

BANC OF CALIFORNIA, INC.

Form 10-Q

August 04, 2016

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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, 2016

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)

(855) 361-2262

(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 ☒

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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 28, 2016, the registrant had outstanding 49,563,203 shares of voting common stock and 161,841 shares of Class B non-voting common stock.

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 FORM 10-Q QUARTERLY REPORT
 June 30, 2016
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Forward-looking Statements

When used in this report and in public stockholder 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,” “project,” “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. risks that the Company’s merger and acquisition transactions may disrupt current plans and operations and lead to difficulties in customer and employee retention, risks that 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 to the extent anticipated, within the anticipated timetables, or at all;
- ii. risks that funds obtained from capital raising activities will not be utilized efficiently or effectively;
- iii. a worsening of current economic conditions, as well as turmoil in the financial markets;
 - 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
- iv. 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;
- v. the quality, credit and composition of our securities portfolio;
- vi. changes in general economic conditions, either nationally or in our market areas, or in financial markets;
 - continuation of or changes in the historically low short-term interest rate environment, changes in the levels of
- vii. general interest rates, volatility in the interest rate environment, the relative differences between short- and long-term interest rates, deposit interest rates, and our net interest margin and funding sources;
- viii. 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;
- ix. results of examinations of us by regulatory authorities and the possibility that any such regulatory authority may, among other things, limit our business activities, require us to change our business mix, increase our allowance for loan and lease losses, write-down asset values, or increase our capital levels, or affect our ability to borrow funds or maintain or increase deposits, any of which could adversely affect our liquidity and earnings;
- x. legislative or regulatory changes that adversely affect our business, including changes in regulatory capital or other rules and changes that could result from our growth to over \$10 billion in total assets;
- xi. our ability to control operating costs and expenses;
 - staffing fluctuations in response to product demand or the implementation of corporate strategies that affect our
- xii. work force and potential associated charges;
- xiii. errors in estimates of the fair values of certain of our assets, which may result in significant declines in valuation;
- xiv. the network and computer systems on which we depend could fail or experience a security breach;
- xv. our ability to attract and retain key members of our senior management team;
- xvi. costs and effects of litigation, including settlements and judgments;
- xvii. increased competitive pressures among financial services companies;
- xviii. changes in consumer spending, borrowing and saving habits;
 - adverse changes in the securities
- xix. markets;
- xx. earthquake, fire or other natural disasters affecting the condition of real estate collateral;
- xxi. the availability of resources to address changes in laws, rules or regulations or to respond to regulatory actions;

- xxii.inability of key third-party providers to perform their obligations to us;
 - changes in accounting policies and practices, as may be adopted by the financial institution regulatory agencies
- xxiii.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;

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xxiv. war or terrorist activities; and

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
xxv. documents that we file with or furnish to the SEC, including, without limitation, the risks described under “Item
1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2015.

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.

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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, 2016	December 31, 2015
ASSETS		
Cash and due from banks	\$15,598	\$ 15,051
Interest-bearing deposits	256,134	141,073
Total cash and cash equivalents	271,732	156,124
Time deposits in financial institutions	1,500	1,500
Securities available-for-sale, at fair value	1,302,785	833,596
Securities held-to-maturity, at amortized cost (fair value of \$980,871 and \$932,285 at June 30, 2016 and December 31, 2015, respectively)	962,282	962,203
Loans held-for-sale, carried at fair value	418,517	379,155
Loans held-for-sale, carried at lower of cost or fair value	475,265	289,686
Loans and leases receivable, net of allowance for loan and lease losses of \$37,483 and \$35,533 at June 30, 2016 and December 31, 2015, respectively	6,198,632	5,148,861
Federal Home Loan Bank and other bank stock, at cost	81,115	59,069
Servicing rights, net (\$52,567 and \$49,939 measured at fair value at June 30, 2016 and December 31, 2015, respectively)	53,650	50,727
Other real estate owned, net	429	1,097
Premises, equipment, and capital leases, net	120,755	111,539
Bank-owned life insurance	101,314	100,171
Goodwill	39,244	39,244
Deferred income tax	7,270	11,341
Income tax receivable	5,904	604
Other intangible assets, net	16,514	19,158
Receivable on unsettled securities sales	10,049	—
Other assets	90,705	71,480
Total Assets	\$10,157,662	\$8,235,555
LIABILITIES AND STOCKHOLDERS' EQUITY		
Noninterest-bearing deposits	\$1,093,686	\$ 1,121,124
Interest-bearing deposits	6,835,270	5,181,961
Total deposits	7,928,956	6,303,085
Advances from Federal Home Loan Bank	930,000	930,000
Long term debt, net	177,743	261,876
Reserve for loss on repurchased loans	10,438	9,700
Income taxes payable	—	1,241
Due on unsettled securities purchases	89,500	—
Accrued expenses and other liabilities	81,141	77,248
Total liabilities	9,217,778	7,583,150
Commitments and contingent liabilities		
Preferred stock	269,071	190,750
Common stock, \$0.01 par value per share, 446,863,844 shares authorized; 51,077,371 shares issued and 49,478,348 shares outstanding at June 30, 2016; 39,601,290 shares issued and 38,002,267 shares outstanding at December 31, 2015	510	395

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Class B non-voting non-convertible common stock, \$0.01 par value per share, 3,136,156 shares authorized; 161,841 shares issued and outstanding at June 30, 2016 and 37,355 shares issued and outstanding December 31, 2015	2	1
Additional paid-in capital	608,303	429,790
Retained earnings	88,385	63,534
Treasury stock, at cost (1,599,023 shares at June 30, 2016 and at December 31, 2015)	(29,070)	(29,070)
Accumulated other comprehensive income (loss), net	2,683	(2,995)
Total stockholders' equity	939,884	652,405
Total liabilities and stockholders' equity	\$10,157,662	\$8,235,555
See Accompanying Notes to Consolidated Financial Statements (Unaudited)		

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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,	
	2016	2015	2016	2015
Interest and dividend income				
Loans and leases, including fees	\$73,743	\$60,699	\$140,887	\$118,854
Securities	19,393	2,119	35,440	4,046
Dividends and other interest-earning assets	1,504	2,026	2,553	2,724
Total interest and dividend income	94,640	64,844	178,880	125,624
Interest expense				
Deposits	8,385	6,165	16,492	12,526
Federal Home Loan Bank advances	1,966	290	3,228	643
Securities sold under repurchase agreements	389	—	549	—
Long term debt and other interest-bearing liabilities	2,863	4,285	7,157	6,354
Total interest expense	13,603	10,740	27,426	19,523
Net interest income	81,037	54,104	151,454	106,101
Provision for loan and lease losses	1,769	5,474	2,090	5,474
Net interest income after provision for loan and lease losses	79,268	48,630	149,364	100,627
Noninterest income				
Customer service fees	1,173	1,072	2,021	1,982
Loan servicing income (loss)	(3,347)) 2,007	(8,635)) 1,565
Income from bank owned life insurance	580	47	1,143	106
Net gain (loss) on sale of securities available-for-sale	12,824	—	29,613	(2)
Net gain on sale of loans	2,147	7,838	4,342	12,310
Net revenue on mortgage banking activities	43,795	39,403	77,479	77,336
Advisory service fees	510	4,435	1,507	5,632
Loan brokerage income	759	661	1,633	1,802
Gain on sale of building	—	9,919	—	9,919
Gain on sale of a subsidiary	3,694	—	3,694	—
Other income	3,469	1,311	4,766	2,023
Total noninterest income	65,604	66,693	117,563	112,673
Noninterest expense				
Salaries and employee benefits	61,022	56,120	118,205	105,891
Occupancy and equipment	11,943	10,325	23,683	20,096
Professional fees	6,763	6,689	12,975	10,124
Outside service fees	3,186	1,729	6,249	3,056
Data processing	2,838	2,075	5,032	3,910
Advertising	2,406	1,252	4,233	2,164
Regulatory assessments	1,879	1,376	3,615	2,730
Provision (reversal) for loan repurchases	(141)) 999	(500)) 1,844
Amortization of intangible assets	1,322	1,545	2,644	3,089
Impairment on intangible assets	—	258	—	258
All other expense	8,857	5,552	13,039	10,637
Total noninterest expense	100,075	87,920	189,175	163,799
Income before income taxes	44,797	27,403	77,752	49,501

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Income tax expense	18,269	11,479	31,537	21,003
Net income	26,528	15,924	46,215	28,498
Preferred stock dividends	5,114	2,843	9,689	3,753
Net income available to common stockholders	\$21,414	\$13,081	\$36,526	\$24,745
Basic earnings per common share	\$0.44	\$0.33	\$0.81	\$0.62
Diluted earnings per common share	\$0.43	\$0.32	\$0.79	\$0.62
Basic earnings per class B common share	\$0.44	\$0.33	\$0.81	\$0.62
Diluted earnings per class B common share	\$0.44	\$0.33	\$0.81	\$0.62
See Accompanying Notes to Consolidated Financial Statements (Unaudited)				

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BANC OF CALIFORNIA, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in thousands)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net income	\$26,528	\$15,924	\$46,215	\$28,498
Other comprehensive income, net of tax:				
Unrealized gain (loss) on securities available-for-sale:				
Unrealized gain (loss) arising during the period	7,442	(1,982)	23,280	(54)
Reclassification adjustment for (gain) loss included in net income	(7,594)	—	(17,602)	1
Total change in unrealized gain (loss) on securities available-for-sale	(152)	(1,982)	5,678	(53)
Unrealized gain on cash flow hedge:				
Unrealized gain arising during the period	—	336	—	232
Reclassification adjustment for gain included in net income	—	—	—	—
Total change in unrealized gain on cash flow hedge	—	336	—	232
Total change in other comprehensive income	(152)	(1,646)	5,678	179
Comprehensive income	\$26,376	\$14,278	\$51,893	\$28,677
See Accompanying Notes to Consolidated Financial Statements (Unaudited)				

