BANC OF CALIFORNIA, INC.
Form 10-Q
August 07, 2015
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2015

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 ý 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 ý 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	ý

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 ý
Indicate the number of shares outstanding of each of the issuer’s classes of common stock as of the latest practicable date.
As of July 31, 2015, the registrant had outstanding 37,466,750 shares of voting common stock.

Table of Contents

BANC OF CALIFORNIA, INC.
FORM 10-Q QUARTERLY REPORT
June 30, 2015
Table of Contents

		Page
Part I – Financial Information		5
Item 1 –	Financial Statements	5
Item 2 –	Management’s Discussion and Analysis of Financial Condition and Result of Operations	70
Item 3 –	Quantitative and Qualitative Disclosures About Market Risk	111
Item 4 –	Controls and Procedures	113
Part II – Other Information		114
Item 1 –	Legal Proceedings	114
Item 1A –	Risk Factors	114
Item 2 –	Unregistered Sales of Equity Securities and Use of Proceeds	114
Item 3 –	Defaults Upon Senior Securities	115
Item 4 –	Mine Safety Disclosures	115
Item 5 –	Other Information	115
Item 6 –	Exhibits	116
Signatures		120

Table of Contents

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 ex are intended to identify “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. You are cautioned not to place undue reliance on any forward-looking statements, which speak only as of the date made. These statements may relate to our future financial performance, strategic plans or objectives, revenue, expense or earnings projections, or other financial items. By their nature, these statements are subject to numerous uncertainties that could cause actual results to differ materially from those anticipated in the statements.

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

i. the ability of the Company to successfully integrate the branches its wholly owned bank subsidiary, Banc of California, N.A. (the Bank), acquired from Banco Popular North America (BPNA or Banco Popular);

ii. risks that the Company’s merger and acquisition activities, including but not limited to the recent acquisition of the BPNA branches and the acquisitions of The Private Bank of California (PBOC), The Palisades Group, LLC and CS Financial, Inc., as well as the merger of the Company’s subsidiary banks, may disrupt current plans and operations and lead to difficulties in customer and employee retention, risks that the amount of the costs, fees, expenses and charges related to these transactions could be significantly higher than anticipated and risks that the expected revenues, cost savings, synergies and other benefits of these transactions might not be realized to the extent anticipated, within the anticipated timetables, or at all;

iii. risks that funds obtained from capital raising activities will not be utilized efficiently or effectively;

iv. a worsening of current economic conditions, as well as turmoil in the financial markets;

v. the credit risks of lending activities, which may be affected by deterioration in real estate markets and the financial condition of borrowers, may lead to increased loan and lease delinquencies, losses and nonperforming assets in our loan and lease portfolio, and may result in our allowance for loan and lease losses not being adequate to cover actual losses and require us to materially increase our loan and lease loss reserves;

vi. the quality and composition of our securities portfolio;

vii. changes in general economic conditions, either nationally or in our market areas, or financial markets;

viii. continuation of the historically low short-term interest rate environment, changes in the levels of general interest rates, and the relative differences between short- and long-term interest rates, deposit interest rates, our net interest margin and funding sources;

ix. 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;

x. results of examinations of us by regulatory authorities and the possibility that any such regulatory authority may, among other things, require us to increase our allowance for loan and lease losses, write-down asset values, increase our capital levels, or affect our ability to borrow funds or maintain or increase deposits, which could adversely affect our liquidity and earnings;

xi. legislative or regulatory changes that adversely affect our business, including changes in regulatory capital or other rules;

xii. our ability to control operating costs and expenses;

xiii. staffing fluctuations in response to product demand or the implementation of corporate strategies that affect our work force and potential associated charges;

xiv. errors in our estimates in determining fair value of certain of our assets, which may result in significant declines in valuation;

xv. the network and computer systems on which we depend could fail or experience a security breach;

xvi. our ability to attract and retain key members of our senior management team;
xvii. costs and effects of litigation, including settlements and judgments;

