which may be affected by deterioration in real estate markets and the financial condition of borrowers, may lead to increased loan and lease delinquencies, losses and nonperforming assets in our loan and lease portfolio, and may result in our allowance for loan and lease losses not being adequate to cover actual losses and require us to materially increase our loan and lease loss reserves;
- vii. the quality and composition of our securities portfolio;
- viii. changes in general economic conditions, either nationally or in our market areas;
- ix. continuation of the historically low short-term interest rate environment, changes in the levels of general interest rates, and the relative differences between short- and long-term interest rates, deposit interest rates, our net interest margin and funding sources;

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- x. fluctuations in the demand for loans and leases, the number of unsold homes and other properties and fluctuations in commercial and residential real estate values in our market area;
- xi. results of examinations of us by regulatory authorities and the possibility that any such regulatory authority may, among other things, require us to increase our allowance for loan and lease losses, write-down asset values, increase our capital levels, or affect our ability to borrow funds or maintain or increase deposits, which could adversely affect our liquidity and earnings;
- xii. legislative or regulatory changes that adversely affect our business, including changes in regulatory capital or other rules;
- xiii. our ability to control operating costs and expenses;
- xiv. staffing fluctuations in response to product demand or the implementation of corporate strategies that affect our work force and potential associated charges;
- xv. errors in our estimates in determining fair value of certain of our assets, which may result in significant declines in valuation;
- xvi. the network and computer systems on which we depend could fail or experience a security breach;
- xvii. our ability to attract and retain key members of our senior management team;
- xviii. costs and effects of litigation, including settlements and judgments;
- xix. increased competitive pressures among financial services companies;
- xx. changes in consumer spending, borrowing and saving habits;
- xxi. adverse changes in the securities markets;
- xxii. earthquake, fire or other natural disasters affecting the condition of real estate collateral;
- xxiii. the availability of resources to address changes in laws, rules or regulations or to respond to regulatory actions;
- xxiv. inability of key third-party providers to perform their obligations to us;

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xxv. changes in accounting policies and practices, as may be adopted by the financial institution regulatory agencies or the Financial Accounting Standards Board or their application to our business, including additional guidance and interpretation on accounting issues and details of the implementation of new accounting methods;

xxvi. war or terrorist activities; and

xxvii. other economic, competitive, governmental, regulatory, and technological factors affecting our operations, pricing, products and services and the other risks described in this report and from time to time in other documents that we file with or furnish to the SEC, including, without limitation, the risks described under Item 1A. Risk Factors presented elsewhere in this report.

The Company undertakes no obligation to update any such statement to reflect circumstances or events that occur after the date on which the forward-looking statement is made, except as required by law.

Table of Contents**PART I FINANCIAL INFORMATION****ITEM 1 FINANCIAL STATEMENTS
BANC OF CALIFORNIA, INC.****CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION**

(Amounts in thousands, except share and per share data)

(Unaudited)

	June 30, 2014	December 31, 2013
ASSETS		
Cash and due from banks	\$ 5,764	\$ 4,937
Interest-bearing deposits	252,287	105,181
Total cash and cash equivalents	258,051	110,118
Time deposits in financial institutions	2,145	1,846
Securities available for sale, at fair value	233,013	170,022
Loans held for sale, carried at fair value	244,778	192,613
Loans held for sale, carried at lower of cost or fair value	850,963	524,120
Loans and leases receivable, net of allowance of \$22,627 at June 30, 2014 and \$18,805 at December 31, 2013	2,579,586	2,427,306
Federal Home Loan Bank and other bank stock, at cost	34,392	22,600
Servicing rights, net (\$9,816 measured at fair value at June 30, 2014 and \$13,535 at December 31, 2013)	10,191	13,883
Accrued interest receivable	11,170	10,866
Other real estate owned, net	605	
Premises, equipment, and capital leases, net	67,457	66,260
Bank-owned life insurance	18,984	18,881
Goodwill	32,150	30,143
Affordable housing fund investment	5,293	5,628
Deferred income tax	2,546	
Income tax receivable		2,995
Other intangible assets, net	10,959	12,152
Other assets	24,239	18,590
Total Assets	\$ 4,386,522	\$ 3,628,023
LIABILITIES AND SHAREHOLDERS EQUITY		
Noninterest-bearing deposits	\$ 408,404	\$ 429,158
Interest-bearing deposits	2,938,951	2,489,486
Total deposits	3,347,355	2,918,644
Advances from Federal Home Loan Bank	450,000	250,000
Notes payable, net	96,481	82,320
Reserve for loss on repurchased loans	6,174	5,427
Income taxes payable	31	
Accrued expenses and other liabilities	47,163	46,763
Total liabilities	3,947,204	3,303,154
Commitments and contingent liabilities		

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Preferred stock, \$0.01 par value per share, 50,000,000 shares authorized:

Series A, non-cumulative perpetual preferred stock, \$1,000 per share liquidation preference, 32,000 shares authorized, 32,000 shares issued and outstanding at June 30, 2014 and December 31, 2013	31,934	31,934
Series B, non-cumulative perpetual preferred stock, \$1,000 per share liquidation preference, 10,000 shares authorized, 10,000 shares issued and outstanding at June 30, 2014 and December 31, 2013	10,000	10,000
Series C, 8.00% non-cumulative perpetual preferred stock, \$1,000 per share liquidation preference, 40,250 shares authorized, 40,250 shares issued and outstanding at June 30, 2014 and December 31, 2013	37,943	37,943
Common stock, \$0.01 par value per share, 446,863,844 shares authorized; 28,658,873 shares issued and 27,032,464 shares outstanding at June 30, 2014; 20,959,286 shares issued and 19,561,469 shares outstanding at December 31, 2013	287	210
Class B non-voting non-convertible Common stock, \$0.01 par value per share, 3,136,156 shares authorized; 596,018 shares issued and outstanding at June 30, 2014 and 584,674 shares issued and outstanding at December 31, 2013	6	6
Additional paid-in capital	369,530	256,306
Retained earnings	18,779	16,981
Treasury stock, at cost (1,626,409 shares at June 30, 2014 and 1,397,817 shares at December 31, 2013)	(29,652)	(27,911)
Accumulated other comprehensive income (loss), net	491	(600)
Total shareholders' equity	439,318	324,869
Total liabilities and shareholders' equity	\$ 4,386,522	\$ 3,628,023

See accompanying notes to unaudited consolidated financial statements

Table of Contents**BANC OF CALIFORNIA, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS**

(Amounts in thousands, except per share data)

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
Interest and dividend income				
Loans, including fees	\$ 42,077	\$ 26,153	\$ 83,607	\$ 44,690
Securities	993	369	1,917	867
Dividends and other interest-earning assets	564	219	886	352
Total interest and dividend income	43,634	26,741	86,410	45,909
Interest expense				
Deposits	6,071	3,303	11,806	5,302
Federal Home Loan Bank advances	99	58	199	121
Notes payable and other interest-bearing liabilities	1,889	1,755	3,645	3,502
Total interest expense	8,059	5,116	15,650	8,925
Net interest income	35,575	21,625	70,760	36,984
Provision for loan and lease losses	2,108	1,918	4,037	4,086
Net interest income after provision for loan and lease losses	33,467	19,707	66,723	32,898
Noninterest income				
Customer service fees	356	509	609	1,055
Loan servicing income	774	458	2,027	646
Income from bank owned life insurance	56	50	103	88
Net gain on sale of securities available for sale	15	1	522	309
Net gain on sale of loans	3,038	3,724	5,641	4,036
Net gain on mortgage banking activities	26,133	20,261	43,457	36,631
Other income	5,000	1,069	8,291	1,235
Total noninterest income	35,372	26,072	60,650	44,000
Noninterest expense				
Salaries and employee benefits	39,130	25,311	73,811	44,391
Occupancy and equipment	7,425	3,630	15,962	6,823
Professional fees	3,528	2,947	7,393	5,244
Data processing	1,270	1,365	2,061	2,275
Advertising	710	890	1,785	1,412
Regulatory assessments	1,046	211	1,987	592
Loan servicing and foreclosure expense	175	148	350	352
Operating loss on equity investment	161	131	335	290
Valuation allowance for other real estate owned				79
Net (gain) loss on sales of other real estate owned		(37)		(151)
Provision for loan repurchases	330	732	901	988
Amortization of intangible assets	944	367	1,883	734
All other expense	5,746	3,899	11,765	6,123
Total noninterest expense	60,465	39,594	118,233	69,152

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Income before income taxes	8,374	6,185	9,140	7,746
Income tax expense	253	1,822	262	2,454
Net income	8,121	4,363	8,878	5,292
Preferred stock dividends	910		1,820	288
Net income available to common shareholders	\$ 7,211	\$ 4,363	\$ 7,058	\$ 5,004
Basic earnings per common share	\$ 0.27	\$ 0.35	0.30	\$ 0.41
Diluted earnings per common share	\$ 0.27	\$ 0.35	0.30	\$ 0.41
Basic earnings per class B common share	\$ 0.27	\$ 0.35	0.30	\$ 0.41
Diluted earnings per class B common share	\$ 0.25	\$ 0.29	0.24	\$ 0.36

See accompanying notes to unaudited consolidated financial statements

Table of Contents**BANC OF CALIFORNIA, INC.****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

(Amounts in thousands)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net income	\$ 8,121	\$ 4,363	\$ 8,878	\$ 5,292
Unrealized gain (loss) on available-for-sale securities:				
Unrealized gain (loss) arising during the period, net of tax (expense) benefit of \$0 and \$0, respectively	1,099	(400)	2,122	(300)
Reclassification adjustment for gain included in net income, net of tax expense of \$0 and \$0, respectively	(15)	(1)	(522)	(309)
Total change in unrealized loss (gain) on available-for-sale securities	1,084	(401)	1,600	(609)
Unrealized loss on cash flow hedge				
Unrealized loss arising during the period, net of tax (expense) benefit of \$0 and \$0, respectively	(292)		(509)	
Total change in unrealized loss on cash flow hedge	(292)		(509)	
Total other comprehensive income (loss), net of tax	792	(401)	1,091	(609)
Comprehensive income	\$ 8,913	\$ 3,962	\$ 9,969	\$ 4,683