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BANC OF CALIFORNIA, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Amounts in thousands)

(Unaudited)

	Preferred Stock	Common Stock Voting	Class B Non-Voting	Additional Paid- in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2014	\$79,877	\$358	\$ 6	\$422,910	\$29,589	\$(29,798)	\$ 373	\$503,315
Comprehensive income:								
Net income	—	—	—	—	28,498	—	—	28,498
Other comprehensive income, net	—	—	—	—	—	—	179	179
Issuance of common stock	—	15	(6)	(9)	—	—	—	—
Issuance of preferred stock	110,873	—	—	—	—	—	—	110,873
Exercise of stock options	—	—	—	(263)	—	728	—	465
Stock option compensation expense	—	—	—	247	—	—	—	247
Restricted stock compensation expense	—	—	—	4,038	—	—	—	4,038
Stock appreciation right expense	—	—	—	72	—	—	—	72
Restricted stock surrendered due to employee tax liability	—	(1)	—	(1,441)	—	—	—	(1,442)
Tax effect from stock compensation plan	—	—	—	135	—	—	—	135
Shares purchased under the Dividend Reinvestment Plan	—	—	—	95	(95)	—	—	—
Stock appreciation right dividend equivalents	—	—	—	—	(346)	—	—	(346)
Dividends declared (\$0.24 per common share)	—	—	—	—	(8,399)	—	—	(8,399)
Preferred stock dividends	—	—	—	—	(3,753)	—	—	(3,753)
Balance at June 30, 2015	\$190,750	\$372	\$ —	\$425,784	\$45,494	\$(29,070)	\$ 552	\$633,882
Balance at December 31, 2015	\$190,750	\$395	\$ 1	\$429,790	\$63,534	\$(29,070)	\$(2,995)	\$652,405
Comprehensive income:								
Net income	—	—	—	—	46,215	—	—	46,215
Other comprehensive income, net	—	—	—	—	—	—	5,678	5,678
Issuance of common stock	—	117	1	174,976	—	—	—	175,094
Issuance of preferred stock	120,255	—	—	—	—	—	—	120,255
Repayment of preferred stock	(41,934)	—	—	—	(66)	—	—	(42,000)
Cash settlement of stock options	—	—	—	(359)	—	—	—	(359)
Stock option compensation expense	—	—	—	297	—	—	—	297
Restricted stock compensation expense	—	—	—	5,394	—	—	—	5,394

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Stock appreciation right expense	—	—	—	15	—	—	—	15
Restricted stock surrendered due to employee tax liability	—	(2)	—	(3,386)	—	—	—	(3,388)
Tax effect from stock compensation plan	—	—	—	1,468	—	—	—	1,468
Shares purchased under the Dividend Reinvestment Plan	—	—	—	108	(113)	—	—	(5)
Stock appreciation right dividend equivalents	—	—	—	—	(372)	—	—	(372)
Dividends declared (\$0.24 per common share)	—	—	—	—	(11,124)	—	—	(11,124)
Preferred stock dividends	—	—	—	—	(9,689)	—	—	(9,689)
Balance at June 30, 2016	\$269,071	\$510	\$ 2	\$608,303	\$88,385	\$(29,070)	\$ 2,683	\$939,884
See Accompanying Notes to Consolidated Financial Statements (Unaudited)								

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BANC OF CALIFORNIA, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in thousands)
(Unaudited)

	Six Months Ended June 30,	
	2016	2015
Cash flows from operating activities:		
Net income	\$46,215	\$28,498
Adjustments to reconcile net income to net cash used in operating activities		
Provision for loan and lease losses	2,090	5,474
Provision (reversal) for loan repurchases	(500)	1,844
Net revenue on mortgage banking activities	(77,479)	(77,336)
Net gain on sale of loans	(4,342)	(12,310)
Net amortization of premiums and discounts on securities	709	618
Depreciation on premises and equipment	5,664	4,374
Amortization of intangibles	2,644	3,089
Amortization of debt issuance cost	363	546
Stock option compensation expense	297	247
Stock award compensation expense	5,394	4,038
Stock appreciation right expense	15	72
Bank owned life insurance income	(1,143)	(106)
Impairment on intangible assets	—	258
Debt redemption costs	2,737	—
Net (gain) loss on sale of securities available-for-sale	(29,613)	2
Gain on sale of building	—	(9,919)
Gain on sale of a subsidiary	(3,694)	—
Gain on sale of mortgage servicing rights	(2)	—
Gain on sale of other real estate owned	(44)	(23)
Deferred income tax expense	1,456	4,293
Loss on sale or disposal of property and equipment	5	—
Loss from change of fair value and runoff on mortgage servicing rights	18,717	3,134
Increase in valuation allowances on other real estate owned	9	22
Repurchase of mortgage loans	(18,648)	(6,908)
Originations of loans held-for-sale from mortgage banking	(2,301,125)	(2,276,490)
Originations of other loans held-for-sale	(383,841)	(381,767)
Proceeds from sales of and principal collected on loans held-for-sale from mortgage banking	2,348,055	2,195,821
Proceeds from sales of and principal collected on other loans held-for-sale	206,085	452,535
Change in deferred loan fees	(379)	(808)
Net amortization of premiums and discounts on purchased loans	(21,096)	(13,967)
Change in accrued interest receivable	(5,295)	238
Change in other assets	(30,153)	(1,515)
Change in accrued interest payable and other liabilities	922	10,868
Net cash used in operating activities	(235,977)	(65,178)
Cash flows from investing activities:		
Proceeds from sales of securities available-for-sale	3,551,453	174
Proceeds from maturities and calls of securities available-for-sale	—	687
Proceeds from principal repayments of securities available-for-sale	47,167	54,096
Purchases of securities available-for-sale	(3,949,717)	(197,258)

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Purchases of securities held-to-maturity	—	(53,419)
Proceeds from sale of a subsidiary	259	—
Loan and lease originations and principal collections, net	(939,348)	(173,082)
Purchase of loans and leases	(156,258)	(131,532)
Redemption of Federal Home Loan Bank stock	5,690	16,913
Purchase of Federal Home Loan Bank and other bank stock	(27,774)	(8,859)
Proceeds from sale of loans	62,927	313,746
Proceeds from sale of other real estate owned	1,007	908
Proceeds from sale of mortgage servicing rights	5	3,089
Proceeds from sale of premises and equipment	—	52,250
Additions to premises and equipment	(15,458)	(3,815)
Payments of capital lease obligations	(473)	(469)
Net cash used in investing activities	(1,420,520)	(126,571)
Cash flows from financing activities:		
Net increase in deposits	1,625,871	433,179
Net increase (decrease) in short-term Federal Home Loan Bank advances	50,000	(318,000)
Repayment of long-term Federal Home Loan Bank advances	(50,000)	(115,000)
Proceeds from long-term Federal Home Loan Bank advances	—	150,000
Net proceeds from issuance of common stock	175,094	—
Net proceeds from issuance of preferred stock	120,255	110,873
Redemption of preferred stock	(42,000)	—
Net proceeds from issuance of long term debt	—	172,304
Payment of amortizing debt	(2,492)	(2,314)
Redemption of long term debt	(84,750)	—
Proceeds from exercise of stock options	—	465
Cash settlement of stock options	(359)	—
Dividend equivalents paid on stock appreciation rights	(370)	(343)
Dividends paid on preferred stock	(9,405)	(3,385)
Dividends paid on common stock	(9,739)	(8,239)
Net cash provided by financing activities	1,772,105	419,540
Net change in cash and cash equivalents	115,608	227,791
Cash and cash equivalents at beginning of period	156,124	231,199
Cash and cash equivalents at end of period	\$271,732	\$458,990
Supplemental cash flow information		
Interest paid on deposits and borrowed funds	\$26,457	\$21,686
Income taxes paid	36,404	19,502
Income taxes refunds received	1	158
Supplemental disclosure of non-cash activities		
Transfer from loans to other real estate owned, net	304	534
Transfer of loans held-for-investment to loans held-for-sale, net of transfer of \$0 from allowance for loan and lease losses for the six months ended June 30, 2016 and 2015	61,410	43,667
Transfer of loans held-for-sale to loans held-for-investment	7,155	476,901
Equipment acquired under capital leases	16	34
Non-cash consideration received from sale of a subsidiary	2,896	—
Receivable on unsettled securities sales	10,049	—
Due on unsettled securities purchases	89,500	—
See Accompanying Notes to Consolidated Financial Statements (Unaudited)		

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BANC OF CALIFORNIA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation: The accompanying unaudited consolidated financial statements include the accounts of Banc of California, Inc. (collectively, with its consolidated subsidiaries, the Company, we, us and our) and its wholly owned subsidiary, Banc of California, National Association (the Bank) as of June 30, 2016 and December 31, 2015 and for the three and six months ended June 30, 2016 and 2015. On January 22, 2016, PTB Property Holding, LLC (PTB), which was a subsidiary of the Company, was dissolved. PTB was a California limited liability company originally formed in 2014, with the Company as its sole managing member, to hold real estate, cash, and fixed income securities transferred to it by the Company. The Company also sold another subsidiary, The Palisades Group, on May 5, 2016. The Company originally acquired the Palisades Group, a Delaware limited liability company, on September 10, 2013, which provided financial advisory services with respect to the purchase, sale, and management of single family residential (SFR) mortgage loans. Significant intercompany accounts and transactions have been eliminated in consolidation. Unless the context requires otherwise, all references to the Company include its then wholly owned subsidiaries.

Nature of Operations: Banc of California, Inc. is a financial holding company under the Bank Holding Company Act of 1956, as amended, headquartered in Irvine, California and incorporated under the laws of Maryland. Banc of California, Inc.'s assets primarily consist of the outstanding stock of the Bank.