Table of Contents

xviii. increased competitive pressures among financial services companies;
xix. changes in consumer spending, borrowing and saving habits;
xx. adverse changes in the securities markets;
xxi. earthquake, fire or other natural disasters affecting the condition of real estate collateral;
xxii. the availability of resources to address changes in laws, rules or regulations or to respond to regulatory actions;
xxiii. inability of key third-party providers to perform their obligations to us;
xxiv. changes in accounting policies and practices, as may be adopted by the financial institution regulatory agencies or the Financial Accounting Standards Board or their application to our business, including additional guidance and interpretation on accounting issues and details of the implementation of new accounting methods;
xxv. war or terrorist activities; and
xxvi. other economic, competitive, governmental, regulatory, and technological factors affecting our operations, pricing, products and services and the other risks described in this report and from time to time in other documents that we file with or furnish to the SEC, including, without limitation, the risks described under "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2014.

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

Table of Contents

PART I – FINANCIAL INFORMATION

ITEM 1 – FINANCIAL STATEMENTS
BANC OF CALIFORNIA, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(Amounts in thousands, except share and per share data)
(Unaudited)

	June 30, 2015	December 31, 2014
ASSETS		
Cash and due from banks	$12,444	$14,364
Interest-bearing deposits	446,546	216,835
Total cash and cash equivalents	458,990	231,199
Time deposits in financial institutions	1,900	1,900
Securities available for sale, at fair value	487,293	345,695
Securities held to maturity, at amortized cost (fair value of $53,303 at June 30, 2015)	53,414	—
Loans held for sale, carried at fair value	409,799	278,749
Loans held for sale, carried at lower of cost or fair value	336,852	908,341
Loans and leases receivable, net of allowance of $34,787 at June 30, 2015 and $29,480 at December 31, 2014	4,438,308	3,919,642
Federal Home Loan Bank and other bank stock, at cost	34,187	42,241
Servicing rights, net ($34,198 and $13,135 measured at fair value at June 30, 2015 and December 31, 2014, respectively)	34,942	13,619
Servicing rights held for sale, carried at fair value	—	5,947
Accrued interest receivable	14,875	15,113
Other real estate owned, net	50	423
Premises, equipment, and capital leases, net	35,229	78,685
Bank-owned life insurance	19,201	19,095
Goodwill	31,591	31,591
Affordable housing fund investment	4,417	4,737
Deferred income tax	12,081	16,373
Income tax receivable	3,091	—
Other intangible assets, net	21,905	25,252
Other assets	39,757	32,695
Total Assets	$6,437,882	$5,971,297
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Noninterest-bearing deposits	$867,930	$662,295
Interest-bearing deposits	4,184,260	4,009,536
Deposits held for sale	52,820	—
Total deposits	5,105,010	4,671,831
Advances from Federal Home Loan Bank	350,000	633,000
Long term debt, net	264,077	93,569
Reserve for loss on repurchased loans	9,411	8,303
Income taxes payable	—	56
Accrued expenses and other liabilities	75,502	61,223
Total liabilities	5,804,000	5,467,982
Commitments and contingent liabilities		
Preferred stock, $0.01 par value per share, 50,000,000 shares authorized:		

Series A, non-cumulative perpetual preferred stock, $1,000 per share liquidation preference, 32,000 shares authorized, 32,000 shares issued and outstanding at June 30, 2015 and December 31, 2014	31,934	31,934
Series B, non-cumulative perpetual preferred stock, $1,000 per share liquidation preference, 10,000 shares authorized, 10,000 shares issued and outstanding at June 30, 2015 and December 31, 2014	10,000	10,000
Series C, 8.00% non-cumulative perpetual preferred stock, $1,000 per share liquidation preference, 40,250 shares authorized, 40,250 shares issued and outstanding at June 30, 2015 and December 31, 2014	37,943	37,943
Series D, 7.375% non-cumulative perpetual preferred stock, $1,000 per share liquidation preference, 115,000 shares authorized, 115,000 shares issued and outstanding at June 30, 2015	110,873	—
Common stock, $0.01 par value per share, 446,863,844 shares authorized; 37,246,499 shares issued and 35,647,476 shares outstanding at June 30, 2015; 35,829,763 shares issued and 34,190,740 shares outstanding at December 31, 2014	372	358
Class B non-voting non-convertible common stock, $0.01 par value per share, 3,136,156 shares authorized; 0 shares issued and outstanding at June 30, 2015 and 609,195 shares issued and outstanding at December 31, 2014	—	6
Additional paid-in capital	425,784	422,910
Retained earnings	45,494	29,589
Treasury stock, at cost (1,599,023 shares at June 30, 2015 and 1,639,023 shares at December 31, 2014)	(29,070)	(29,798)
Accumulated other comprehensive income, net	552	373
Total stockholders’ equity	633,882	503,315
Total liabilities and stockholders’ equity	$6,437,882	$5,971,297