See accompanying notes to unaudited consolidated financial statements

Table of Contents**BANC OF CALIFORNIA, INC.****CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**

(Amounts in thousands)

(Unaudited)

	Preferred Stock			Common Stock		Additional Paid- in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
	Series A	Series B	Series C	Class A	Class B					
Balance at December 31, 2012	\$ 31,934	\$	\$	\$ 120	\$ 11	\$ 154,563	\$ 26,550	\$ (25,818)	\$ 1,397	\$ 188,757
Comprehensive income (loss):										
Net income							5,292			5,292
Other comprehensive income, net									(609)	(609)
Issuance of common stock				42	(6)	43,450				43,486
Issuance of preferred stock			33,734							33,734
Purchase of 6,216 shares of treasury stocks								(69)		(69)
Issuance of stock awards from treasury stock						(1,799)		1,799		
Shares purchased under the Dividend Reinvestment Plan						186	(186)			
Stock option compensation expense						215				215
Restricted stock compensation expense						657				657
Dividends declared (\$0.24 per common share)							(2,690)			(2,690)
Preferred stock dividends							(288)			(288)
Balance at June 30, 2013	\$ 31,934	\$	\$ 33,734	\$ 162	\$ 5	\$ 197,272	\$ 28,678	\$ (24,088)	\$ 788	\$ 268,485
Balance at December 31, 2013	\$ 31,934	\$ 10,000	\$ 37,943	\$ 210	\$ 6	\$ 256,306	\$ 16,981	\$ (27,911)	\$ (600)	\$ 324,869
Comprehensive income:										
Net income							8,878			8,878
Other comprehensive income, net									1,091	1,091
Issuance of common stock				77		55,397				55,474
Issuance of tangible equity units						51,720				51,720
Purchase of 10,888 shares of treasury stock								(134)		(134)
Reclassification adjustment for awards issued from treasury stock						1,926		(1,926)		
Exercise of stock options						757				757
Stock option compensation expense						156				156
Restricted stock compensation expense						2,663				2,663
Stock appreciation right expense						514				514
						(319)		319		

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Issuance of stock awards from treasury stock											
Shares purchased under the Dividend Reinvestment Plan				410		28					438
Dividends declared (\$0.24 per common share)						(5,288)					(5,288)
Preferred stock dividends						(1,820)					(1,820)
Balance at June 30, 2014	\$ 31,934	\$ 10,000	\$ 37,943	\$ 287	\$ 6	\$ 369,530	\$ 18,779	\$ (29,652)	\$ 491	\$ 439,318	

See accompanying notes to unaudited consolidated financial statements

Table of Contents**BANC OF CALIFORNIA, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Amounts in thousands)

(Unaudited)

	Six Months Ended June 30,	
	2014	2013
Cash flows from operating activities:		
Net income	\$ 8,878	\$ 5,292
Adjustments to reconcile net income to net cash used in operating activities		
Provision for loan losses	4,037	4,086
Provision for loan repurchases	901	988
Net gain on mortgage banking activities	(43,457)	(36,631)
Gain on sale of loans	(5,641)	(4,036)
Net amortization (accretion) of securities	345	576
Depreciation on premises and equipment	3,250	1,510
Amortization of intangibles	1,883	734
Amortization of debt issuance cost	239	192
Stock option compensation expense	156	215
Stock award compensation expense	2,663	657
Stock appreciation right expense	514	298
Bank owned life insurance income	(103)	(88)
Operating loss on equity investment	335	290
Net (gain) loss on sale of securities available for sale	(522)	(309)
Gain on sale of other real estate owned		(151)
Loss (Gain) on sale or disposal of property and equipment	297	(2)
Increase in valuation allowances on other real estate owned		79
Originations of loans held for sale from mortgage banking	(1,226,599)	(867,640)
Originations of other loans held for sale	(751,061)	
Proceeds from sales of and principal collected on loans held for sale from mortgage banking	1,215,423	752,478
Proceeds from sales of and principal collected on other loans held for sale	339,144	
Change in deferred loan (costs) fees	617	(399)
Amortization of premiums and discounts on purchased loans	(19,311)	(8,001)
Change in accrued interest receivable	(304)	(2,885)
Change in other assets	8,917	8,710
Change in accrued interest payable and other liabilities	(984)	863
Net cash used in operating activities	(460,383)	(143,174)
Cash flows from investing activities:		
Proceeds from sales of securities available-for-sale	52,245	8,539
Proceeds from maturities and calls of securities available-for-sale	1,105	8,767
Proceeds from principal repayments of securities available-for-sale	16,843	45,130
Purchases of securities available-for-sale	(131,407)	(48,626)
Net cash used in acquisitions	(1,000)	
Loan originations and principal collections, net	(116,192)	(144,707)
Purchase of loans	(11,956)	(374,878)
Redemption of Federal Home Loan Bank stocks		25
Purchase of Federal Home Loan Bank and other bank stocks	(11,792)	(2,021)
Proceeds from sale of loans held for investment	73,398	155,209

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Net change in time deposits in financial institutions	(299)	2,438
Proceeds from sale of other real estate owned	48	3,474
Additions to premises and equipment	(5,355)	(4,033)
Payments of capital lease obligations	(504)	(113)
Net cash used in investing activities	(134,866)	(350,796)
Cash flows from financing activities:		
Net increase in deposits	428,711	803,489
Net increase (decrease) in Federal Home Loan Bank advances	200,000	(30,000)
Net proceeds from issuance of common stock	54,474	43,486
Net proceeds from issuance of preferred stock		33,734
Net proceeds from issuance of tangible equity units	65,642	
Purchase of treasury stock	(134)	(69)
Proceeds from exercise of stock options	757	
Dividends paid on preferred stock	(1,832)	(288)
Dividends paid on common stock	(4,436)	(2,690)
Net cash provided by financing activities	743,182	847,662
Net change in cash and cash equivalents	147,933	353,692
Cash and cash equivalents at beginning of period	110,118	108,643
Cash and cash equivalents at end of period	\$ 258,051	\$ 462,335
Supplemental cash flow information		
Interest paid on deposits and borrowed funds	\$ 15,563	\$ 8,893
Income taxes paid		
Income taxes refunds received		2,305
Supplemental disclosure of noncash activities		
Transfer from loans to other real estate owned, net	653	
Transfer of loans receivable to loans held for sale, net of transfer of \$963 and \$0 from allowance for loan and lease losses for the six months ended June 30, 2014 and 2013, respectively	62,057	10,358
Transfer of loans held for sale to loans receivable	94,837	
Equipment acquired under capital leases	989	714

See accompanying notes to unaudited consolidated financial statements

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BANC OF CALIFORNIA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (*UNAUDITED*)

June 30, 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation: The accompanying unaudited consolidated financial statements include the accounts of Banc of California, Inc. (the Company, we, us and our) and its wholly owned subsidiaries, Banc of California, National Association (the Bank), the Palisades Group, LLC (the Palisades Group), and PTB Property Holdings, LLC, as of June 30, 2014 and December 31, 2013 and for the three and six months ended June 30, 2014 and 2013, except that the accounts of the Palisades Group were not included for amounts for the three and six months ended June 30, 2013. Significant intercompany accounts and transactions have been eliminated in consolidation. Unless the context requires otherwise, all references to the Company include its wholly owned subsidiaries.

Nature of Operations: The principal business of the Company is the ownership of the Bank. The Bank operates under a national bank charter issued by the Office of the Comptroller of the Currency (the OCC), its primary regulator. The Bank is a member of the Federal Home Loan Bank (FHLB) system, and maintains insurance on deposit accounts with the Federal Deposit Insurance Corporation (FDIC). PTB Property Holdings, LLC manages and disposes of other real estate owned properties and the Palisades Group provides financial advisory and asset management services.

The Bank is engaged in the business of retail banking, with operations conducted through 17 banking offices, serving San Diego, Los Angeles, and Orange counties, California and 60 producing loan production offices in California, Arizona, Oregon, Montana, Virginia, North Carolina, Colorado, Indiana, and Maryland as of June 30, 2014. As of June 30, 2014, single family residential (SFR) mortgage loans and Green loans (SFR mortgage lines of credit) accounted for approximately 41.5 percent and 5.1 percent, respectively, of the Company's loan and lease portfolio, with a high percentage of such loans concentrated in Southern California. The customer's ability to repay their loans or leases is dependent on the real estate market and general economic conditions in the area.

The accounting and reporting policies of the Company are based upon U.S. generally accepted accounting principles (GAAP) and conform to predominant practices within the banking industry. The Company has not made any significant changes in its critical accounting policies or in its estimates and assumptions from those disclosed in its 2013 Annual Report on Form 10-K other than the adoption of new accounting pronouncements and other authoritative guidance that became effective for the Company on or after January 1, 2014. Refer to Accounting Pronouncements for discussion of accounting pronouncements adopted in 2014.

Basis of Presentation: The accompanying unaudited interim consolidated financial statements have been prepared pursuant to the rules and regulations for reporting on Form 10-Q. Accordingly, certain disclosures required by GAAP are not included herein. These interim statements should be read in conjunction with the consolidated financial statements and notes included in the Annual Report on Form 10-K for the year ended December 31, 2013 filed by the Company with the Securities and Exchange Commission. The December 31, 2013 balance sheet presented herein has been derived from the audited financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2013 filed with the Securities and Exchange Commission, but does not include all of the disclosures required by GAAP.

In the opinion of management of the Company, the accompanying unaudited interim consolidated financial statements reflect all of the adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the consolidated financial position and consolidated results of operations for the periods presented. Certain reclassifications have been made in the prior period financial statements to conform to the current period presentation.

The results of operations for the three and six months ended June 30, 2014 are not necessarily indicative of the results to be expected for the full year.

Use of Estimates in the Preparation of Financial Statements: The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and disclosures provided, and actual results could differ. The allowance for loan and lease losses, reserve for loss on repurchased loans, servicing rights, other real estate owned, realization of deferred tax assets, goodwill, other intangible assets, derivatives, fair value of assets and liabilities acquired in business combinations, and the fair value of financial instruments are particularly subject to change and such change could have a material effect on the consolidated financial statements.