Banc of California, Inc. is subject to regulation by the Board of Governors of the Federal Reserve System (FRB) and the Bank operates under a national bank charter issued by the Office of the Comptroller of the Currency (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).

The Bank had 38 banking offices, serving Orange, Los Angeles, San Diego, and Santa Barbara counties in California, and 63 loan production offices, in California, Arizona, Oregon, Virginia, Colorado, Idaho, and Nevada, as of June 30, 2016.

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 from those disclosed in its 2015 Annual Report on Form 10-K. Refer to Accounting Pronouncements below for discussion of accounting pronouncements adopted in 2016.

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, 2015 filed by the Company with the SEC. The December 31, 2015 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, 2015 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 condition and consolidated results of operations as of the dates and 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, 2016 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 (ALLL), reserve for loss on repurchased loans, servicing rights, the valuation of goodwill and other intangible assets, derivative instruments, purchased credit impaired (PCI) loan

discount accretion, and the fair value measurement of financial instruments are particularly subject to change and any such change could have a material effect on the consolidated financial statements.

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 basis 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, 2016, the Company had a net deferred tax asset of \$7.3 million, with no valuation

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allowance and as of December 31, 2015, the Company had a net deferred tax asset of \$11.3 million, with no valuation allowance. See Note 11 for additional information.

Affordable Housing Fund Investment: The Company elected the proportional amortization method retrospectively for all periods presented during the quarter ended March 31, 2015 in accordance with Accounting Standard Update (ASU) 2014-01, "Accounting for Investments in Qualified Affordable Housing Projects," which amends FASB Accounting Standards Codification (ASC) 323-720 to permit 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. The Company invests in qualified affordable housing projects (affordable housing fund investments). Under the proportional amortization method, the Company 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).

Earnings Per Common Share: Net income allocated to common stockholders is computed by subtracting income allocated to participating securities, participating securities dividends and preferred stock dividends 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. Basic earnings per common share (EPS) is computed by dividing net income allocated to common stockholders by the weighted average number of common shares outstanding, including the minimum number of shares issuable under purchase contracts relating to the tangible equity units, as described under "Tangible Equity Units" in Note 15. Diluted EPS is computed by dividing net income allocated to common stockholders 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. For information regarding the tangible equity units, see Notes 10 and 15.

Adopted Accounting Pronouncements: During the six months ended June 30, 2016, the following pronouncements applicable to the Company were adopted:

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. ASU 2014-12 is effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Adoption of the new guidance has not had a significant impact on the Company's consolidated financial statements.

Accounting Pronouncements Not Yet Adopted: The following are recently issued accounting pronouncements applicable to the Company that have not yet been adopted:

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities." This Update amends certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The ASU requires equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income; it simplifies the impairment assessment of equity investments by requiring a qualitative assessment; it eliminates the requirement for public business entities to disclose methods and assumptions for financial instruments measured at amortized cost on the statement of financial position; it requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability; it requires separate presentation of financial assets and liabilities by measurement category; and certain other requirements. ASU 2016-01 becomes effective for interim and annual periods beginning on or after December 15, 2017. Early application is permitted by public business entities, as of the beginning of the fiscal year of adoption. The Company is in the process of evaluating the impact that adoption of this guidance may have on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, "Leases." This Update requires lessees to recognize the assets and liabilities that arise from leases, as well as defines classification criteria for distinguishing between financing leases and operating leases. For financing leases, lessees are required to recognize a right-of-use asset and a lease liability in the statement of financial position, recognize interest on the lease liability in the statement of comprehensive income, and classify the principal portion of the lease liability within financing activities and payments of interest within operating activities in the statement of cash flows. For operating leases, lessees are required to recognize a right-of-use asset and a lease liability in the statement of financial position, recognize a single lease cost calculated so that the cost of the lease is allocated over lease term on a straight line basis, and classify all cash payments as operating activities in the statement of cash flows. Lessor accounting is largely unchanged, but does align the transfer of control principle for a sale in Topic 606 to leases. For example, whether a lease is similar to a sale

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of the underlying asset depends on whether the lessee, in effect, obtains control of the underlying asset as a result of the lease. For public business entities, the amendments to this Update are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption of the amendments in this Update 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 March 2016, the FASB issued ASU 2016-08, "Revenue from Contracts with Customers (Topic 606)." This Update amends the principal versus agent guidance in ASU 2014-09, Revenue from Contracts with Customers. ASU 2014-09 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. ASU 2016-08 clarifies that the analysis must focus on whether the entity has control of the goods or services before they are transferred to the customer. The amendments in ASU 2016-08 affect the guidance in ASU 2014-09, which is effective for public business entities in annual and interim reporting periods beginning after December 15, 2017. The Company is in the process of evaluating the impact that adoption of this guidance may have on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, "Compensation - Stock Compensation (Topic 718)." This Update was issued as a part of the FASB's simplification initiative, and intends to improve the accounting for share-based payment transactions. The ASU changes several aspects of the accounting for share-based payment award transactions, including accounting for excess tax benefits and deficiencies, income statement recognition, cash flow classification, forfeitures, and tax withholding requirements. ASU 2016-09 is effective for public business entities in annual and interim periods in fiscal years beginning after December 15, 2016. Early adoption is permitted in any interim or annual period provided the entire ASU is adopted. If an entity early adopts the ASU in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes the interim period. The Company is in the process of evaluating the impact that adoption of this guidance may have on its consolidated financial statements.

In April 2016, the FASB issued ASU 2016-10, "Revenue from Contracts with Customers (Topic 606)." This Update amends the guidance in ASU 2014-09, Revenue from Contracts with Customers, and clarifies identifying performance obligations and the licensing implementation guidance. This Update better articulates the principle for determining whether promises to transfer goods or services are separately identifiable, which is utilized in identifying performance obligations in a contract. Additionally, the amendments in this Update are intended to improve the operability and understandability of the licensing implementation guidance. The amendments in ASU 2016-10 affect the guidance in ASU 2014-09, which is effective for public business entities in annual and interim reporting periods beginning after December 15, 2017. The Company is in the process of evaluating the impact that adoption of this guidance may have on its consolidated financial statements.

In May 2016, the FASB issued ASU 2016-12, "Revenue from Contracts with Customers (Topic 606) Narrow-Scope Improvements and Practical Expedients." This Update amends the guidance in ASU 2014-09, Revenue from Contracts with Customers, and clarifies the collectability criterion, accounting policy elections, noncash consideration, satisfied and unsatisfied performance obligations, completed contracts, and disclosures. The amendments in ASU 2016-12 affect the guidance in ASU 2014-09, which is effective for public business entities in annual and interim reporting periods beginning after December 15, 2017. The Company is in the process of evaluating the impact that adoption of this guidance may have on its consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments - Credit Losses (Topic 326)." This Update replaces the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. For public business entities that are SEC filers, the amendments in this Update are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted as of fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is in the process of evaluating the impact that adoption of this guidance may have on its consolidated financial statements.

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NOTE 2 – ASSET SALE AND SUBSIDIARY SALE TRANSACTIONS

Building Sale

On June 25, 2015, the Company sold an improved real property office complex located at 1588 South Coast Drive, Costa Mesa, California (the Property) at a sale price of approximately \$52.3 million with a gain on sale of \$9.9 million. The Property had a book value of \$42.3 million at the sale date. Additionally, the Company incurred selling costs of \$2.3 million for this transaction, which were reported in Professional Fees and All Other Expenses in the Consolidated Statements of Operations for the three and six months ended June 30, 2015.

Branch Sale

On September 25, 2015, the Company completed a branch sale transaction to Americas United Bank, a California banking corporation (AUB). In the transaction, the Company sold two branches and certain related assets and deposit liabilities to AUB. The transaction included a transfer of \$46.9 million of deposits to AUB. Additionally, as part of the transaction, the leases related to both locations were assumed by AUB. The Company recognized a gain of \$163 thousand from this transaction, which is included in Other Income in the Consolidated Statements of Operations for the three months ended September 30, 2015.

The Company also sold certain loans totaling \$40.2 million to AUB as part of the transaction. The Company recognized a gain of \$644 thousand from the sale of these loans, which is included in Net Gain on Sale of Loans in the Consolidated Statements of Operations.

The Palisades Group Sale

On May 5, 2016, the Company completed the sale of all of its membership interests in The Palisades Group, a wholly owned subsidiary of the Company, to an entity wholly owned by Stephen Kirch and Jack Macdowell who serve as the Chief Executive Officer and Chief Investment Officer of The Palisades Group. At the time of sale, The Palisades Group had total assets and net assets of \$4.5 million and \$(540) thousand, respectively. As part of the sale, The Palisades Group issued to the Company a 10 percent, \$5.0 million note due May 5, 2018 (the Note) and agreed to pay the Company an additional contingent amount of up to \$15.0 million from future earnings. The Note is payable in cash, or a combination of certain unpaid cash due at maturity and issuance of a 19.9 percent interest in The Palisades Group. Subsequent to the sale, The Palisades Group has been providing advisory services to the Company over certain loan portfolio assets. The Company recognized a gain on sale of \$3.7 million from this transaction.

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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.

Categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Assets and Liabilities Measured on a Recurring Basis

Securities Available-for-Sale: The fair values of securities available-for-sale are generally determined by quoted market prices in active markets, if available (Level 1). If quoted market prices are not available, the Company primarily employs an independent pricing service that utilizes matrix pricing to calculate fair value. Such fair value measurements consider observable data such as dealer quotes, market spreads, cash flows, yield curves, live trading levels, trade execution data, market consensus prepayment speeds, credit information, and respective terms and conditions for debt instruments. The Company employs procedures to monitor the pricing service's assumptions and establishes processes to challenge the pricing service's valuations that appear unusual or unexpected. Level 2 securities include Small Business Administration (SBA) loan pool securities, U.S. government sponsored entity (GSE) and agency securities, private label residential mortgage-backed securities, agency residential mortgage-backed securities, non-agency commercial mortgage-backed securities, collateralized loan obligations, and non-agency corporate bonds. When a market is illiquid or there is a lack of transparency around the inputs to valuation, the securities are classified as Level 3 and reliance is placed upon internally developed models, and management judgment and evaluation for valuation. The Company had no securities available-for-sale classified as Level 3 at June 30, 2016 or December 31, 2015.