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

Table of Contents

BANC OF CALIFORNIA, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Amounts in thousands, except per share data)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Interest and dividend income				
Loans, including fees	$60,699	$42,077	$118,854	$83,607
Securities	2,119	993	4,046	1,917
Dividends and other interest-earning assets	2,026	564	2,724	886
Total interest and dividend income	64,844	43,634	125,624	86,410
Interest expense				
Deposits	6,165	6,071	12,526	11,806
Federal Home Loan Bank advances	290	99	643	199
Long term debt and other interest-bearing liabilities	4,285	1,889	6,354	3,645
Total interest expense	10,740	8,059	19,523	15,650
Net interest income	54,104	35,575	106,101	70,760
Provision for loan and lease losses	5,474	2,108	5,474	4,037
Net interest income after provision for loan and lease losses	48,630	33,467	100,627	66,723
Noninterest income				
Customer service fees	1,072	356	1,982	609
Loan servicing income	2,007	774	1,565	2,027
Income from bank owned life insurance	47	56	106	103
Net gain (loss) on sale of securities available for sale	—	15	(2)	522
Net gain on sale of loans	7,838	3,038	12,310	5,641
Net revenue on mortgage banking activities	39,403	26,133	77,336	43,457
Advisory service fees	4,435	1,808	5,632	2,918
Loan brokerage income	661	2,416	1,802	4,327
Gain on sale of building	9,919	—	9,919	—
Other income	1,311	776	2,023	1,046
Total noninterest income	66,693	35,372	112,673	60,650
Noninterest expense				
Salaries and employee benefits	56,120	39,130	105,891	73,811
Occupancy and equipment	10,325	7,425	20,096	15,962
Professional fees	6,689	3,528	10,124	7,393
Data processing	2,075	1,270	3,910	2,061
Advertising	1,252	710	2,164	1,785
Regulatory assessments	1,376	1,046	2,730	1,987
Loan servicing and foreclosure expense	276	175	595	350
Valuation allowance for other real estate owned	—	—	22	—
Net gain on sales of other real estate owned	(6)	—	(23)	—
Provision for loan repurchases	999	330	1,844	901
Amortization of intangible assets	1,545	944	3,089	1,883
Impairment on intangible assets	258	—	258	—
All other expense	7,011	5,746	13,099	11,765
Total noninterest expense	87,920	60,304	163,799	117,898
Income before income taxes	27,403	8,535	49,501	9,475

Income tax expense	11,479	436	21,003	627
Net income	15,924	8,099	28,498	8,848
Preferred stock dividends	2,843	910	3,753	1,820
Net income available to common stockholders	$13,081	$7,189	$24,745	$7,028
Basic earnings per common share	$0.33	$0.27	$0.62	$0.30
Diluted earnings per common share	$0.32	$0.27	$0.62	$0.30
Basic earnings per class B common share	$0.33	$0.27	$0.62	$0.30
Diluted earnings per class B common share	$0.33	$0.25	$0.62	$0.24