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Income Taxes: Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance is established when necessary to reduce deferred tax assets when it is more-likely-than-not that a portion or all of the net deferred tax assets will not be realized. As of June 30, 2014, the Company had a net deferred tax asset of \$2.5 million, net of a \$13.0 million valuation allowance and as of December 31, 2013, the Company had a net deferred tax asset of \$0, net of a \$17.3 million valuation allowance (See further discussion in Note 11, Income Taxes).

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Earnings Per Share: Earnings per share is computed under the two-class method. Basic earnings per common share (EPS) is computed by dividing net income allocated to common shareholders by the weighted average number of shares outstanding, including the minimum number of shares issuable under purchase contracts relating to the tangible equity units. Diluted EPS is computed by dividing net income allocated to common shareholders by the weighted average number of shares outstanding, adjusted for the dilutive effect of the restricted stock units, the potentially issuable shares in excess of the minimum under purchase contracts relating to the tangible equity units, outstanding stock options, and warrants to purchase common stock. Net income allocated to common shareholders is computed by subtracting income allocated to participating securities and preferred stock dividend from net income. Participating securities are instruments granted in share-based payment transactions that contain rights to receive nonforfeitable dividends or dividend equivalents, which includes the Stock Appreciation Rights to the extent they confer dividend equivalent rights, as described under *Stock Appreciation Rights* in Note 14.

Correction of Prior Period Errors: During the three months ended June 30, 2014, the Company made cumulative prior period (three months ended March 31, 2014 and years ended December 31, 2013 and 2012) adjustments related to the allowance for loan and lease losses, restricted stock compensation expense, and other expenses, which increased provision for loan and lease losses by \$758 thousand, stock compensation expense by \$483 thousand, and other expense by \$160 thousand. The Company reviewed the impact of these corrections in accordance with Securities Exchange Commission Staff Accounting Bulletin No. 99 *Materiality*, and determined that the correction was not material to prior and current periods.

Accounting Pronouncements: During the six months ended June 30, 2014, the following pronouncements applicable to the Company were issued or became effective:

In January 2014, the FASB issued guidance within ASU 2014-01, *Accounting for Investments in Qualified Affordable Housing Projects*. The amendments in ASU 2014-01 to Topic 323, *Equity Investments and Joint Ventures*, provide guidance on accounting for investments by a reporting entity in flow-through limited liability entities that manage or invest in affordable housing projects that qualify for the low-income housing tax credit. The amendments permit reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received, and recognizes the net investment performance in the income statement as a component of income tax expense (benefit). The amendments are effective for fiscal years, and interim periods within those years, beginning after December 31, 2014 and should be applied retrospectively to all periods presented. Early adoption is permitted. All of the Company's affordable housing fund investments are within the scope of this guidance. The Company is in the process of evaluating the impact that adoption of this guidance may have on its consolidated financial statements.

In January 2014, the FASB issued ASU No. 2014-04, *Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure*. ASU 2014-04 clarifies that an in substance repossession or foreclosure has occurred, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure. Interim and annual disclosure is required of both the amount of foreclosed residential real estate property held by the creditor and the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure. ASU 2014-04 is effective using either the modified retrospective transition method or a prospective transition method for fiscal years and interim periods within those years, beginning after December 15, 2014, and early adoption is permitted. The Company is in the process of evaluating the impact that adoption of this guidance may have on its consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue From Contracts With Customers*, that outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The ASU is based on the principle that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to fulfill a contract. Entities have the option of using either a full retrospective or a modified retrospective approach for the adoption of the new standard. The ASU becomes effective for Company at the beginning of its 2017 fiscal year; early adoption is not permitted. The Company is in the process of evaluating the impact that adoption of this guidance may have on its consolidated financial statements.

In June 2014, the FASB issued ASU No. 2014-11, *Transfers and Servicing: Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures*. The ASU changes the accounting for repurchase-to-maturity transactions to secured borrowing accounting. In addition, for repurchase financing arrangements, the amendments require separate accounting for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty, which will result in secured borrowing accounting for the repurchase agreement. The ASU also requires disclosures for certain transactions comprising (1) a transfer of a financial asset accounted for as a sale and (2) an agreement

with the same transferee entered into in contemplation of the

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initial transfer that results in the transferor retaining substantially all of the exposure to the economic return on the transferred financial asset throughout the term of the transaction. There are also additional disclosure requirements for repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions that are accounted for as secured borrowings. The Company is in the process of evaluating the impact that adoption of this guidance may have on its consolidated financial statements.

In June 2014, the FASB issued ASU No. 2014-12, Compensation Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period. The ASU requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. A reporting entity should apply existing guidance in Topic 718 as it relates to awards with performance conditions that affect vesting to account for such awards. As such, the performance target should not be reflected in estimating the grant-date fair value of the award. The Company is in the process of evaluating the impact that adoption of this guidance may have on its consolidated financial statements.

NOTE 2 BUSINESS COMBINATIONS AND BRANCH SALES

The Company completed the following acquisitions between January 1, 2013 and June 30, 2014 and used the acquisition method of accounting. Accordingly, the operating results of the acquired entities have been included in the consolidated financial statements from their respective dates of acquisition. The following table presents a summary of acquired assets and assumed liabilities along with a summary of the acquisition consideration as of the dates of acquisition:

	Acquisition and Date Acquired			
	Renovation Ready	CS Financial	The Palisades Group	Private Bank of California
	January 31, 2014	October 31, 2013	September 10, 2013	July 1, 2013
	(In thousands)			
Assets acquired:				
Cash and due from banks	\$	\$ 482	\$ 900	\$ 33,752
Interest-bearing deposits			5	
Securities available for sale				219,298
Loans held for sale		4,982		
Loans and leases receivable				385,256
Premises, equipment, and capital leases		704		1,501
Income tax receivable				682
Goodwill	3,000	7,178		14,925
Other intangible assets		690		10,400
Other assets		608	364	6,578
Total assets acquired	\$ 3,000	\$ 14,644	\$ 1,269	\$ 672,392
Liabilities assumed:				
Deposits	\$	\$	\$	\$ 561,689
Advances from Federal Home Loan Bank				41,833
Other liabilities	1,000	6,722	1,219	2,481
Total liabilities assumed	1,000	6,722	1,219	606,003
SBLF preferred stock assumed				10,000
Total consideration paid	\$ 2,000	\$ 7,922	\$ 50	\$ 56,389
Summary of consideration				
Cash paid	\$ 1,000	\$ 1,500	\$ 50	\$ 28,077
Common stock issued	1,000	1,964		28,282
Replacement awards				30

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Noninterest-bearing note		3,150
Performance based equity		1,308
Earn-out liabilities	1,000	
<i>RenovationReady® Acquisition</i>		

Effective January 31, 2014, the Company acquired certain assets, including service contracts and intellectual property, of RenovationReady, a provider of specialized loan services to financial institutions and mortgage bankers that originate agency eligible residential renovation and construction loan products.

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The RenovationReady acquisition was accounted for under GAAP guidance for business combinations. The purchased identifiable intangible assets and assumed liabilities were recorded at their estimated fair values as of January 31, 2014. Because of the short time period between the acquisition date and June 30, 2014, the Company used significant estimates and assumptions to value the identifiable assets acquired and liabilities assumed. The closing date valuations related to other intangible assets and assumed liabilities are preliminary and could differ significantly when finalized.

CS Financial Acquisition

Effective October 31, 2013, the Company acquired CS Financial, Inc. (CS Financial), a California corporation and Southern California-based mortgage banking firm controlled by former Company director and current Company executive Jeffery T. Seabold. CS Financial became a wholly owned subsidiary of the Bank. For additional information regarding this transaction, see note 18-Related-Party Transactions.

The CS Financial acquisition was accounted for under GAAP guidance for business combinations. The purchased assets, including identifiable intangible assets and assumed liabilities were recorded at their estimated fair values as of October 31, 2013. The Company recorded \$7.2 million of goodwill and \$690 thousand of other intangible assets. The other intangible assets are related to a trade name intangible.

The Palisades Group, LLC, Acquisition

Effective September 10, 2013, the Company acquired The Palisades Group, a Delaware limited liability company and a registered investment adviser under the Investment Advisers Act of 1940, pursuant to the terms of the Amended and Restated Units Purchase Agreement dated as of November 30, 2012, amended and restated as of August 12, 2013, for \$50 thousand. The Palisades Group provides financial advisory and asset management services to third parties, including the Bank, with respect to the purchase, sale and management of portfolios of residential mortgage loans.

The Palisades Group acquisition was accounted for under GAAP guidance for business combinations. The assets and liabilities were recorded at their estimated fair values as of the September 10, 2013 acquisition date. No goodwill was recognized.

The Private Bank of California Acquisition

Effective July 1, 2013, the Company completed its acquisition of The Private Bank of California, (PBOC) pursuant to the terms of the Agreement and Plan of Merger, dated as of August 21, 2012, as amended (the PBOC Merger Agreement), by and between the Company, Beach Business Bank (Beach) (then a separate subsidiary bank of the Company) and PBOC. PBOC merged with and into Beach, with Beach continuing as the surviving entity in the merger and a wholly owned subsidiary of the Company, and changing its name to The Private Bank of California. On October 11, 2013, The Private Bank of California was merged with the Company's other wholly owned banking subsidiary, Banc of California, National Association (formerly Pacific Trust Bank), to form the Bank.

Pursuant to the terms of the PBOC Merger Agreement, the Company paid aggregate merger consideration of (1) 2,082,654 shares of Company common stock (valued at \$28.3 million based on the \$13.58 per share closing price of Company common stock on July 1, 2013), and (2) \$25.4 million in cash. Additionally, the Company paid out \$2.7 million for certain outstanding options to acquire PBOC common stock in accordance with the PBOC Merger Agreement and converted the remaining outstanding PBOC stock options to Company stock options with an assumed fair value of approximately \$30 thousand. On the basis of the number of shares of PBOC common stock issued and outstanding immediately prior to the completion of the merger, each outstanding share of PBOC common stock was converted into the right to receive \$6.52 in cash and 0.5379 shares of Company common stock.