Loans Held-for-Sale, Carried at Fair Value: 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, except for loans that are repurchased out of Ginnie Mae loan pools that become severely delinquent which are valued based on an internal model that estimates the expected loss the Company will incur on these loans. Therefore, loans held-for-sale subjected to recurring fair value adjustments are classified as Level 2 or, in the case of loans repurchased out of Ginnie Mae loan pools, Level 3. The fair value includes the servicing value of the loans as well as any accrued interest.

Derivative Assets and Liabilities:

Derivative Instruments Related to Mortgage Banking Activities. The Company enters into interest rate lock commitments (IRLCs) with prospective residential mortgage borrowers. These commitments are carried at fair value based on the fair value of the underlying mortgage loans which are based on observable market data. The Company adjusts the outstanding IRLCs with prospective borrowers based on an expectation that it will be exercised and the loan will be funded. These commitments are classified as Level 2 in the fair value disclosures, as the valuations are based on market observable inputs. The Company hedges the risk of the overall change in the fair value of loan commitments to borrowers by selling forward contracts on securities of GSEs. These forward settling contracts are classified as Level 2, as valuations are based on market observable inputs.

Interest Rate Swaps and Caps. The Company has entered into pay-fixed, receive-variable interest rate swap contracts with institutional counterparties to hedge against variability in cash flows attributable to interest rate risk caused by changes in the London Interbank Offering Rate (LIBOR) benchmark interest rate on the Company's ongoing LIBOR-based variable rate deposits and other borrowings. The Company also offers interest rate swaps and caps

products to certain loan customers to allow them to hedge the risk of rising interest rates on their variable rate loans. The Company originates a variable rate loan and enters into a variable-to-fixed interest rate swap with the customer. The Company also enters into an offsetting swap with a correspondent bank. These back-to-back agreements are intended to offset each other and allow the Company to originate a variable rate loan, while providing a contract for fixed interest payments for the customer. The net cash flow for the Company is equal to the interest income received from a variable rate loan originated with the customer. The fair value of these

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derivatives is based on a discounted cash flow approach. Due to the observable nature of the inputs used in deriving the fair value of these derivative contracts, the valuation of interest rate swaps is classified 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.

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

	Fair Value Measurement		
	Level		
	Quoted		
	Prices		
	in		
	Active		
	Markets		
	Other		
	Observable		
	Inputs		
	Identical		
	(Level 2)		
	Assets		
	(Level		
	1)		
	(In thousands)		
June 30, 2016			
Assets			
Securities available-for-sale:			
SBA loan pools securities	\$1,416	\$— \$ 1,416	\$ —
Private label residential mortgage-backed securities	1,453	— 1,453	—
Corporate bonds	60,113	— 60,113	—
Collateralized loan obligation	942,706	— 942,706	—
Commercial mortgage-backed securities	11,398	— 11,398	—
Agency mortgage-backed securities	285,699	— 285,699	—
Loans held-for-sale	418,517	— 384,266	34,251
Derivative assets ⁽¹⁾	15,679	— 15,679	—
Mortgage servicing rights ⁽²⁾	52,567	— —	52,567
Liabilities			
Derivative liabilities ⁽³⁾	8,413	— 8,413	—
December 31, 2015			
Assets			
Securities available-for-sale:			
SBA loan pools securities	\$1,504	\$— \$ 1,504	\$ —
Private label residential mortgage-backed securities	1,768	— 1,768	—
Corporate bonds	26,152	— 26,152	—
Collateralized loan obligation	111,468	— 111,468	—
Agency mortgage-backed securities	692,704	— 692,704	—
Loans held-for-sale	379,155	— 360,864	18,291
Derivative assets ⁽¹⁾	9,042	— 9,042	—
Mortgage servicing rights ⁽²⁾	49,939	— —	49,939
Liabilities			
Derivative liabilities ⁽³⁾	1,067	— 1,067	—

- (1) Included in Other Assets on the Consolidated Statements of Financial Condition
- (2) Included in Servicing Rights, Net 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 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	
	June 30,		June 30,	
	2016	2015	2016	2015
	(In thousands)			
Mortgage servicing rights				
Balance at beginning of period	\$48,370	\$21,165	\$49,939	\$19,082
Total gains or losses (realized/unrealized):				
Included in earnings—fair value adjustment	(5,831)	1,538	(14,032)	1,010
Additions	12,766	13,699	21,348	23,891
Sales, paydowns, and other	(2,738)	(2,204)	(4,688)	(9,785)
Balance at end of period	\$52,567	\$34,198	\$52,567	\$34,198
Loans Repurchased from Ginnie Mae Loan Pools				
Balance at beginning of period	\$26,580	\$—	\$18,291	\$—
Total gains or losses (realized/unrealized):				
Included in earnings—fair value adjustment	95	—	142	—
Additions	11,277	—	21,103	—
Sales, settlements, and other	(3,701)	—	(5,285)	—
Balance at end of period	\$34,251	\$—	\$34,251	\$—

Loans repurchased from Ginnie Mae Loan pools had aggregated unpaid principal balances of \$34.8 million and \$18.6 million at June 30, 2016 and December 31, 2015, respectively.

The following table presents, as of the dates indicated, quantitative information about Level 3 fair value measurements on a recurring basis, other than loans that become severely delinquent and are repurchased out of Ginnie Mae loan pools that were valued based on an estimate of the expected loss the Company will incur on these loans, which was included as Level 3 at June 30, 2016 and December 31, 2015:

	Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range (Weighted Average)
	(\$ in thousands)			
June 30, 2016				
Mortgage servicing rights \$52,567	Discounted cash flow	Discount rate		9.00% to 14.50% (10.29%)
		Prepayment rate		6.01% to 40.52% (17.01%)
December 31, 2015				
Mortgage servicing rights \$49,939	Discounted cash flow	Discount rate		9.00% to 18.00% (9.75%)
		Prepayment rate		6.07% to 35.01% (11.81%)

The significant unobservable inputs used in the fair value measurement of the Company's servicing rights include the discount rate and prepayment rate. The significant unobservable inputs used in the fair value measurement of the Company's loans repurchased from Ginnie Mae pools at June 30, 2016 and December 31, 2015 included an expected loss rate of 1.63 percent and 1.85 percent, respectively. 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.

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Assets and Liabilities Measured on a Non-Recurring Basis

Securities Held-to-Maturity: Investment securities that the Company has the ability and the intent to hold to maturity are classified as held-to-maturity. Investment securities classified as held-to-maturity are carried at cost. The fair values of securities held-to-maturity are generally determined by quoted market prices in active markets, if available (Level 1). If quoted market prices are not available, the Company employs an independent pricing service that utilizes matrix pricing to calculate fair value. Such fair value measurements consider observable data such as dealer quotes, market spreads, cash flows, yield curves, live trading levels, trade execution data, market consensus prepayment speeds, credit information, and respective terms and conditions for debt instruments (Level 2). The Company employs procedures to monitor the pricing service's assumptions and establishes processes to challenge the pricing service's valuations that appear unusual or unexpected. When a market is illiquid or there is a lack of transparency around the inputs to valuation, the securities are classified as Level 3 and reliance is placed upon internally developed models, and management judgment and evaluation for valuation. Only securities held-to-maturity with other-than-temporary impairment (OTTI) are considered to be carried at fair value. The Company did not have any OTTI on securities held-to-maturity at June 30, 2016.

Impaired Loans and Leases: The fair value of impaired loans and leases with specific allocations of the ALLL 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.

Loans Held-for-Sale, Carried at Lower of Cost or Fair Value: The Company records non-conforming jumbo mortgage loans held-for-sale at the lower of cost or fair value, on an aggregate basis. The Company obtains fair values from a third party independent valuation service provider. Loans held-for-sale accounted for at the lower of cost or fair value are considered to be recognized at fair value when they are recorded at below cost, on an aggregate basis, and are classified as Level 2.

SBA Servicing Assets: SBA servicing assets represent the value associated with servicing SBA loans that have been sold. The fair value for SBA servicing assets is determined through discounted cash flow analysis and utilizes discount rates and prepayment speed assumptions as inputs. All of these assumptions require a significant degree of management estimation and judgment. The fair market valuation is performed on a quarterly basis for SBA servicing assets. SBA servicing assets are accounted for at the lower of cost or market value and considered to be recognized at fair value when they are recorded at below cost and 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 recorded valuation allowance expense for OREO of \$9 thousand and \$0 for the three months ended June 30, 2016 and 2015, respectively, and \$9 thousand and \$22 thousand for the six months ended June 30, 2016 and 2015, respectively, in All Other Expense in the Consolidated Statements of Operations.

Alternative Investments (Affordable Housing Fund Investment, SBIC, and Other Investment): The Company generally accounts for its percentage ownership of alternative investment funds at cost, subject to impairment testing. These are non-public investments that cannot be redeemed since the Company's investment is distributed as the underlying investments are liquidated, which generally takes 10 years. There are currently no plans to sell any of these investments prior to their liquidation. The alternative investments carried at cost are considered to be measured at fair value on a non-recurring basis when there is impairment. The Company had unfunded commitments of \$349 thousand, \$13.2 million, and \$2.0 million for Affordable House Fund Investment, SBIC, and Other Investments at June 30, 2016, respectively. The Company recorded no impairment on these investments.