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

Table of Contents

BANC OF CALIFORNIA, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in thousands)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net income	$15,924	$8,099	$28,498	$8,848
Other comprehensive income, net of tax:				
Unrealized gain on available for sale securities:				
Unrealized (loss) gain arising during the period	(1,982)	1,099	(54)	2,122
Reclassification adjustment for loss (gain) included in net income	—	(15)	1	(522)
Total change in unrealized gain on available for sale securities	(1,982)	1,084	(53)	1,600
Unrealized gain (loss) on cash flow hedge:				
Unrealized gain (loss) arising during the period	336	(292)	232	(509)
Total change in unrealized gain (loss) on cash flow hedge	336	(292)	232	(509)
Total change in other comprehensive income	(1,646)	792	179	1,091
Comprehensive income	$14,278	$8,891	$28,677	$9,939

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

Table of Contents

BANC OF CALIFORNIA, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Amounts in thousands)
(Unaudited)

	Preferred Stock				Common Stock						
	Series A	Series B	Series C	Series D	Voting	Class B Non-Voting	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2013	$31,934	$10,000	$37,943	—	$210	$6	$256,306	$16,820	$(27,911)	$(600)	$324,708
Comprehensive income:											
Net income	—	—	—	—	—	—	—	8,848	—	—	8,848
Other comprehensive income, net	—	—	—	—	—	—	—	—	—	1,091	1,091
Issuance of common stock	—	—	—	—	77	—	55,397	—	—	—	55,474
Issuance of tangible equity units	—	—	—	—	—	—	51,720	—	—	—	51,720
Repurchase of 10,888 shares of common stock	—	—	—	—	—	—	—	—	(134)	—	(134)
Reclassification adjustment for awards issued from treasury stock	—	—	—	—	—	—	1,926	—	(1,926)	—	—
Exercise of stock options	—	—	—	—	—	—	757	—	—	—	757
Issuance of stock awards from treasury stock	—	—	—	—	—	—	(319)	—	319	—	—
Shares purchased under the Dividend Reinvestment Plan	—	—	—	—	—	—	410	28	—	—	438
Stock option compensation expense	—	—	—	—	—	—	156	—	—	—	156
Restricted stock compensation	—	—	—	—	—	—	2,663	—	—	—	2,663

expense											
Stock appreciation right expense	—	—	—	—	—	—	514	—	—	—	514
Dividends declared ($0.24 per common share)	—	—	—	—	—	—	—	(5,288)	—	—	(5,288)
Preferred stock dividends	—	—	—	—	—	—	—	(1,820)	—	—	(1,820)
Balance at June 30, 2014	$31,934	$10,000	$37,943	—	$287	$6	$369,530	$18,588	$(29,652)	$491	$439,127
Balance at December 31, 2014	$31,934	$10,000	$37,943	—	$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 of dividends paid on unvested equity awards	—	—	—	—	—	—	135	—	—		135
Shares purchased under the Dividend Reinvestment Plan	—	—	—	—	—	—	95	(95)	—	—	—
	—	—	—	—	—	—	—	(346)	—	—	(346)

Stock appreciation right dividend equivalents											
Dividends declared ($0.24 per common share)	—	—	—	—	—	—	—	(8,399)	—	—	(8,399)
Preferred stock dividends	—	—	—	—	—	—	—	(3,753)	—	—	(3,753)
Balance at June 30, 2015	$31,934	$10,000	$37,943	110,873	$372	$—	$425,784	$45,494	$(29,070)	$552	$633,882