In addition, upon completion of the acquisition, each share of preferred stock issued by PBOC as part of the Small Business Lending Fund (SBLF) program of the United States Department of Treasury (10,000 shares in the aggregate with a liquidation preference amount of \$1,000 per share) was converted automatically into one substantially identical share of preferred stock of the Company. The terms of the preferred stock issued by the Company in exchange for the PBOC preferred stock are substantially identical to the preferred stock previously issued by the Company as part of its own participation in the SBLF program (32,000 shares in aggregate with a liquidation preference amount of \$1,000 per share).

PBOC provided a range of financial services, including credit and deposit products as well as cash management services, from its headquarters located in the Century City area of Los Angeles, California as well as full-service branches in Hollywood and Irvine, and a loan production office in downtown Los Angeles. PBOC's target clients included high-net worth and high income individuals, business professionals and their professional service firms, business owners, entertainment service businesses and non-profit organizations.

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In accordance with GAAP guidance for business combinations, the Company has expensed approximately \$2.6 million of direct acquisition costs, all of which were recognized in 2013, and recorded \$14.9 million of goodwill and \$10.4 million of other intangible assets. The other intangible assets are primarily related to core deposits and are being amortized on an accelerated basis over 2-7 years. Loans that were acquired from PBOC that were considered credit impaired were written down at the acquisition date in accordance with purchase accounting to fair value. In addition, the allowance for loan losses for all PBOC loans was not carried over to the Company's allowance for loan and lease losses. A full valuation allowance for the deferred tax asset was recorded based on management's evaluation of the expectation of recovery of deferred tax assets for the Company. For tax purposes purchase accounting adjustments, including goodwill are all nontaxable and/or non-deductible.

Pro Forma Information

The following table presents unaudited pro forma information as if the acquisitions of PBOC, Palisades and CS Financial had occurred on January 1, 2013 after giving effect to certain adjustments. The unaudited pro forma information for the three and six months ended June 30, 2013 includes adjustments for interest income on loans and securities acquired, amortization of intangibles arising from the transaction, interest expense on deposits and borrowings acquired, and the related income tax effects.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	<i>(In thousands, except per share data)</i>			
Net interest income	\$ 35,575	\$ 26,863	\$ 70,760	\$ 47,392
Provision for loan and lease losses	2,108	2,412	4,037	4,929
Noninterest income	35,372	34,348	60,650	58,958
Noninterest expense	60,465	50,851	118,233	90,276
Income before income taxes	8,374	7,948	9,140	11,145
Income tax expense	253	2,564	262	3,882
Net income	\$ 8,121	\$ 5,384	\$ 8,878	\$ 7,263
Basic earnings per total common share	\$ 0.27	\$ 0.36	\$ 0.30	\$ 0.47
Diluted earnings per total common share	\$ 0.27	\$ 0.35	\$ 0.30	\$ 0.47

The above unaudited pro forma financial information for 2013 includes the pre-acquisition periods for PBOC, Palisades, and CS Financial. The above unaudited pro forma financial information includes pre-acquisition provisions for loan and lease losses recognized by PBOC and CS Financial of \$494 thousand and \$843 thousand for the three and six months ended June 30, 2013, respectively. No pro forma information for RenovationReady is presented for the three and six months ended June 30, 2014, as it is immaterial. Pro forma statements do not include cost savings or integration costs and may not be reflective of what it would have looked like had they been put together at that date.

Branch Sales

On October 4, 2013, the Bank completed a branch sale transaction to AmericanWest Bank, a Washington state chartered bank (AWB). In the transaction, the Bank sold eight branches and related assets and deposit liabilities to AWB. The transaction was completed with a transfer of \$464.3 million deposits to AWB in exchange for a deposit premium of 2.3 percent. Certain other assets related to the branches include the real estate for three of the branch locations and certain overdraft and other credit facilities related to the deposit accounts. The Company recognized a gain of \$12.6 million from this transaction, of which \$12.1 million was recognized in 2013.

Pending Acquisition of Banco Popular's California Branch Network

On April 22, 2014, the Bank entered into a Purchase and Assumption Agreement (the Purchase Agreement) with Banco Popular North America (BPNA), pursuant to which the Bank agreed to acquire select assets and assume certain liabilities comprising BPNA's network of 20 California branches (the Branches). Subject to the terms of the Purchase Agreement, the Bank will pay approximately \$5.4 million for the deposits assumed and loans acquired based on March 31, 2014 balances, which equates to an effective deposit premium of 0.5%.

At the closing of the transaction (the Closing), and subject to the terms of the Purchase Agreement, the Bank will acquire approximately

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\$1.1 billion in loans and assume approximately \$1.1 billion of deposit liabilities related to the Branches (based on March 31, 2014 balances). The Bank will also acquire certain other assets relating to the Branches, including, among others, owned and leased real property. In addition to certain deposits, the Bank will assume other liabilities pertaining to the operation of the Branches at the Closing.

The Bank will not acquire the assets or assume the liabilities related to certain business of the Branches to be retained by BPNA, including, among others, BPNA's credit card, health care and direct banking businesses and residential mortgages. BPNA will also retain certain loans relating to the Branches, including nonperforming and nonaccrual loans, other real estate owned, home equity lines of credit with a combined loan-to-value ratio in excess of 80% or for which the ability to draw on the line has been frozen and loans relating to BPNA's credit card business. Additionally, between the date of the Purchase Agreement and the Closing, the Bank may elect to exclude from the transaction certain loans or deposits in circumstances described in the Purchase Agreement.

The Purchase Agreement contains customary representations, warranties and covenants of the parties, including, among others, a covenant that requires BPNA to generally conduct the operations of the BPNA Branches in the ordinary course of business and to refrain from certain kinds of transactions. The Purchase Agreement also contains customary indemnification provisions and indemnification by BPNA for up to 1.5% of credit losses on loans acquired by the Bank for a period of two years following the Closing. The Purchase Agreement also includes a customary covenant by BPNA not to engage in certain banking businesses or operations conducted by the BPNA Branches in the Los Angeles metropolitan statistical area for a period of two years following the Closing, subject to certain customary exemptions.

The transaction is subject to customary conditions to closing, including the receipt of all required governmental approvals, the accuracy of both parties' representations, the performance in all material respects of all covenants and other agreements required by the Purchase Agreement and the execution and delivery of related transaction documents. In addition, the obligation of the Bank to complete the transaction is subject to its receipt of financing necessary to complete the transaction on the terms set forth in the Purchase Agreement. The Bank is obligated to pay a fee of \$2 million if the Purchase Agreement is terminated in certain circumstances, including, among others, if BPNA terminates the Purchase Agreement because the Bank fails to obtain acceptable financing to enable the Bank to consummate the transaction by September 30, 2014.

NOTE 3 FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair Value Hierarchy: ASC 820-10 establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The topic describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Securities Available for Sale: The fair values of securities available for sale are generally determined by quoted market prices, if available (Level 1), or by matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3). The fair values of the Company's Level 3 securities are determined by the Company or an independent third-party provider using a discounted cash flow methodology. The methodology uses discount rates that are based upon observed market yields for similar securities. Prepayment speeds are estimated based upon the prepayment history of each bond and a detailed analysis of the underlying collateral. Gross weighted average coupon, geographic concentrations, loan to value, FICO and seasoning are among the different loan attributes that are factored into our prepayment curve. Default rates and severity are estimated based upon geography of the collateral, delinquency, modifications, loan to value ratios, FICO scores, and past performance.

Impaired Loans and Leases: The fair value of impaired loans and leases with specific allocations of the allowance for loan and lease losses or impairment based on collateral values is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are typically significant and result in a Level 3 classification of the inputs for determining fair value. The fair value of non-collateral dependent impaired loans and leases with specific allocations of the allowance for loan and lease losses or impairments is based on the present value of estimated cash flows, a Level 3 measurement.

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Loans Held for Sale: The fair value of loans held for sale is based on commitments outstanding from investors as well as what secondary markets are currently offering for portfolios with similar characteristics. Therefore, loans held for sale subjected to recurring fair value adjustments are classified as Level 2. The Company had \$244.8 million and \$192.6 million of loans held for sale at such fair values at June 30, 2014 and December 31, 2013, respectively. The Company also had \$851.0 million and \$524.1 million of non-conforming jumbo mortgage loans held for sale at the lower of cost or fair value at June 30, 2014 and December 31, 2013, respectively. The Company obtains quotes, bid or pricing indications on all or part of these loans directly from the buyers. Premiums and discounts received or to be received on the quotes, bids or pricing indications are indicative of the fact that the cost is lower or higher than fair value.

Derivative Assets and Liabilities: The Company's derivative assets and liabilities are carried at fair value as required by GAAP and are accounted for as freestanding derivatives. The Company has entered into pay-fixed, receive-variable interest rate swap contracts with institutional counterparties to hedge against variability in cash flow attributable to interest rate risk caused by changes in the LIBOR benchmark interest rate on the Company's ongoing LIBOR-based variable rate deposits. The Company is accounting for the swaps as cash flow hedges under ASC 815. The other derivative assets are interest rate lock commitments (IRLCs) with prospective residential mortgage borrowers whereby the interest rate on the loan is locked by the borrower prior to funding. These IRLCs are determined to be derivative instruments in accordance with GAAP. Additional derivative assets and liabilities, typically mortgage-backed to-be-announced (TBA) securities, are used to hedge fair value changes, driven by changes in interest rates, on the Company's mortgage assets. The Company hedges the period from the interest rate lock (assuming a fall-out factor) to the date of the loan sale. The estimated fair value is based on current market prices for similar instruments. Given the meaningful level of secondary market activity for derivative contracts, active pricing is available for similar assets and accordingly, the Company classifies its derivative assets and liabilities as Level 2.

Mortgage Servicing Rights: The Company retains servicing on some of its mortgage loans sold and elected the fair value option for valuation of these mortgage servicing rights (MSRs). The value is based on a third party provider that calculates the present value of the expected net servicing income from the portfolio based on key factors that include interest rates, prepayment assumptions, discount rate and estimated cash flows. Because of the significance of unobservable inputs, these servicing rights are classified as Level 3.