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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	Fair Value Level 1	Measurement Level 2	Level 3	Total
(In thousands)					
June 30, 2016					
Financial assets					
Cash and cash equivalents	\$271,732	\$271,732	\$	—\$	—\$271,732
Time deposits in financial institutions	1,500	1,500	—	—	1,500
Securities available-for-sale	1,302,785	—	1,302,785	—	1,302,785
Securities held-to-maturity	962,282	—	980,871	—	980,871
Federal Home Loan Bank and other bank stock	81,115	—	81,115	—	81,115
Loans held-for-sale	893,782	—	869,459	34,251	903,710
Loans and leases receivable, net of ALLL	6,198,632	—	—	6,370,177	6,370,177
Accrued interest receivable	28,095	28,095	—	—	28,095
Derivative assets	15,679	—	15,679	—	15,679
Financial liabilities					
Deposits	7,928,956	—	—	7,818,605	7,818,605
Advances from Federal Home Loan Bank	930,000	—	931,168	—	931,168
Long term debt	177,743	—	181,933	—	181,933
Derivative liabilities	8,413	—	8,413	—	8,413
Accrued interest payable	3,265	3,265	—	—	3,265
December 31, 2015					
Financial assets					
Cash and cash equivalents	\$156,124	\$156,124	\$	—\$	—\$156,124
Time deposits in financial institutions	1,500	1,500	—	—	1,500
Securities available-for-sale	833,596	—	833,596	—	833,596
Securities held-to-maturity	962,203	—	932,285	—	932,285
Federal Home Loan Bank and other bank stock	59,069	—	59,069	—	59,069
Loans held-for-sale	668,841	—	654,559	18,291	672,850
Loans and leases receivable, net of ALLL	5,148,861	—	—	5,244,251	5,244,251
Accrued interest receivable	22,800	22,800	—	—	22,800
Derivative assets	9,042	—	9,042	—	9,042
Financial liabilities					
Deposits	6,303,085	—	—	6,010,606	6,010,606
Advances from Federal Home Loan Bank	930,000	—	929,727	—	929,727
Long term debt	261,876	—	264,269	—	264,269
Derivative liabilities	1,067	—	1,067	—	1,067
Accrued interest payable	4,234	4,234	—	—	4,234

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

Cash and Cash Equivalents and Time Deposits in Financial Institutions: The carrying amounts of cash and cash equivalents and time deposits in financial institutions approximate fair value due to the short-term nature of these instruments (Level 1).

Federal Home Loan Bank and Other Bank Stock: Federal Home Loan Bank and other bank stock is recorded at cost. Ownership of FHLB stock is restricted to member banks, and purchases and sales of these securities are at par value with the issuer (Level 2).

Securities Held-to-Maturity: Investment securities that the Company has the ability and the intent to hold to maturity are classified as held-to-maturity. Investment securities classified as held-to-maturity are carried at cost. The fair values of securities held-to-maturity are generally determined by quoted market prices in active markets, if available (Level 1). If quoted market prices are not available, the Company employs an independent pricing service that utilizes matrix pricing to calculate fair value. Such fair value measurements consider observable data such as dealer quotes, market spreads, cash flows, yield curves, live trading levels, trade execution data, market consensus prepayment speeds, credit information, and respective terms and conditions for debt instruments (Level 2). The Company employs procedures to monitor the pricing service's assumptions and establishes processes to challenge the pricing service's valuations that appear unusual or unexpected. When a market is illiquid or there is a lack of transparency around the inputs to valuation, the securities are classified as Level 3 and reliance is placed upon internally developed models, and management judgment and evaluation for valuation.

Loans and Leases Receivable, Net of ALLL: The fair value of loans and leases receivable is estimated based on the discounted cash flow approach. The discount rate was derived from the associated yield curve plus spreads and reflects the rates offered by the Bank for loans with similar financial characteristics. Yield curves are constructed by product and payment types. These rates could be different from what other financial institutions could offer for these loans. Additionally, the fair value of our loans may differ significantly from the values that would have been used had a ready market existed for such loans and may differ materially from the values that we may ultimately realize (Level 3).

Accrued Interest Receivable: The carrying amount of accrued interest receivable approximates its fair value (Level 1).

Deposits: The fair value of deposits is estimated based on discounted cash flows. The cash flows for non-maturity deposits, including savings accounts and money market checking, are estimated based on their historical decaying experiences. The discount rate used for fair valuation is based on interest rates currently being offered by the Bank on comparable deposits as to amount and term (Level 3).

Advances from Federal Home Loan Bank: The fair values of advances from FHLB are estimated based on the discounted cash flows approach. The discount rate was derived from the current market rates for borrowings with similar remaining maturities (Level 2).

Securities sold under repurchase agreements: The carrying amount of securities sold under repurchase agreements approximates fair value due to the short-term nature of these instruments as all outstanding securities sold under repurchase agreements have original maturities of 30 days or less (Level 2).

Long Term Debt: Fair value of long term debt is determined by observable data such as market spreads, cash flows, yield curves, credit information, and respective terms and conditions for debt instruments (Level 2).

Accrued Interest Payable: The carrying amount of accrued interest payable approximates its fair value (Level 1).

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NOTE 4 – INVESTMENT SECURITIES

The following table presents the amortized cost and fair value of the investment securities portfolio as of the dates indicated:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(In thousands)				
June 30, 2016				
Securities held-to-maturity:				
Corporate bonds	\$239,675	\$ 10,101	\$(572)	\$249,204
Collateralized loan obligations	416,322	—	(6,692)	409,630
Commercial mortgage-backed securities	306,285	16,026	(274)	322,037
Total securities held-to-maturity	\$962,282	\$ 26,127	\$(7,538)	\$980,871
Securities available-for-sale:				
SBA loan pool securities	\$1,363	\$ 53	\$—	\$1,416
Private label residential mortgage-backed securities	1,452	4	(3)	1,453
Corporate bonds	60,167	285	(339)	60,113
Collateralized loan obligation	939,215	4,430	(939)	942,706
Commercial mortgage-backed securities	11,186	212	—	11,398
Agency mortgage-backed securities	284,813	1,081	(195)	285,699
Total securities available-for-sale	\$1,298,196	\$ 6,065	\$(1,476)	\$1,302,785
December 31, 2015				
Securities held-to-maturity:				
Corporate bonds	\$239,274	\$ 255	\$(20,946)	\$218,583
Collateralized loan obligations	416,284	—	(5,077)	411,207
Commercial mortgage-backed securities	306,645	41	(4,191)	302,495
Total securities held-to-maturity	\$962,203	\$ 296	\$(30,214)	\$932,285
Securities available-for-sale:				
SBA loan pool securities	\$1,485	\$ 19	\$—	\$1,504
Private label residential mortgage-backed securities	1,755	14	(1)	1,768
Corporate bonds	26,657	—	(505)	26,152
Collateralized loan obligations	111,719	31	(282)	111,468
Agency mortgage-backed securities	697,152	134	(4,582)	692,704
Total securities available-for-sale	\$838,768	\$ 198	\$(5,370)	\$833,596

The following table presents amortized cost and fair value of the held-to-maturity and available-for-sale investment securities portfolio by expected maturity. In the case of mortgage-backed securities, collateralized loan obligations, 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, collateralized loan obligations, and SBA loan pool securities are not included in the maturity categories.

	June 30, 2016			
	Securities Held-To-Maturity		Securities Available-For-Sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
(In thousands)				
Maturity:				
Within one year	\$—	\$—	\$—	\$—
One to five years	15,000	14,850	23,000	23,088

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Five to ten years	224,675	234,354	32,166	31,913
Greater than ten years	—	—	5,000	5,113
Collateralized loan obligations, SBA loan pool, private label residential mortgage-backed, commercial mortgage-backed, and agency mortgage-backed securities	722,607	731,667	1,238,030	1,242,671
Total	\$962,282	\$980,871	\$1,298,196	\$1,302,785

At June 30, 2016 and December 31, 2015, 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 the Company's stockholders' equity.

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

	Three Months Ended June 30, 2016		Six Months Ended June 30, 2015	
	(In thousands)			
Gross realized gains on sales and calls of securities available-for-sale	\$12,825	\$	—\$29,618	\$—
Gross realized losses on sales and calls of securities available-for-sale	—	—	(5	(2)
Net realized gains (losses) on sales and calls of securities available-for-sale	\$12,825	\$	—\$29,613	\$(2)
Proceeds from sales and calls of securities available-for-sale	\$1,304,032	\$	—\$3,551,453	\$174
Tax expense (benefit) on sales and calls of securities available-for-sale	\$5,231	\$	—\$12,011	\$(1)

Investment securities with carrying values of \$191.3 million and \$47.9 million as of June 30, 2016 and December 31, 2015, respectively, were pledged to secure FHLB advances, public deposits, repurchase agreement, 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
	(In thousands)					
June 30, 2016						
Securities held-to-maturity:						
Corporate bonds	\$49,682	\$(490)	\$5,300	\$ (82)	\$54,982	\$(572)
Collateralized loan obligation	409,630	(6,692)	—	—	409,630	(6,692)
Commercial mortgage-backed securities	19,771	(274)	—	—	19,771	(274)
Total securities held-to-maturity	\$479,083	\$(7,456)	\$5,300	\$ (82)	\$484,383	\$(7,538)
Securities available-for-sale:						
Private label residential mortgage-backed securities	\$125	\$—	\$317	\$ (3)	\$442	\$(3)
Corporate bonds	13,828	(339)	—	—	13,828	(339)
Collateralized loan obligations	229,478	(939)	—	—	229,478	(939)
Agency mortgage-backed securities	121,499	(175)	2,407	(20)	123,906	(195)
Total securities available-for-sale	\$364,930	\$(1,453)	\$2,724	\$ (23)	\$367,654	\$(1,476)
December 31, 2015						
Securities held-to-maturity:						
Corporate bonds	\$190,332	\$(20,946)	\$—	\$ —	\$190,332	\$(20,946)
Collateralized loan obligation	411,207	(5,077)	—	—	411,207	(5,077)
Commercial mortgage-backed securities	277,351	(4,191)	—	—	277,351	(4,191)
Total securities held-to-maturity	\$878,890	\$(30,214)	\$—	\$ —	\$878,890	\$(30,214)
Securities available-for-sale:						
Private label residential mortgage-backed securities	\$—	\$—	\$403	\$ (1)	\$403	\$(1)
Corporate bonds	26,152	(505)	—	—	26,152	(505)
Collateralized loan obligations	72,204	(282)	—	—	72,204	(282)
Agency mortgage-backed securities	599,814	(4,459)	6,832	(123)	606,646	(4,582)
Total securities available-for-sale	\$698,170	\$(5,246)	\$7,235	\$ (124)	\$705,405	\$(5,370)

The Company did not record OTTI for investment securities for the three and six months ended June 30, 2016 or 2015.