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

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

	Six Months Ended June 30, 2015	2014
Cash flows from operating activities:		
Net income	$28,498	$8,848
Adjustments to reconcile net income to net cash used in operating activities		
Provision for loan and lease losses	5,474	4,037
Provision for loan repurchases	1,844	901
Net revenue on mortgage banking activities	(77,336)	(43,457)
Net gain on sale of loans	(12,310)	(5,641)
Net amortization (accretion) of securities	618	345
Depreciation on premises and equipment	4,374	3,250
Amortization of intangibles	3,089	1,883
Amortization of debt issuance cost	546	239
Stock option compensation expense	247	156
Stock award compensation expense	4,038	2,663
Stock appreciation right expense	72	514
Bank owned life insurance income	(106)	(103)
Impairment on intangible assets	258	—
Net loss (gain) on sale of securities available for sale	2	(522)
Gain on sale of building	(9,919)	—
Gain on sale of other real estate owned	(23)	—
Deferred income tax expense	4,293	—
Loss on sale or disposal of property and equipment	—	297
Increase in valuation allowances on other real estate owned	22	—
Repurchase of mortgage loans	(6,908)	—
Originations of loans held for sale from mortgage banking	(2,276,490)	(1,226,599)
Originations of other loans held for sale	(381,767)	(751,061)
Proceeds from sales of and principal collected on loans held for sale from mortgage banking	2,195,821	1,215,423
Proceeds from sales of and principal collected on other loans held for sale	452,535	339,144
Change in deferred loan (costs) fees	(808)	617
Amortization of premiums and discounts on purchased loans	(13,967)	(19,311)
Change in accrued interest receivable	238	(304)
Change in other assets	1,619	9,282
Change in accrued interest payable and other liabilities	10,868	(984)
Net cash used in operating activities	(65,178)	(460,383)
Cash flows from investing activities:		
Proceeds from sales of securities available for sale	174	52,245
Proceeds from maturities and calls of securities available for sale	687	1,105
Proceeds from principal repayments of securities available for sale	54,096	16,843
Purchases of securities available for sale	(197,258)	(131,407)
Purchases of securities held to maturity	(53,419)	—
Net cash used in acquisitions	—	(1,000)
Loan originations and principal collections, net	(173,082)	(116,192)

Purchase of loans	(131,532)	(11,956)
Redemption of Federal Home Loan Bank stock	16,913	—
Purchase of Federal Home Loan Bank and other bank stocks	(8,859)	(11,792)
Proceeds from sale of loans held for investment	313,746	73,398
Net change in time deposits in financial institutions	—	(299)
Proceeds from sale of other real estate owned	908	48
Proceeds from sale of mortgage servicing rights	3,089	—
Proceeds from sale of premises and equipment	52,250	—
Additions to premises and equipment	(3,815)	(5,355)
Payments of capital lease obligations	(469)	(504)
Net cash (used in) provided by investing activities	(126,571)	(134,866)
Cash flows from financing activities:		
Net increase in deposits	433,179	428,711
Net increase (decrease) in short-term Federal Home Loan Bank advances	(318,000)	210,000
Repayment of long-term Federal Home Loan Bank advances	(115,000)	(10,000)
Proceeds from long-term Federal Home Loan Bank advances	150,000	—
Net proceeds from issuance of common stock	—	54,474
Net proceeds from issuance of preferred stock	110,873	—
Net proceeds from issuance of tangible equity units	—	65,642
Net proceeds from issuance of long term debt	172,304	—
Payment of amortizing debt	(2,314)	—
Purchase of treasury stock	—	(134)
Proceeds from exercise of stock options	465	757
Dividend equivalents paid on stock appreciation rights	(343)	—
Dividends paid on preferred stock	(3,385)	(1,832)
Dividends paid on common stock	(8,239)	(4,436)
Net cash provided by financing activities	419,540	743,182
Net change in cash and cash equivalents	227,791	147,933
Cash and cash equivalents at beginning of period	231,199	110,118
Cash and cash equivalents at end of period	$458,990	$258,051
Supplemental cash flow information		
Interest paid on deposits and borrowed funds	$21,686	$15,563
Income taxes paid	19,502	—
Income taxes refunds received	158	—
Supplemental disclosure of noncash activities		
Transfer from loans to other real estate owned, net	534	653
Transfer of loans receivable to loans held for sale, net of transfer of $0 and $963 from allowance for loan and lease losses for the six months ended June 30, 2015 and 2014, respectively	43,667	62,057
Transfer of loans held for sale to loans receivable	476,901	94,837
Transfer of deposits to deposits held for sale	—	—
Equipment acquired under capital leases	34	989

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

Table of Contents

BANC OF CALIFORNIA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
June 30, 2015

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 subsidiaries, Banc of California, National Association (the Bank), The Palisades Group, LLC (the Palisades Group), and PTB Property Holdings, LLC (PTB), as of June 30, 2015 and December 31, 2014 and for the three and six months ended June 30, 2015 and 2014. Significant intercompany accounts and transactions have been eliminated in consolidation. Unless the context requires otherwise, all references to the Company include its wholly owned subsidiaries.