Other Real Estate Owned Assets: Other real estate owned assets (OREO) are recorded at the fair value less estimated costs to sell at the time of foreclosure. The fair value of other real estate owned assets is generally based on recent real estate appraisals adjusted for estimated selling costs. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments may be significant and result in a Level 3 classification of the inputs for determining fair value. Only OREO with a valuation allowance are considered to be carried at fair value. The Company did not have valuation allowance expense for OREO for the three months ended June 30, 2014 and 2013 and recorded \$0 and \$79 thousand, respectively, for the six months ended June 30, 2014 and 2013 in valuation allowance expense for OREO.

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Available for sale securities, certain conforming mortgage loans held for sale, derivative assets and liabilities, and servicing rights mortgage are measured at fair value on a recurring basis, whereas impaired loans and leases, non-conforming jumbo mortgage loans held for sale and other real estate owned are measured at fair value on a non-recurring basis.

The following table presents the Company's financial assets and liabilities measured at fair value on a recurring basis as of the dates indicated:

	Carrying Value	Fair Value Measurement Level		
		Quoted Prices in Active Markets for Identical Assets (Level One)	Significant Other Observable Inputs (Level Two)	Significant Unobservable Inputs (Level Three)
June 30, 2014:				
Assets				
Available-for-sale securities:				
SBA loan pools securities	\$ 1,755	\$	\$ 1,755	\$
U.S. government-sponsored entities and agency securities	1,970		1,970	
Private label residential mortgage-backed securities	4,109		4,109	
Agency mortgage-backed securities	225,179		225,179	
Loans held for sale	244,778		244,778	
Derivative assets ⁽¹⁾	7,937		7,937	
Mortgage servicing rights ⁽²⁾	9,816			9,816
Liabilities				
Derivative liabilities ⁽³⁾	3,991		3,991	
December 31, 2013:				
Assets				
Available-for-sale securities:				
SBA loan pools securities	\$ 1,736	\$	\$ 1,736	\$
U.S. government-sponsored entities and agency securities	1,920		1,920	
Private label residential mortgage-backed securities	14,752		14,752	
Agency mortgage-backed securities	151,614		151,614	
Loans held for sale	192,613		192,613	
Derivative assets ⁽¹⁾	5,493		5,493	
Mortgage servicing rights ⁽²⁾	13,535			13,535
Liabilities				
Derivative liabilities ⁽³⁾				

⁽¹⁾ Included in other assets on the consolidated statements of financial condition

⁽²⁾ Included in servicing rights, net and servicing rights held for sale on the consolidated statements of financial condition

⁽³⁾ Included in accrued expenses and other liabilities on the consolidated statements of financial condition

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The following table presents the Company's financial assets and liabilities measured at fair value on a non-recurring basis as of the dates indicated:

	Carrying Value	Fair Value Measurement Level		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2014:				
Assets				
Impaired loans:				
Single family residential mortgage	\$ 26,413	\$	\$	\$ 26,413
Commercial and industrial	4,507			4,507
Commercial real estate	3,148			3,148
Multi-family	1,651			1,651
Other consumer	211			211
SBA	6			6
Other real estate owned:				
Single family residential	605			605
December 31, 2013:				
Assets				
Impaired loans:				
Single family residential mortgage	\$ 12,814	\$	\$ 8,769	\$ 4,045
Commercial real estate	3,868		105	3,763
Multi-family	1,972			1,972
Other consumer	249		216	33
Commercial and industrial	33			33
SBA	10			10

The Company did not have any other real estate owned at December 31, 2013.

The following table presents the gains and (losses) recognized on assets measured at fair value on a non-recurring basis for the periods indicated:

	Three months ended		Six months ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
<i>(In thousands)</i>				
Impaired loans:				
Single family residential mortgage	\$ (181)	\$ (308)	\$ (332)	\$ (432)
Multi-family		(169)		(465)
Other consumer			(2)	(2)
Other real estate owned:				
Single family residential		37		(33)
Commercial real estate				105

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The following table presents a reconciliation of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the periods indicated:

	Three Months Ended			Six Months Ended		
	Private Label Residential Mortgage Backed Securities	Mortgage Servicing Rights	Total	Private Label Residential Mortgage Backed Securities	Mortgage Servicing Rights	Total
<i>(In thousands)</i>						
June 30, 2014:						
Balance at beginning of period	\$	\$ 8,407	\$ 8,407	\$	\$ 13,535	\$ 13,535
Transfers out of Level 3 ⁽¹⁾					(9,185)	(9,185)
Total gains or losses (realized/unrealized):						
Included in earnings realized						
Included in earnings fair value adjustment		(565)	(565)		(250)	(250)
Included in other comprehensive income						
Amortization of premium (discount)						
Additions		5,996	5,996		10,322	10,322
Sales and settlements		(4,022)	(4,022)		(4,606)	(4,606)
Balance at end of period	\$	\$ 9,816	\$ 9,816	\$	\$ 9,816	\$ 9,816
June 30, 2013:						
Balance at beginning of period	\$ 1,919	\$ 2,579	\$ 4,498	\$ 2,214	\$ 1,739	\$ 3,953
Transfers out of Level 3 ⁽¹⁾						
Total gains or losses (realized/unrealized):						
Included in earnings realized						
Included in earnings fair value adjustment		305	305		330	330
Included in other comprehensive income	4		4	3		3
Amortization of premium (discount)						
Additions		1,852	1,852		2,762	2,762
Sales and settlements	(217)	(116)	(333)	(511)	(211)	(722)
Balance at end of period	\$ 1,706	\$ 4,620	\$ 6,326	\$ 1,706	\$ 4,620	\$ 6,326

(1) The Company's policy is to recognize transfers in and transfers out as of the actual date of the event or change in circumstances that cause the transfer.

The following table presents quantitative information about Level 3 fair value measurements on a recurring basis as of the dates indicated:

	Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range (Weighted Average)
June 30, 2014:				
Mortgage servicing rights	\$ 9,816	Discounted cash flow	Discount rate Prepayment rate	10.00% to 16.42% (10.92%) 4.34% to 36.13% (14.20%)
December 31, 2013:				
Mortgage servicing rights	\$ 13,535	Discounted cash flow	Discount rate Prepayment rate	10.00% to 17.94% (10.26%) 4.19% to 34.54% (9.85%)
June 30, 2013:				
Mortgage servicing rights	\$ 4,620	Discounted cash flow	Discount rate Prepayment rate	10.50% to 17.87% (10.59%) 6.04% to 36.08% (9.04%)
	\$ 1,706	Discounted cash flow	Voluntary prepayment rate	1.37% to 4.92% (3.15%)

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Private label residential mortgage
backed securities

Collateral default rate	6.23% to 6.26% (6.25%)
Loss severity at default	55%

The significant unobservable inputs used in the fair value measurement of the Company's servicing rights include the discount rate and estimated cash flows. There may be inherent weaknesses in any calculation technique, and changes in the underlying assumptions used, including discount rates and estimates of future cash flows, could significantly affect the results.

The significant unobservable inputs used in the fair value measurement of the Company's private label and agency residential mortgage backed securities are prepayment rates, collateral default rates, and loss severity in the event of default. Significant increases (decreases) in any of those inputs in isolation could result in a significantly lower (higher) fair value measurement. Generally, a change in the assumption used for the collateral default rates is accompanied by a directionally similar change in the assumption used for the loss severity and a directionally opposite change in the assumption used for prepayment rates.

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The following table presents the carrying amounts and estimated fair values of financial assets and liabilities as of the dates indicated:

	Carrying Amount	Level 1	Fair Value Measurement Level		Total
			Level 2	Level 3	
			<i>(In thousands)</i>		
June 30, 2014:					
Financial assets					
Cash and cash equivalents	\$ 258,051	\$ 258,051	\$	\$	\$ 258,051
Time deposits in financial institutions	2,145	2,145			2,145
Securities available-for-sale	233,013		233,013		233,013
FHLB and other bank stock	34,392		34,392		34,392
Loans held for sale	1,095,741		1,101,569		1,101,569
Loans and leases receivable, net of allowance	2,579,586			2,633,738	2,633,738
Accrued interest receivable	11,170	11,170			11,170
Derivative assets	7,937		7,937		7,937
Financial liabilities					
Deposits	3,347,355		3,321,428		3,321,428
Advances from Federal Home Loan Bank	450,000		450,053		450,053
Notes payable	96,481	86,648	16,041		102,689
Derivative liabilities	3,991		3,991		3,991
Accrued interest payable	1,733	1,733			1,733
December 31, 2013:					
Financial assets					
Cash and cash equivalents	\$ 110,118	\$ 110,118	\$	\$	\$ 110,118
Time deposits in financial institutions	1,846	1,846			1,846
Securities available-for-sale	170,022		170,022		170,022
FHLB and other bank stock	22,600		22,600		22,600
Loans held for sale	716,733		719,496		719,496
Loans and leases receivable, net of allowance	2,427,306			2,460,953	2,460,953
Accrued interest receivable	10,866	10,866			10,866
Derivative assets	5,493		5,493		5,493
Financial liabilities					
Deposits	2,918,644		2,877,650		2,877,650
Advances from Federal Home Loan Bank	250,000		250,090		250,090
Notes payable	82,320	85,564			85,564
Derivative liabilities					
Accrued interest payable	1,646	1,646			1,646

The methods and assumptions used to estimate fair value are described as follows:

Carrying amount is the estimated fair value for cash and cash equivalents, time deposits in financial institutions, and accrued interest receivable and payable. The methods for determining the fair values for securities available for sale, and derivatives assets and liabilities are described above. For fixed rate loans or deposits and for variable rate loans or deposits with infrequent re-pricing or re-pricing limits, fair value is based on discounted cash flows using current market rates applied to the estimated life and credit risk. The fair value of FHLB advances and long-term debt is based on current rates for similar financing, and therefore not indicative of an exit price. It was not practicable to determine the fair value of FHLB stock due to restrictions placed on its transferability. Notes payable consists of Senior Notes and Amortizing Notes (see note 10-Long Term Debt for additional information). The fair value of the Amortizing Notes is based on discounted cash flows using estimated current market rates. The fair value of off-balance-sheet items is not considered material (or is based on the current fees or costs that would be charged to enter into or terminate such arrangements) and is not presented.