At June 30, 2016, the Company's securities available-for-sale portfolio consisted of 140 securities, 37 of which were in an unrealized loss position and securities held-to-maturity consisted of 93 securities, 40 of which were in an unrealized loss position.

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For corporate bonds held-to-maturity, unrealized losses at June 30, 2016 were lower than unrealized losses at December 31, 2015 due to lower market interest rates and tighter credit spreads at June 30, 2016 and improvement in the economic sectors for the bond issuers. For collateralized loan obligations, unrealized losses at June 30, 2016 were higher than unrealized losses at December 31, 2015 due to wider pricing spreads. For agency mortgage-backed securities available-for-sale, unrealized losses at June 30, 2016 were lower than unrealized losses at December 31, 2015 due to lower market interest rates at June 30, 2016.

The Company monitors its securities portfolio to ensure it has adequate credit support. As of June 30, 2016, the Company believes there is no OTTI and 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 recovery. The Company considers the lowest credit rating for identification of potential OTTI. As of June 30, 2016, all of the Company's investment securities in an unrealized loss position received an investment grade credit rating.

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	PCI Loans	Total Loans and Leases Receivable
	(\$ in thousands)				
June 30, 2016					
Commercial:					
Commercial and industrial	\$—	\$1,301,956	\$1,301,956	\$4,910	\$1,306,866
Commercial real estate	—	721,781	721,781	3,326	725,107
Multi-family	—	1,147,597	1,147,597	—	1,147,597
SBA	—	62,634	62,634	2,843	65,477
Construction	—	86,852	86,852	—	86,852
Lease financing	—	228,663	228,663	—	228,663
Consumer:					
Single family residential mortgage	738,716	976,843	1,715,559	740,165	2,455,724
Green Loans (HELOC) - first liens	99,620	—	99,620	—	99,620
Green Loans (HELOC) - second liens	4,298	—	4,298	—	4,298
Other consumer	—	115,911	115,911	—	115,911
Total loans and leases	\$842,634	\$4,642,237	\$5,484,871	\$751,244	\$6,236,115
Allowance for loan and lease losses					(37,483)
Loans and leases receivable, net					\$6,198,632
December 31, 2015					
Commercial:					
Commercial and industrial	\$—	\$876,146	\$876,146	\$853	\$876,999
Commercial real estate	—	718,108	718,108	9,599	727,707
Multi-family	—	904,300	904,300	—	904,300
SBA	—	54,657	54,657	3,049	57,706
Construction	—	55,289	55,289	—	55,289
Lease financing	—	192,424	192,424	—	192,424
Consumer:					
Single family residential mortgage	675,960	775,263	1,451,223	699,230	2,150,453
Green Loans (HELOC) - first liens	105,131	—	105,131	—	105,131
Green Loans (HELOC) - second liens	4,704	—	4,704	—	4,704
Other consumer	113	109,568	109,681	—	109,681
Total loans and leases	\$785,908	\$3,685,755	\$4,471,663	\$712,731	\$5,184,394
Allowance for loan and lease losses					(35,533)

Loans and leases receivable, net

\$5,148,861

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Non Traditional Mortgage Loans

The Company's NTM portfolio is comprised of three interest only products: Green Account Loans (Green Loans), fixed or adjustable rate hybrid interest only mortgage (Interest Only) loans and a small number of additional loans with the potential for negative amortization. As of June 30, 2016 and December 31, 2015, the NTM loans totaled \$842.6 million, or 13.5 percent of total loans and leases, and \$785.9 million, or 15.2 percent of total loans and leases, respectively. The total NTM portfolio increased by \$56.7 million, or 7.2 percent, during the six months ended June 30, 2016.

The following table presents the composition of the NTM portfolio as of the dates indicated:

	June 30, 2016			December 31, 2015		
	Count	Amount	Percent	Count	Amount	Percent
	(\$ in thousands)					
Green Loans (HELOC) - first liens	116	\$99,620	11.8 %	121	\$105,131	13.4 %
Interest-only - first liens	540	727,527	86.4 %	521	664,358	84.4 %
Negative amortization	28	11,189	1.3 %	30	11,602	1.5 %
Total NTM - first liens	684	838,336	99.5 %	672	781,091	99.3 %
Green Loans (HELOC) - second liens	15	4,298	0.5 %	16	4,704	0.6 %
Interest-only - second liens	—	—	— %	1	113	0.1 %
Total NTM - second liens	15	4,298	0.5 %	17	4,817	0.7 %
Total NTM loans	699	\$842,634	100.0 %	689	\$785,908	100.0 %
Total loans and leases		\$6,236,115			\$5,184,394	
% of NTM to total loans and leases		13.5 %			15.2 %	

Green Loans

Green Loans are SFR first and second mortgage lines of credit with a linked checking account that allows all types of deposits and withdrawals to be performed. The loans are generally interest only with a 15 year-balloon payment due at maturity. At June 30, 2016 and December 31, 2015, Green Loans totaled \$103.9 million and \$109.8 million, respectively. At June 30, 2016 and December 31, 2015, \$9.9 million and \$10.1 million, respectively, of the Company's Green Loans were non-performing. As a result of their unique payment feature, Green Loans possess higher credit risk due to the potential for negative amortization; however, management believes the risk is mitigated through the Company's loan terms and underwriting standards, including its policies on loan-to-value (LTV) ratios and the Company's contractual ability to curtail loans when the value of the underlying collateral declines. The Company discontinued origination of the Green Loan products in 2011.

Interest Only Loans

Interest only loans are primarily SFR first mortgage loans with payment features that allow interest only payments in initial periods before converting to a fully amortizing loan. As of June 30, 2016 and December 31, 2015, interest only loans totaled \$727.5 million and \$664.5 million, respectively. As of June 30, 2016 and December 31, 2015, \$2.7 million and \$4.6 million of the interest only loans were non-performing, respectively.

Loans with the Potential for Negative Amortization

Negative amortization loans other than Green Loans totaled \$11.2 million and \$11.6 million at June 30, 2016 and December 31, 2015, respectively. The Company discontinued origination of negative amortization loans in 2007. At June 30, 2016 and December 31, 2015, none of the loans that had the potential for negative amortization were non-performing. These loans pose a potentially higher credit risk because of the lack of principal amortization and potential for negative amortization; however, management believes the risk is mitigated through the loan terms and underwriting standards, including the Company's policies on LTV ratios.

Risk Management of Non-Traditional Mortgages

The Company has determined that significant performance indicators for NTMs are LTV ratios and Fair Isaac Corporation (FICO) scores. Accordingly, the Company manages credit risk in the NTM portfolio through periodic review of the loan portfolio that includes refreshing FICO scores on the Green Loans and other home equity lines of credit (HELOCs), as needed in conjunction with portfolio management, and ordering third party automated valuation models (AVMs). 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 score of 10 percent or more and/or a resulting FICO score 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 periodic loan review is published and regularly monitored.

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As these loans are revolving lines of credit, the Company, based on the loan agreement and loan covenants of the particular loan, as well as applicable rules and regulations, could suspend the borrowing privileges or reduce the credit limit at any time the Company reasonably believes that the borrower will be unable to fulfill their repayment obligations under the agreement or certain other conditions are met. In many cases, the decrease in FICO score is the first indication that the borrower may have difficulty in making their future payment obligations.

The Company proactively manages the NTM portfolio by performing detailed analyses on the portfolio. The Company's Internal Asset Review Committee (IARC) conducts meetings on at least a quarterly basis to review the loans classified as special mention, substandard, or doubtful and determines whether a suspension or reduction in credit limit is warranted. If a line has been suspended and the borrower would like to have their credit privileges reinstated, they would need to provide updated financials showing their ability to meet their payment obligations. On the interest only loans, the Company projects future payment changes to determine if there will be a material increase in the required payment and then monitors the loans for possible delinquency. Individual loans are monitored for possible downgrading of risk rating.