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

Banc of California, Inc. is subject to regulation by the Board of Governors of the Federal Reserve System (the Federal Reserve Board or FRB) and the Bank operates under a national bank charter issued by the Office of the Comptroller of the Currency (the OCC), its primary regulator. The Bank is a member of the Federal Home Loan Bank (FHLB) system, and maintains insurance on deposit accounts with the Federal Deposit Insurance Corporation (FDIC). The Bank offers a variety of financial services to meet the banking and financial needs of the communities we serve, with operations conducted through 37 banking offices, serving San Diego, Los Angeles, Santa Barbara and Orange counties, California and 63 loan production offices in California, Arizona, Oregon, Virginia, Indiana, Maryland, Colorado, Idaho, North Carolina and Nevada as of June 30, 2015. The Palisades Group provides financial advisory and asset management services and PTB manages and disposes of other real estate owned properties.

The accounting and reporting policies of the Company are based upon U.S. generally accepted accounting principles (GAAP) and conform to predominant practices within the banking industry. The Company has not made any significant changes in its critical accounting policies or in its estimates and assumptions from those disclosed in its 2014 Annual Report on Form 10-K, the adoption of new accounting pronouncements and other authoritative guidance that became effective for the Company on or after January 1, 2015. Refer to Accounting Pronouncements below for discussion of accounting pronouncements adopted in 2015.

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, 2014 filed by the Company with the Securities and Exchange Commission. The December 31, 2014 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, 2014 filed with the Securities and Exchange Commission, but does not include all of the disclosures required by GAAP.

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

The results of operations for the three and six months ended June 30, 2015 are not necessarily indicative of the results to be expected for the full year.

Use of Estimates in the Preparation of Financial Statements: The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and disclosures provided, and actual results could differ. The allowance for loan and lease losses, reserve for loss on repurchased loans, servicing rights, realization of deferred tax assets, the valuation of goodwill and other intangible assets, mortgage banking derivatives, purchased credit impaired loan discount accretion, fair value of assets and liabilities acquired in business combinations, 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.

Table of Contents

Income Taxes: Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance is established when necessary to reduce deferred tax assets when it is more-likely-than-not that a portion or all of the net deferred tax assets will not be realized. As of June 30, 2015, the Company had a deferred tax asset of $12.1 million, with no valuation allowance and as of December 31, 2014, the Company had a deferred tax asset of $16.4 million, with no valuation allowance (See further discussion in Note 11, Income Taxes).

The effective tax rate for both the 2015 and 2014 periods reflects the adoption of Accounting Standards Update (ASU) 2014-01, which relates to amortization of investments in low income housing tax credits. See the Accounting Pronouncements portion of Note 1 - Summary of Significant Accounting Policies for detail. The retrospective application of this guidance resulted in increased income tax expense in both periods due to the reclassification of noninterest expense associated with these investments.

Allowance for Loan and Lease Losses: During the year ended December 31, 2014, the Company enhanced the methodologies, processes and controls over the allowance for loan and lease losses (ALLL), due to the Company's organic and acquisitive growth and changing profile.

The following is a synopsis of the enhancements for each component of ALLL:

- Expand the look-back period to 28 rolling quarters to capture the full economic cycle.
- Utilize net historical losses versus gross historical losses.
- Expand the peer group used to determine industry average loss history to include three industry groups: i) all U.S. financial and bank holding companies, ii) all California based financial and bank holding companies, and iii) the peer group average from the Uniform Bank Performance Report.
- Apply the segment specific loss emergence period to each segment's loss.
- Determine qualitative reserves at each loan segment level based on a baseline risk weighting adjusted for current risks, trends and business conditions.
- Disaggregate certain qualitative factors to be determined on the portfolio segment level.