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NOTE 4 SECURITIES AVAILABLE FOR SALE

The following table presents the amortized cost and fair value of the available-for-sale investment securities portfolio and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) as of the dates indicated:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	<i>(In thousands)</i>			
June 30, 2014:				
Available for sale				
SBA loan pools securities	\$ 1,749	\$ 6	\$	\$ 1,755
U.S. government-sponsored entities and agency securities	1,934	36		1,970
Private label residential mortgage-backed securities	4,114	13	(18)	4,109
Agency mortgage-backed securities	225,103	879	(803)	225,179
Total securities available for sale	\$ 232,900	\$ 934	\$ (821)	\$ 233,013
December 31, 2013:				
Available for sale				
SBA loan pools securities	\$ 1,794	\$	\$ (58)	\$ 1,736
U.S. government-sponsored entities and agency securities	1,928		(8)	1,920
Private label residential mortgage-backed securities	14,653	135	(36)	14,752
Agency mortgage-backed securities	153,134	299	(1,819)	151,614
Total securities available for sale	\$ 171,509	\$ 434	\$ (1,921)	\$ 170,022

The following table presents amortized cost and fair value of the available-for-sale investment securities portfolio by expected maturity. In the case of residential mortgage-backed securities and SBA loan pool securities, expected maturities may differ from contractual maturities because borrowers generally have the right to call or prepay obligations with or without call or prepayment penalties. For that reason, mortgage-backed securities and SBA loan pool securities are not included in the maturity categories.

	June 30, 2014	
	Amortized Cost	Fair Value
	<i>(In thousands)</i>	
Maturity:		
Available for sale		
Within one year	\$	\$
One to five years		
Five to ten years	1,934	1,970
Greater than ten years		
SBA loan pools, private label residential mortgage backed and agency mortgage-backed securities	230,966	231,043
Total	\$ 232,900	\$ 233,013

At June 30, 2014 and December 31, 2013, there were no holdings of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10 percent of shareholders' equity.

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The following table presents proceeds from sales and calls of securities and the associated gross gains and losses realized through earnings upon the sale of available for sale securities for the periods indicated:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
	<i>(In thousands)</i>			
Gross realized gains on sales of securities available for sale	\$ 15	\$ 1	\$ 560	\$ 309
Gross realized losses on sales of securities available for sale			(38)	
Net realized gains (losses) on sales of securities available for sale	\$ 15	\$ 1	\$ 522	\$ 309
Proceeds from sales of securities available for sale	\$ 1,272	\$ 475	\$ 52,245	\$ 8,539
Tax expense on sales of securities available for sale	\$	\$	\$	\$

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Securities available for sale with carrying values of \$7.5 million and \$63.0 million as of June 30, 2014 and December 31, 2013, respectively, were pledged to secure FHLB advances, public deposits and for other purposes as required or permitted by law.

The following table summarizes the investment securities with unrealized losses by security type and length of time in a continuous unrealized loss position as of the dates indicated:

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
<i>(In thousands)</i>						
June 30, 2014:						
Available for sale						
SBA loan pools securities	\$	\$	\$	\$	\$	\$
U.S. government-sponsored entities and agency securities						
Private label residential mortgage-backed securities	556	(12)	1,688	(6)	2,244	(18)
Agency mortgage-backed securities	77,343	(486)	17,919	(317)	95,262	(803)
Total securities available for sale	\$ 77,899	\$ (498)	\$ 19,607	\$ (323)	\$ 97,506	\$ (821)
December 31, 2013:						
Available for sale						
SBA loan pools securities	\$ 1,736	\$ (58)	\$	\$	\$ 1,736	\$ (58)
U.S. government-sponsored entities and agency securities	1,920	(8)			1,920	(8)
Private label residential mortgage-backed securities	2,064	(11)	3,913	(25)	5,977	(36)
Agency mortgage-backed securities	114,104	(1,790)	1,821	(29)	115,925	(1,819)
Total securities available for sale	\$ 119,824	\$ (1,867)	\$ 5,734	\$ (54)	\$ 125,558	\$ (1,921)

The Company did not record other-than-temporary impairment (OTTI) for securities available for sale for the three and six months ended June 30, 2014 and 2013.

At June 30, 2014, the Company's securities available for sale portfolio consisted of 86 securities, 47 of which were in an unrealized loss position. The unrealized losses are related to an overall increase in interest rates and a decrease in prepayment speeds of the agency mortgage-backed securities.

The Company's private label residential mortgage-backed securities in unrealized loss positions had fair values of \$2.2 million with unrealized losses of \$18 thousand at June 30, 2014. The Company's agency residential mortgage-backed securities in unrealized loss positions had fair values of \$95.3 million with unrealized losses of \$803 thousand at June 30, 2014. The Company's private label residential mortgage-backed securities in unrealized loss positions had fair values of \$6.0 million with unrealized losses of \$36 thousand at December 31, 2013. The Company's agency residential mortgage-backed securities in unrealized loss positions had fair values of \$115.9 million with unrealized losses of \$1.8 million at December 31, 2013.

The Company monitors to ensure it has adequate credit support and as of June 30, 2014, the Company did not have the intent to sell these securities and it is not likely that it will be required to sell the securities before their anticipated recoveries. Of the Company's \$233.0 million securities portfolio, \$231.5 million were rated AAA, AA or A, and \$1.5 million were rated BBB based on the most recent credit rating from the rating agencies as of June 30, 2014. The Company considers the lowest credit rating for identification of potential OTTI.

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NOTE 5 LOANS AND LEASES AND ALLOWANCE FOR LOAN AND LEASE LOSSES

The following table presents the balances in the Company's loans and leases portfolio as of the dates indicated:

	Non-Traditional Mortgages (NTM)	Traditional Loans	Total NTM and Traditional Loans (\$ in thousands)	Purchased Credit Impaired	Total Loans and Leases Receivable
June 30, 2014:					
Commercial:					
Commercial and industrial	\$	\$ 367,111	\$ 367,111	\$ 1,429	\$ 368,540
Commercial real estate		521,168	521,168	14,576	535,744
Multi-family		234,179	234,179		234,179
SBA		25,264	25,264	3,420	28,684
Constructions		30,761	30,761		30,761
Lease financing		57,754	57,754		57,754
Consumer:					
Single family residential mortgage	182,509	612,235	794,744	284,083	1,078,827
Green Loans (HELOC) - first liens	133,986		133,986		133,986
Green Loans (HELOC) - second liens	4,962		4,962		4,962
Other consumer	113	127,114	127,227	1,549	128,776
Total gross loans	\$ 321,570	\$ 1,975,586	\$ 2,297,156	\$ 305,057	\$ 2,602,213
Percentage to total gross loans	12.4%	75.9%	88.3%	11.7%	100.0%
Allowance for loan and lease losses					(22,627)
Loans and leases receivable, net					\$ 2,579,586
December 31, 2013:					
Commercial:					
Commercial and industrial	\$	\$ 283,743	\$ 283,743	\$ 4,028	\$ 287,771
Commercial real estate		514,869	514,869	15,014	529,883
Multi-family		141,580	141,580		141,580
SBA		23,740	23,740	3,688	27,428
Constructions		24,933	24,933		24,933
Lease financing		31,949	31,949		31,949
Consumer:					
Single family residential mortgage	156,490	667,526	824,016	314,820	1,138,836
Green Loans (HELOC) - first liens	147,705		147,705		147,705
Green Loans (HELOC) - second liens	5,289		5,289		5,289
Other consumer	113	108,888	109,001	1,736	110,737
Total gross loans	\$ 309,597	\$ 1,797,228	\$ 2,106,825	\$ 339,286	\$ 2,446,111
Percentage to total gross loans	12.7%	73.4%	86.1%	13.9%	100.0%
Allowance for loan and lease losses					(18,805)
Loans and leases receivable, net					\$ 2,427,306

Non Traditional Mortgage Loans

The Company's non-traditional mortgage (NTM) portfolio is comprised of three interest only products: Green Account Loans (Green Loans), hybrid interest only fixed or adjustable rate mortgage (Interest Only) loans and a small number of additional loans with the potential for negative amortization. As of June 30, 2014 and December 31, 2013, the non-traditional mortgage loans totaled \$321.6 million, or 12.4 percent of the total

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gross loan portfolio, and \$309.6 million, or 12.7 percent of the total gross loan portfolio, respectively. The total NTM portfolio increased by \$12.0 million, or 3.9 percent, during the six months ended June 30, 2014.

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third party automated valuation models. The loan review is designed to provide a method of identifying borrowers who may be experiencing financial difficulty before they actually fail to make a loan payment. Upon receipt of the updated FICO scores, an exception report is run to identify loans with a decrease in FICO of 10 percent or more and/or a resulting FICO of 620 or less. The loans are then further analyzed to determine if the risk rating should be downgraded which will increase the reserves the Company will establish for potential losses. A report of the semi-annual loan review is published and regularly monitored.

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December 31,
2013:

LTV s (1)												
< 61	90	\$ 78,807	53.3%	80	\$ 65,181	46.6%	13	\$ 4,930	29.7%	183	\$ 148,918	49.0%
61-80	38	33,604	22.8%	51	28,999	20.7%	13	7,643	45.9%	102	70,246	23.1%
81-100	26	14,917	10.1%	43	21,474	15.4%	8	3,277	19.7%	77	39,668	13.0%
> 100	19	20,377	13.8%	70	24,213	17.3%	3	773	4.7%	92	45,363	14.9%
Total	173	\$ 147,705	100.0%	244	\$ 139,867	100.0%	37	\$ 16,623	100.0%	454	\$ 304,195	100.0%

(1) LTV represents estimated current loan to value ratio, determined by dividing current unpaid principal balance by latest estimated property value received per the Company policy.

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The decrease in Green Loans was due mainly to reductions in principal balance and payoffs and the increase in interest only was due to increased originations. During 2014, overall improvement on LTV of the Company's single family residential NTM first lien portfolio was due to the improvement in the real estate market and the economy in Southern California. The Company updates LTV on a semi-annual basis, typically in second and fourth quarter or as needed in conjunction with proactive portfolio management.