NTM Performance Indicators

The following table presents the Company's NTM Green Loans first lien portfolio at June 30, 2016 by FICO scores that were obtained during the quarter ended June 30, 2016, comparing to the FICO scores for those same loans that were obtained during the quarter ended December 31, 2015:

	June 30, 2016														
	By FICO Scores						By FICO Scores								
	Obtained During the						Obtained During the						Change		
	Quarter Ended June						Quarter Ended								
	30, 2016						December 31, 2015								
	Count	Amount	Percent				Count	Amount	Percent				Count	Amount	Percent
	(\$ in thousands)														
FICO Score															
800+	20	\$12,131	12.2	%	22	\$14,067	14.1	%	(2)	\$(1,936)	(1.9)	%			
700-799	56	36,208	36.3	%	57	44,307	44.4	%	(1)	(8,099)	(8.1)	%			
600-699	31	34,731	34.9	%	22	23,281	23.4	%	9	11,450	11.5	%			
<600	4	4,079	4.1	%	5	4,050	4.1	%	(1)	29	—	%			
No FICO	5	12,471	12.5	%	10	13,915	14.0	%	(5)	(1,444)	(1.5)	%			
Totals	116	\$99,620	100.0	%	116	\$99,620	100.0	%	—	\$—	—	%			

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Loan-to-Value Ratio

LTV ratio represents estimated current loan to value ratio, determined by dividing current unpaid principal balance by latest estimated property value received per the Company policy. The table below presents the Company's SFR NTM first lien portfolio by LTV ratios as of the dates indicated:

	Green			Interest Only			Negative Amortization			Total		
	Count	Amount	Percent	Count	Amount	Percent	Count	Amount	Percent	Count	Amount	Percent
	(\$ in thousands)											
June 30, 2016												
< 61%	56	\$40,480	40.6 %	183	\$299,757	41.2 %	19	\$5,148	46.0 %	258	\$345,385	41.2 %
61-80%	41	45,248	45.4 %	294	399,589	55.0 %	7	5,249	46.9 %	342	450,086	53.7 %
81-100%	15	11,948	12.0 %	30	14,843	2.0 %	2	792	7.1 %	47	27,583	3.3 %
> 100%	4	1,944	2.0 %	33	13,338	1.8 %	—	—	— %	37	15,282	1.8 %
Total	116	\$99,620	100.0%	540	\$727,527	100.0%	28	\$11,189	100.0%	684	\$838,336	100.0%
December 31, 2015												
< 61%	70	\$51,221	48.7 %	141	\$208,120	31.3 %	17	\$5,271	45.4 %	228	\$264,612	33.9 %
61-80%	33	42,075	40.0 %	291	408,662	61.6 %	12	6,106	52.7 %	336	456,843	58.4 %
81-100%	12	6,836	6.5 %	37	30,167	4.5 %	1	225	1.9 %	50	37,228	4.8 %
> 100%	6	4,999	4.8 %	52	17,409	2.6 %	—	—	— %	58	22,408	2.9 %
Total	121	\$105,131	100.0%	521	\$664,358	100.0%	30	\$11,602	100.0%	672	\$781,091	100.0%

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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 ALLL, and partial or full charge-off. The Company maintains the ALLL 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 the outstanding loan balance of the same customer or outstanding loans that share similar credit risk exposure are used to determine the adequacy of the reserve. At June 30, 2016 and December 31, 2015, the reserve for unfunded loan commitments was \$1.9 million and \$2.1 million, respectively.

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 appropriate to absorb losses in the loan and lease portfolio. The determination of the amount of the ALLL 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 considers known relevant internal and external factors that affect collectability when determining the appropriate level for the ALLL. Additions to the ALLL 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 ALLL. Recoveries of previously charged off amounts, if any, are credited to the ALLL.

The following table presents a summary of activity in the ALLL for the periods indicated:

	Three Months Ended June 30, 2016		Six Months Ended June 30, 2016	
	2015		2015	
	(In thousands)			
Balance at beginning of period	\$35,845	\$29,345	\$35,533	\$29,480
Loans and leases charged off	(772)	(79)	(874)	(436)
Recoveries of loans and leases previously charged off	641	47	734	269
Provision for loan and lease losses	1,769	5,474	2,090	5,474
Balance at end of period	\$37,483	\$34,787	\$37,483	\$34,787

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The following table presents the activity and balance in the ALLL 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, 2016:

	Commercial and Industrial	Commercial Real Estate	Multi- family	SBA	Construction	Lease Financing	Single Family Residential Mortgage	Other Consumer	Unaffiliated
(In thousands)									
ALLL:									
Balance at									
March 31, 2016	\$6,046	\$3,969	\$6,484	\$906	\$1,520	\$2,610	\$13,270	\$1,040	\$—\$35,845
Charge-offs	(137)	—	—	—	—	(479)	(149)	(7)	—(772)
Recoveries	—	371	—	245	—	24	—	1	—641
Provision	2,095	(786)	430	(454)	157	385	22	(80)	—1,769
Balance at									
June 30, 2016	\$8,004	\$3,554	\$6,914	\$697	\$1,677	\$2,540	\$13,143	\$954	\$—\$37,483
Balance at									
December 31, 2015	\$5,850	\$4,252	\$6,012	\$683	\$1,530	\$2,195	\$13,854	\$1,157	\$—\$35,533
Charge-offs	(137)	—	—	—	—	(581)	(149)	(7)	—(874)
Recoveries	—	371	—	276	—	85	—	2	—734
Provision	2,291	(1,069)	902	(262)	147	841	(562)	(198)	—2,090
Balance at									
June 30, 2016	\$8,004	\$3,554	\$6,914	\$697	\$1,677	\$2,540	\$13,143	\$954	\$—\$37,483
Individually evaluated for impairment	\$—	\$—	\$—	\$—	\$—	\$—	\$1,346	\$—	\$—\$1,346
Collectively evaluated for impairment	7,947	3,543	6,914	678	1,677	2,540	11,780	954	—36,033
Acquired with deteriorated credit quality	57	11	—	19	—	—	17	—	—104
Total ending									
ALLL balance	\$8,004	\$3,554	\$6,914	\$697	\$1,677	\$2,540	\$13,143	\$954	\$—\$37,483
Loans:									
Individually evaluated for impairment	\$3,470	\$271	\$—	\$—	\$—	\$—	\$34,813	\$294	\$—\$38,848
	1,298,486	721,510	1,147,597	62,634	86,852	228,663	1,780,366	119,915	—5,446,023

Collectively evaluated for impairment Acquired with deteriorated	4,910	3,326	—	2,843	—	—	740,165	—	—751,244
credit quality Total ending loan balances	\$1,306,866	\$725,107	\$1,147,597	\$65,477	\$86,852	\$228,663	\$2,555,344	\$120,209	\$—\$6,236,115

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The following table presents the activity and balance in the ALLL 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, 2015:

	Commercial and Industrial	Commercial Real Estate	Multi- family	SBA	Construction	Lease Financing	Single Family Residential Mortgage	Other Consumer	Unallocated	Total
(In thousands)										
ALLL:										
Balance at										
March 31, 2015	\$6,484	\$3,904	\$7,164	\$566	\$695	\$1,195	\$6,960	\$2,013	\$364	\$29,345
Charge-offs	(23)	—	—	(55)	—	(1)	—	—	—	(79)
Recoveries	5	—	—	41	—	—	—	1	—	47
Provision	418	541	(3,484)	122	(116)	452	5,990	(328)	1,879	5,474
Balance at										
June 30, 2015	\$6,884	\$4,445	\$3,680	\$674	\$579	\$1,646	\$12,950	\$1,686	\$2,243	\$34,787
Balance at										
December 31, 2014	\$6,910	\$3,840	\$7,179	\$335	\$846	\$873	\$7,192	\$2,305	\$—	\$29,480
Charge-offs	(33)	(260)	—	(55)	—	(88)	—	—	—	(436)
Recoveries	8	132	3	113	—	—	—	13	—	269
Provision	(1)	733	(3,502)	281	(267)	861	5,758	(632)	2,243	5,474
Balance at										
June 30, 2015	\$6,884	\$4,445	\$3,680	\$674	\$579	\$1,646	\$12,950	\$1,686	\$2,243	\$34,787
Individually evaluated for impairment	\$253	\$—	\$—	\$—	\$—	\$—	\$433	\$—	\$—	\$686
Collectively evaluated for impairment	6,573	4,333	3,680	655	579	1,646	12,500	1,686	2,243	33,895
Acquired with deteriorated credit quality	58	112	—	19	—	—	17	—	—	206
Total ending										
ALLL balance	\$6,884	\$4,445	\$3,680	\$674	\$579	\$1,646	\$12,950	\$1,686	\$2,243	\$34,787
Loans:										
Individually evaluated for impairment	\$5,125	\$353	\$—	\$8	\$—	\$—	\$26,019	\$294	\$—	\$31,799
	765,987	795,789	696,768	53,858	32,022	131,189	1,562,923	136,388	—	4,174,924

Collectively evaluated for impairment Acquired with deteriorated 365 credit quality Total ending loan balances										
	11,004	—	3,021	—	—	251,982	—	—	266,372	
	\$771,477	\$807,146	\$696,768	\$56,887	\$32,022	\$131,189	\$1,840,924	\$136,682	\$—	\$4,473,095

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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, 2016			December 31, 2015		
	Unpaid Principal Balance	Recorded Investment	ALLL	Unpaid Principal Balance	Recorded Investment	ALLL
	(In thousands)					
With no related ALLL recorded:						
Commercial:						
Commercial and industrial	\$3,489	\$ 3,470	\$—	\$6,244	\$ 6,086	\$—
Commercial real estate	271	271	—	1,200	312	—
SBA	—	—	—	22	3	—
Consumer:						
Single family residential mortgage	25,701	25,602	—	24,224	22,671	—
Other consumer	294	294	—	553	553	—
With an ALLL recorded:						
Commercial:						
Commercial and industrial	—	—	—	1,072	1,073	38
Consumer:						
Single family residential mortgage	9,752	9,211	1,346	3,575	3,585	331
Total	\$39,507	\$ 38,848	\$ 1,346	\$36,890	\$ 34,283	\$ 369

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

	Three Months Ended			Six Months Ended		
	Average	Interest	Cash Basis	Average	Interest	Cash Basis
	Recorded	Income	Interest	Recorded	Income	Interest
	Investment	Recognized	Recognized	Investment	Recognized	Recognized
	(In thousands)					
June 30, 2016						
Commercial:						
Commercial and industrial	\$3,500	\$ 55	\$ 55	\$4,048	\$ 118	\$ 143
Commercial real estate	285	14	14	295	24	24
Consumer:						
Single family residential mortgage	34,963	309	298	34,644	595	563
Other consumer	294	2	3	294	4	5
Total	\$39,042	\$ 380	\$ 370	\$39,281	\$ 741	\$ 735
June 30, 2015						
Commercial:						
Commercial and industrial	\$5,197	\$ 68	\$ 64	\$6,698	\$ 187	\$ 194
Commercial real estate	363	7	7	373	17	17
Multi-family	—	—	—	790	13	15
SBA	9	—	—	8	—	—
Consumer:						
Single family residential mortgage	26,111	210	210	23,989	389	386
Other consumer	294	2	2	294	4	5
Total	\$31,974	\$ 287	\$ 283	\$32,152	\$ 610	\$ 617