Allowance for Loan and Lease Losses

The Company has an established credit risk management process that includes regular management review of the loan and lease portfolio to identify problem loans and leases. During the ordinary course of business, management becomes aware of borrowers and lessees that may not be able to meet the contractual requirements of the loan and lease agreements. Such loans and leases are subject to increased monitoring. Consideration is given to placing the loan or lease on non-accrual status, assessing the need for additional allowance for loan and lease losses, and partial or full charge-off. The Company maintains the allowance for loan and lease losses at a level that is considered adequate to cover the estimated and known inherent risks in the loan and lease portfolio.

The Company also maintains a reserve for unfunded loan commitments at a level that is considered adequate to cover the estimated and known inherent risks. The probability of usage of the unfunded loan commitments and credit risk factors determined based on outstanding loan balance of the same customer or outstanding loans that shares similar credit risk exposure are used to determine the adequacy of the reserve. As of June 30, 2014 and December 31, 2013, the reserve for unfunded loan commitments was \$1.4 million.

The credit risk monitoring system is designed to identify impaired and potential problem loans, and to permit periodic evaluation of impairment and the adequacy of the allowance for credit losses in a timely manner. In addition, the Board of Directors of the Bank has adopted a credit policy that includes a credit review and control system which it believes should be effective in ensuring that the Company maintains an adequate allowance for credit losses. The Board of Directors provides oversight and guidance for management's allowance evaluation process, including quarterly valuations, and consideration of management's determination of whether the allowance is adequate to absorb losses in the loan and lease portfolio. The determination of the amount of the allowance for loan and lease losses and the provision for loan and lease losses is based on management's current judgment about the credit quality of the loan and lease portfolio and takes into consideration known relevant internal and external factors that affect collectability when determining the appropriate level for the allowance for loan and lease losses. At June 30, 2014, the Company extended the historical loss look back period from 12 quarters to 15 quarters for determining the level of its allowance for loan and lease losses to better reflect the economic cycle. Due to this change, the Company realized additional \$1.8 million allowance for loans and leases than what it would have been using the 12 quarter historical loss look back period. The nature of the process by which the Company determines the appropriate allowance for loan and lease losses requires the exercise of considerable judgment. Additions to the allowance for loan and lease losses are made by charges to the provision for loan and lease losses. Identified credit exposures that are determined to be uncollectible are charged against the allowance for loan and lease losses. Recoveries of previously charged off amounts, if any, are credited to the allowance for loan and lease losses.

The following table presents a summary of activity in the allowance for loan and lease losses and ending balances of loans evaluated for impairment for the periods indicated:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
	<i>(In thousands)</i>			
Balance at beginning of period	\$ 20,003	\$ 16,015	\$ 18,805	\$ 14,448
Loans and leases charged off	(383)	(1,027)	(586)	(1,932)
Recoveries of loans and leases previously charged off	641	73	1,076	377
Transfer of loans from (to) held-for-sale	258		(705)	
Provision for loan and lease losses	2,108	1,918	4,037	4,086
Balance at end of period	\$ 22,627	\$ 16,979	\$ 22,627	\$ 16,979

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The following table presents the activity and balance in the allowance for loan and lease losses and the recorded investment, excluding accrued interest, in loans and leases by portfolio segment and is based on the impairment method as of or for the three and six months ended June 30, 2014:

	Commercial and Industrial	Commercial Real Estate	Multi- family	SBA	Construction	Lease Financing	Single Family Residential Mortgage	Other Consumer	Unallocated	Total
<i>(In thousands)</i>										
Allowance for loan and lease losses:										
Balance at										
March 31, 2014	\$ 2,367	\$ 6,449	\$ 2,720	\$ 211	\$ 352	\$ 622	\$ 6,147	\$ 782	\$ 353	\$ 20,003
Charge-offs			(3)				(206)	(174)		(383)
Recoveries	27	438		175				1		641
Transfer of loans from held-for-sale							258			258
Provision	613	(1,272)	691	(125)	893	108	1,090	463	(353)	2,108
Balance at June 30, 2014	\$ 3,007	\$ 5,615	\$ 3,408	\$ 261	\$ 1,245	\$ 730	\$ 7,289	\$ 1,072	\$	\$ 22,627
Balance at										
December 31, 2013	\$ 1,822	\$ 5,484	\$ 2,566	\$ 235	\$ 244	\$ 428	\$ 7,044	\$ 532	\$ 450	\$ 18,805
Charge-offs			(3)	(17)			(357)	(209)		(586)
Recoveries	53	754		267				2		1,076
Transfer of loans to held-for-sale							(705)			(705)
Provision	1,132	(623)	845	(224)	1,001	302	1,307	747	(450)	4,037
Balance at June 30, 2014	\$ 3,007	\$ 5,615	\$ 3,408	\$ 261	\$ 1,245	\$ 730	\$ 7,289	\$ 1,072	\$	\$ 22,627
Individually evaluated for impairment	\$	\$	\$	\$	\$	\$	\$ 309	\$	\$	\$ 309
Collectively evaluated for impairment	3,007	5,615	3,408	261	1,245	730	6,659	1,072		21,997
Acquired with deteriorated credit quality							321			321
Total ending allowance balance	\$ 3,007	\$ 5,615	\$ 3,408	\$ 261	\$ 1,245	\$ 730	\$ 7,289	\$ 1,072	\$	\$ 22,627
Loans:										
Individually evaluated for impairment	\$ 4,507	\$ 3,148	\$ 1,651	\$ 6	\$	\$	\$ 26,413	\$ 211	\$	\$ 35,936
Collectively evaluated for impairment	362,604	518,020	232,528	25,258	30,761	57,754	902,317	131,978		2,261,220
Acquired with deteriorated credit	1,429	14,576		3,420			284,083	1,549		305,057

quality

Total ending loan balances	\$ 368,540	\$ 535,744	\$ 234,179	\$ 28,684	\$ 30,761	\$ 57,754	\$ 1,212,813	\$ 133,738	\$	\$ 2,602,213
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The following table presents the activity and balance in the allowance for loan and lease losses and the recorded investment, excluding accrued interest, in loans and leases by portfolio segment and is based on the impairment method as of or for the three and six months ended June 30, 2013:

	Commercial and Industrial	Commercial Real Estate	Multi- family	SBA	Construction	Lease Financing	Single Family Residential Mortgage	Other Consumer	Unallocated	Total
<i>(In thousands)</i>										
Allowance for loan and lease losses:										
Balance at March 31, 2013	\$ 481	\$ 3,698	\$ 1,544	\$ 133	\$ 294	\$ 263	\$ 9,212	\$ 197	\$ 193	\$ 16,015
Charge-offs		(260)	(169)	(262)			(329)	(7)		(1,027)
Recoveries		19		42		4	1	7		73
Provision	335	1,051	74	266	209	(23)	(133)	28	111	1,918
Balance at June 30, 2013	\$ 816	\$ 4,508	\$ 1,449	\$ 179	\$ 503	\$ 244	\$ 8,751	\$ 225	\$ 304	\$ 16,979
Balance at December 31, 2012	\$ 263	\$ 3,178	\$ 1,478	\$ 118	\$ 21	\$ 261	\$ 8,855	\$ 274	\$	\$ 14,448
Charge-offs		(360)	(553)	(392)		(23)	(590)	(14)		(1,932)
Recoveries		19	88	166		6	91	7		377
Provision	553	1,671	436	287	482		395	(42)	304	4,086
Balance at June 30, 2013	\$ 816	\$ 4,508	\$ 1,449	\$ 179	\$ 503	\$ 244	\$ 8,751	\$ 225	\$ 304	\$ 16,979
Individually evaluated for impairment	\$	\$	\$ 280	\$	\$	\$	\$ 256	\$ 35	\$	\$ 571
Collectively evaluated for impairment	816	4,508	1,169	179	503	244	8,183	190	304	16,096
Acquired with deteriorated credit quality							312			312
Total ending allowance balance	\$ 816	\$ 4,508	\$ 1,449	\$ 179	\$ 503	\$ 244	\$ 8,751	\$ 225	\$ 304	\$ 16,979
Loans:										
Individually evaluated for impairment	\$	\$ 725	\$ 2,048	\$ 13	\$	\$	\$ 11,248	\$ 1,055	\$	\$ 15,089
Collectively evaluated for impairment	90,716	309,561	119,281	28,398	5,957	18,631	869,709	19,046		1,461,299
Acquired with deteriorated credit quality	1,938	15,835	838	5,117			114,175	55		137,958
Total ending loan balances	\$ 92,654	\$ 326,121	\$ 122,167	\$ 33,528	\$ 5,957	\$ 18,631	\$ 995,132	\$ 20,156	\$	\$ 1,614,346

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The following table presents loans and leases individually evaluated for impairment by class of loans and leases as of the dates indicated. The recorded investment, excluding accrued interest, presents customer balances net of any partial charge-offs recognized on the loans and leases and net of any deferred fees and costs.

	June 30, 2014			December 31, 2013		
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan and Lease Losses <i>(In thousands)</i>	Unpaid Principal Balance	Recorded Investment	Allowance for Loan and Lease Losses
With no related allowance recorded:						
Commercial:						
Commercial and industrial	\$ 4,617	\$ 4,507	\$	\$ 50	\$ 33	\$
Commercial real estate	4,286	3,148		4,951	3,868	
Multi-family	1,773	1,651		487	270	
SBA	24	6		26	10	
Consumer:						
Single family residential mortgage	22,605	21,785		10,765	9,487	
Other consumer	213	211		248	247	
With an allowance recorded:						
Commercial:						
Multi-family				1,797	1,702	60
Consumer:						
Single family residential mortgage	4,616	4,628	309	3,378	3,327	34
Other consumer				2	2	2
Total	\$ 38,134	\$ 35,936	\$ 309	\$ 21,704	\$ 18,946	\$ 96

The following table presents information on impaired loans and leases, disaggregated by class, for the periods indicated

	Three Months Ended			Six Months Ended		
	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized <i>(In thousands)</i>	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
June 30, 2014:						
Commercial:						
Commercial and industrial	\$ 4,315	\$ 60	\$ 50	\$ 2,158	\$ 60	\$ 50
Commercial real estate	3,220	63	60	3,319	112	117
Multi-family	1,662	40	19	1,673	53	32
SBA	8			4		
Consumer:						
Single family residential mortgage	26,630	191	226	18,450	256	291
Other consumer	212	1	1	213	2	2
Total	\$ 36,047	\$ 355	\$ 356	\$ 25,817	\$ 483	\$ 492
June 30, 2013:						
Commercial:						
Commercial real estate	\$ 761	\$ 23	\$ 23	\$ 1,640	\$ 26	\$ 26
Multi-family	2,212	16	18	2,277	16	18
SBA	13			7		
Consumer:						

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Single family residential mortgage	11,312	92	93	14,168	198	189
Other consumer	635			318		
Total	\$ 14,933	\$ 131	\$ 134	\$ 18,410	\$ 240	\$ 233

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The following table presents nonaccrual loans and leases, and loans past due 90 days or more and still accruing as of the dates indicated:

	NTM Loans	June 30, 2014 Traditional Loans	Total	NTM Loans	December 31, 2013 Traditional Loans	Total
	<i>(In thousands)</i>					
Loans past due 90 days or more and still accruing	\$	\$	\$	\$	\$	\$
Nonaccrual loans:						
The Company maintains specific allowances for these loans of \$0 in 2014 and \$95 in 2013	17,165	24,446	41,611	7,698	23,950	31,648

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

	NTM Loans	June 30, 2014 Traditional Loans	Total	NTM Loans	December 31, 2013 Traditional Loans	Total
	<i>(In thousands)</i>					
Commercial:						
Commercial and industrial	\$	\$ 505	\$ 505	\$	\$ 33	\$ 33
Commercial real estate		2,332	2,332		3,868	3,868
Multi-family		1,905	1,905		1,972	1,972
SBA		183	183		10	10
Construction		317	317			
Lease financing		120	120			
Consumer:						
Single family residential mortgage	2,042	19,034	21,076	2,000	18,032	20,032
Green Loans (HELOC) - first liens	14,912		14,912	5,482		5,482
Green Loans (HELOC) - second liens	211		211	216		216
Other consumer		50	50		35	35
Total nonaccrual loans and leases	\$ 17,165	\$ 24,446	\$ 41,611	\$ 7,698	\$ 23,950	\$ 31,648

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The following tables present the aging of the recorded investment in past due loans and leases as of June 30, 2014, excluding accrued interest receivable (which is not considered to be material), by class of loans and leases:

	June 30, 2014				Current	Total
	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 89 Days Past due	Total Past Due		
	<i>(In thousands)</i>					
NTM loans:						
Single family residential mortgage	\$ 2,223	\$	\$ 2,042	\$ 4,265	\$ 178,244	\$ 182,509
Green Loans (HELOC) - first liens	3,946	2,058	437	6,441	127,545	133,986
Green Loans (HELOC) - second liens	505			505	4,457	4,962
Other consumer					113	113
Total NTM loans	6,674	2,058	2,479	11,211	310,359	321,570
Traditional loans:						
Commercial:						
Commercial and industrial	7,212		256	7,468	359,643	367,111
Commercial real estate	181	70		251	520,917	521,168
Multi-family		149		149	234,030	234,179
SBA	51		176	227	25,037	25,264
Construction			317	317	30,444	30,761
Lease financing	125		120	245	57,509	57,754
Consumer:						
Single family residential mortgage	20,762	7,571	13,574	41,907	570,328	612,235
Other consumer	36	5	3	44	127,070	127,114
Total traditional loans	28,367	7,795	14,446	50,608	1,924,978	1,975,586
Purchased Credit Impaired (PCI) loans:						
Commercial:						
Commercial and industrial					1,429	1,429
Commercial real estate			904	904	13,672	14,576
SBA	662		42	704	2,716	3,420
Consumer:						
Single family residential mortgage	20,024	4,423	11,452	35,899	248,184	284,083
Other consumer					1,549	1,549
Total PCI loans	20,686	4,423	12,398	37,507	267,550	305,057
Total	\$ 55,727	\$ 14,276	\$ 29,323	\$ 99,326	\$ 2,502,887	\$ 2,602,213

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The following tables presents the aging of the recorded investment in past due loans and leases as of December 31, 2013, excluding accrued interest receivable (which is not considered to be material), by class of loans and leases:

	December 31, 2013				Current	Total
	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 89 Days Past due	Total Past Due		
<i>(In thousands)</i>						
NTM loans:						
Single family residential mortgage	\$ 1,003	\$ 1,854	\$ 769	\$ 3,626	\$ 152,864	\$ 156,490
Green Loans (HELOC) - first liens	653		437	1,090	146,615	147,705
Green Loans (HELOC) - second liens					5,289	5,289
Other consumer					113	113
Total NTM loans	1,656	1,854	1,206	4,716	304,881	309,597
Traditional loans:						
Commercial:						
Commercial and industrial	52	235		287	283,456	283,743
Commercial real estate	5,554	194		5,748	509,121	514,869
Multi-family	602			602	140,978	141,580
SBA	14	48		62	23,678	23,740
Construction					24,933	24,933
Lease financing	271	92	19	382	31,567	31,949
Consumer:						
Single family residential mortgage	20,684	6,124	12,181	38,989	628,537	667,526
Other consumer	209	110	35	354	108,534	108,888
Total traditional loans	27,386	6,803	12,235	46,424	1,750,804	1,797,228
PCI loans:						
Commercial:						
Commercial and industrial					4,028	4,028
Commercial real estate					15,014	15,014
SBA	45	1	106	152	3,536	3,688
Consumer:						
Single family residential mortgage	21,888	8,580	12,099	42,567	272,253	314,820
Other consumer					1,736	1,736
Total PCI loans	21,933	8,581	12,205	42,719	296,567	339,286
Total	\$ 50,975	\$ 17,238	\$ 25,646	\$ 93,859	\$ 2,352,252	\$ 2,446,111

Troubled Debt Restructurings

Troubled Debt Restructurings (TDRs) of loans are defined by ASC 310-40, Troubled Debt Restructurings by Creditors and ASC 470-60, Troubled Debt Restructurings by Debtors and evaluated for impairment in accordance with ASC 310-10-35. The concessions may be granted in various forms, including reduction in the stated interest rate, reduction in the amount of principal amortization, forgiveness of a portion of a loan balance or accrued interest, or extension of the maturity date. In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the Company's internal underwriting policy.

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For the three and six months ended June 30, 2014, there were no modifications. The following table summarizes the pre-modification and post-modification balances of new TDRs for the three and six months ended June 30, 2013:

	Three Months Ended			Six Months Ended		
	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
June 30, 2013:						
Consumer:						
Single family residential mortgage	0	\$	\$	1	\$ 367	\$ 360
Total	0	\$	\$	1	\$ 367	\$ 360

During the six months ended June 30, 2013, there was one modification through extension of maturity.

The following table presents loans and leases that were modified as TDRs during the past 12 months that had payment defaults during the period indicated:

	Three Months Ended		Six Months Ended	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
June 30, 2013:				
Consumer:				
Single family residential mortgage	1	\$ 360	1	\$ 360
Total	1	\$ 360	1	\$ 360

Troubled debt restructured loans and leases consist of the following as of the dates indicated:

	June 30, 2014			December 31, 2013		
	NTM Loans	Traditional Loans	Total	NTM Loans	Traditional Loans	Total
Commercial:						
Commercial real estate	\$	\$ 168	\$ 168	\$	\$ 194	\$ 194
SBA		6	6		10	10
Consumer:						
Single family residential mortgage		3,101	3,101		3,605	3,605
Green Loans (HELOC) - first liens	3,457		3,457	3,468		3,468
Total	\$ 3,457	\$ 3,275	\$ 6,732	\$ 3,468	\$ 3,809	\$ 7,277

TDRs were \$6.7 million and \$7.3 million at June 30, 2014 and December 31, 2013, respectively. The Company did not have any commitments to lend to customers with outstanding loans or leases that were classified as troubled debt restructurings as of June 30, 2014 and December 31, 2013.

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Credit Quality Indicators

The Company categorizes loans and leases into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company performs historical loss analysis that is combined with a comprehensive loan or lease to value analysis to analyze the associated risks in the current loan and lease portfolio. The Company analyzes loans and leases individually by classifying the loans and leases as to credit risk. This analysis includes all loans and leases delinquent over 60 days and non-homogenous loans and leases such as commercial and commercial real estate loans and leases. Classification of problem single family residential loans is performed on a monthly basis while analysis of non-homogenous loans and leases is performed on a quarterly basis. The Company uses the following definitions for risk ratings:

Pass: Loans and leases classified as pass are in compliance in all respects with the Bank's credit policy and regulatory requirements, and do not exhibit any potential or defined weakness as defined under Special Mention, Substandard or Doubtful/Loss.

Special Mention: Loans and leases classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or lease or of the Company's credit position at some future date.

Substandard: Loans and leases classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans and leases so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful/Loss: Loans and leases classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Not-Rated: When accrual of income on a pool of purchased credit impaired (PCI) loans with common risk characteristics is appropriate in accordance with ASC 310-30, individual loans in those pools are not risk-rated. The credit criteria evaluated are FICO scores, loan-to-value, delinquency, and actual cash flows versus expected cash flows of the loan pools.

Loans and leases not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans and leases.

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The following table presents the risk categories for loans and leases as of June 30, 2014:

	June 30, 2014					Total
	Pass	Special Mention	Substandard	Doubtful	Not-Rate	
	<i>(In thousands)</i>					
NTM loans:						
Single family residential mortgage	\$ 178,449	\$ 2,018	\$ 2,042	\$	\$	\$ 182,509
Green Loans (HELOC) - first liens	112,846	5,183	15,957			133,986
Green Loans (HELOC) - second liens	4,751		211			4,962
Other consumer	113					113
Total NTM loans	296,159	7,201	18,210			321,570
Traditional loans:						
Commercial:						
Commercial and industrial	359,397	2,951	4,763			367,111
Commercial real estate	515,707	2,243	3,218			521,168
Multi-family	231,031	1,243	1,905			234,179
SBA						