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Non-accrual Loans and Leases

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

	June 30, 2016		December 31, 2015	
	NTM Loans	Traditional Loans and Leases	NTM Loans	Traditional Loans and Leases
	(In thousands)	(In thousands)	(In thousands)	(In thousands)
Loans past due 90 days or more and still accruing	\$—	\$—	\$—	\$—
Nonaccrual loans and leases:				
The Company maintains specific allowances for these loans of \$80 at June 30, 2016 and \$0 at December 31, 2015	12,362	32,884	45,012	14,703
			14,703	30,426
				45,129

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

	June 30, 2016			December 31, 2015		
	NTM Loans	Traditional Loans and Leases	Total	NTM Loans	Traditional Loans and Leases	Total
	(In thousands)	(In thousands)	(In thousands)	(In thousands)	(In thousands)	(In thousands)
Commercial:						
Commercial and industrial	\$—	\$ 4,800	\$4,800	\$—	\$ 4,383	\$4,383
Commercial real estate	—	789	789	—	1,552	1,552
Multi-family	—	602	602	—	642	642
SBA	—	345	345	—	422	422
Lease financing	—	1,930	1,930	—	598	598
Consumer:						
Single family residential mortgage	2,703	23,783	26,486	4,615	22,615	27,230
Green Loans (HELOC) - first liens	9,925	—	9,925	10,088	—	10,088
Other consumer	—	135	135	—	214	214
Total nonaccrual loans and leases	\$ 12,628	\$ 32,384	\$ 45,012	\$ 14,703	\$ 30,426	\$ 45,129

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Past Due Loans and Leases

The following table presents the aging of the recorded investment in past due loans and leases as of June 30, 2016, excluding accrued interest receivable (which is not considered to be material), by class of loans and leases:

	June 30, 2016					
	30 - 59	60 - 89	Greater	Total	Current	Total
	Days	Days	than	Past Due		
	Past	Past	89 Days			
	Due	Due	Past due			
	(In thousands)					
NTM loans:						
Single family residential mortgage	\$2,124	\$9,075	\$2,246	\$13,445	\$725,271	\$738,716
Green Loans (HELOC) - first liens	7,750	—	2,175	9,925	89,695	99,620
Green Loans (HELOC) - second liens	—	—	—	—	4,298	4,298
Other consumer	—	—	—	—	—	—
Total NTM loans	9,874	9,075	4,421	23,370	819,264	842,634
Traditional loans and leases:						
Commercial:						
Commercial and industrial	2,968	269	2,870	6,107	1,295,849	1,301,956
Commercial real estate	—	—	274	274	721,507	721,781
Multi-family	176	—	—	176	1,147,421	1,147,597
SBA	357	—	273	630	62,004	62,634
Construction	705	—	—	705	86,147	86,852
Lease financing	3,025	590	1,789	5,404	223,259	228,663
Consumer:						
Single family residential mortgage	20,064	3,212	19,021	42,297	934,546	976,843
Other consumer	179	—	27	206	115,705	115,911
Total traditional loans and leases	27,474	4,071	24,254	55,799	4,586,438	4,642,237
PCI loans:						
Commercial:						
Commercial and industrial	—	—	171	171	4,739	4,910
Commercial real estate	—	—	162	162	3,164	3,326
SBA	475	—	347	822	2,021	2,843
Consumer:						
Single family residential mortgage	41,467	6,313	8,272	56,052	684,113	740,165
Total PCI loans	41,942	6,313	8,952	57,207	694,037	751,244
Total	\$79,290	\$19,459	\$37,627	\$136,376	\$6,099,739	\$6,236,115

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The following table presents the aging of the recorded investment in past due loans and leases as of December 31, 2015, excluding accrued interest receivable (which is not considered to be material), by class of loans and leases:

	December 31, 2015					
	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 89 Days Past due	Total Past Due	Current	Total
	(In thousands)					
NTM loans:						
Single family residential mortgage	\$3,935	\$—	\$3,447	\$7,382	\$668,578	\$675,960
Green Loans (HELOC) - first liens	7,913	—	—	7,913	97,218	105,131
Green Loans (HELOC) - second liens	—	—	—	—	4,704	4,704
Other consumer	—	—	—	—	113	113
Total NTM loans	11,848	—	3,447	15,295	770,613	785,908
Traditional loans and leases:						
Commercial:						
Commercial and industrial	23	4,984	544	5,551	870,595	876,146
Commercial real estate	—	—	911	911	717,197	718,108
Multi-family	223	—	432	655	903,645	904,300
SBA	—	162	173	335	54,322	54,657
Construction	—	—	—	—	55,289	55,289
Lease financing	2,005	1,041	394	3,440	188,984	192,424
Consumer:						
Single family residential mortgage	15,762	3,887	17,226	36,875	738,388	775,263
Other consumer	—	11	211	222	109,346	109,568
Total traditional loans and leases	18,013	10,085	19,891	47,989	3,637,766	3,685,755
PCI loans:						
Commercial:						
Commercial and industrial	—	—	176	176	677	853
Commercial real estate	—	—	1,425	1,425	8,174	9,599
SBA	386	163	621	1,170	1,879	3,049
Consumer:						
Single family residential mortgage	33,507	6,235	4,672	44,414	654,816	699,230
Total PCI loans	33,893	6,398	6,894	47,185	665,546	712,731
Total	\$63,754	\$16,483	\$30,232	\$110,469	\$5,073,925	\$5,184,394

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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.

For the Company’s new TDRs, there were 2 modifications through interest rate changes and extension of maturities for loans with an aggregate principal of \$401 thousand and 1 modification through interest rate change for a loan with a principal of \$69 thousand for the three months ended June 30, 2016. For the six months ended June 30, 2016, there were 17 modifications through interest rate changes, extension of maturities, and deferrals of principal payments for loans with an aggregate principal of \$4.3 million, 17 modifications through interest rate changes and extension of maturities for loans with an aggregate principal of \$4.3 million, 1 modification through extension of maturity and deferral of principal payments for a loan with a principal of \$507 thousand, 2 modifications through interest rate change for a loan with an aggregate principal of \$146 thousand, and 3 modifications through extension of maturities for loans with an aggregate principal of \$273 thousand. There were 2 modifications through bankruptcy discharges for the six months ended June 30, 2015. The following table summarizes the pre-modification and post-modification balances of the new TDRs for the three and six months ended June 30, 2016:

	Three Months Ended			Six Months Ended		
	Pre-Modification Number of Outstanding Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Pre-Modification Number of Outstanding Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
	(\$ in thousands)					
June 30, 2016						
Consumer:						
Single family residential mortgage	3	\$ 470	\$ 470	40	\$ 9,548	\$ 9,548
Total	3	\$ 470	\$ 470	40	\$ 9,548	\$ 9,548

June 30, 2015

Consumer:

Single family residential mortgage	—	\$ —	\$ —	2	\$ 1,430	\$ 1,430
Total	—	\$ —	\$ —	2	\$ 1,430	\$ 1,430

For the three and six months ended June 30, 2016, there were 1 and 3 loans, respectively, with an aggregate principal of \$110 thousand and \$518 thousand, respectively, that were modified as TDRs during the past 12 months that had payment defaults during the period. For the three and six months ended June 30, 2015, there were no loans that were modified as TDRs during the past 12 months that had payment defaults during the period.

TDR loans and leases consist of the following as of the dates indicated:

	June 30, 2016			December 31, 2015		
	NTM Loans	Traditional Loans	Total	NTM Loans	Traditional Loans	Total
	(In thousands)					
Commercial:						
SBA	\$—	\$ —	\$—	\$—	\$ 3	\$3
Consumer:						
Single family residential mortgage	990	13,784	14,774	1,015	5,841	6,856
Green Loans (HELOC) - first liens	2,246	—	2,246	2,400	—	2,400

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Green Loans (HELOC) - second liens	294	—	294	553	—	553
Total	\$3,530	\$ 13,784	\$17,314	\$3,968	\$ 5,844	\$9,812

The Company did not have any commitments to lend to customers with outstanding loans or leases that were classified as TDRs as of June 30, 2016 and December 31, 2015.

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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-homogeneous loans and leases such as commercial and commercial real estate loans and leases. 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/loss 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 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, LTV ratios, 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, 2016:

	June 30, 2016					
	Pass	Special Mention	Substandard	Doubtful	Not-Rated	Total
	(In thousands)					
NTM loans:						
Single family residential mortgage	\$734,266	\$ 1,747	\$ 2,703	\$	—\$	—\$738,716
Green Loans (HELOC) - first liens	85,486	397	13,737	—	—	99,620
Green Loans (HELOC) - second liens	4,298	—	—	—	—	4,298
Other consumer	—	—	—	—	—	—
Total NTM loans	824,050	2,144	16,440	—	—	842,634
Traditional loans and leases:						
Commercial:						
Commercial and industrial	1,288,857	863	12,202	34	—	1,301,956
Commercial real estate	715,955	1,803	4,023	—	—	721,781
Multi-family	1,145,753	—	1,844	—	—	1,147,597
SBA	62,236	—	398	—	—	62,634
Construction	85,322	1,530	—	—	—	86,852
Lease financing	226,687	37	1,939	—	—	228,663
Consumer:						
Single family residential mortgage	941,085	8,513	27,245	—	—	976,843
Other consumer	115,690	86	135	—	—	115,911
Total traditional loans and leases	4,581,585	12,832	47,786	34	—	4,642,237
PCI loans:						
Commercial:						
Commercial and industrial	27	4,127	756			