Accounting Pronouncements: During the six months ended June 30, 2015, the following pronouncements applicable to the Company were issued or became effective:

In January 2014, the FASB issued guidance within ASU 2014-01, “Accounting for Investments in Qualified Affordable Housing Projects," which amends 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) and previously accounted for them under the equity method of accounting. The Company recognized its share of partnership losses in noninterest expense with the tax benefit recognized in the income tax provision. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received, and recognizes the net investment performance in the income statement as a component of income tax expense (benefit). The amendments are effective for fiscal years, and interim periods within those years, beginning after December 31, 2014 and should be applied retrospectively to all periods presented.

The Company elected the proportional amortization method retrospectively for all periods presented. This accounting change in the amortization methodology resulted in changes to account for amortization recognized in prior periods, which impacted the balance of tax credit investments and related tax accounts. The investment amortization expense is presented as a component of the income tax expense (benefit). The cumulative effect of the retrospective application of this accounting principle was $274 thousand at December 31, 2014. Net income decreased by $22 thousand and $30 thousand due to the change in accounting principle for the three and six months ended June 30, 2014, respectively.

The following tables present the effect of the retrospective application of this change in accounting principle on the Company’s Consolidated Statements of Financial Condition, Consolidated Statements of Operations and Consolidated Statements of Cash Flows for the respective periods:

BANC OF CALIFORNIA, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(Unaudited)

	December 31, 2014		
	As Previously Reported	Effect of Change in Accounting Principle	As Adjusted
	(In thousands)		
Assets			
Cash and cash equivalents	$231,199	$—	$231,199
Time deposits in financial institutions	1,900	—	1,900
Securities available for sale	345,695	—	345,695
Loans held for sale	1,187,090	—	1,187,090
Loans and leases receivable	3,919,642	—	3,919,642
Deferred income tax	16,445	(72)	16,373
Other assets	269,600	(202)	269,398
Total assets	$5,971,571	$(274)	$5,971,297
Liabilities and stockholders' equity			
Liabilities	$5,467,982	$—	$5,467,982
Stockholders' equity	503,589	(274)	503,315
Total liabilities and stockholders' equity	$5,971,571	$(274)	$5,971,297

BANC OF CALIFORNIA, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended June 30, 2014		
	As Previously Reported	Effect of Change in Accounting Principle	As Adjusted
	(In thousands, except per share data)		
Interest and dividend income	$43,634	$—	$43,634
Interest expense	8,059	—	8,059
Net interest income	35,575	—	35,575
Provision for loan and lease losses	2,108	—	2,108
Noninterest income	35,372	—	35,372
Noninterest expense	60,465	(161)	60,304
Income before income taxes	8,374	161	8,535
Income tax expense	253	183	436
Net income	8,121	(22)	8,099
Preferred stock dividends	910	—	910
Net income available for common stockholders	$7,211	$(22)	$7,189
Basic earnings per total common share	$0.27	$—	$0.27
Diluted earnings per total common share	$0.27	$—	$0.27

12

Table of Contents

BANC OF CALIFORNIA, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Six Months Ended June 30, 2014		
	As Previously Reported	Effect of Change in Accounting Principle	As Adjusted
	(In thousands, except per share data)		
Interest and dividend income	$86,410	$—	$86,410
Interest expense	15,650	—	15,650
Net interest income	70,760	—	70,760
Provision for loan and lease losses	4,037	—	4,037
Noninterest income	60,650	—	60,650
Noninterest expense	118,233	(335)	117,898
Income before income taxes	9,140	335	9,475
Income tax expense	262	365	627
Net income	8,878	(30)	8,848
Preferred stock dividends	1,820	—	1,820
Net income available for common stockholders	$7,058	$(30)	$7,028
Basic earnings per total common share	$0.30	$—	$0.30
Diluted earnings per total common share	$0.30	$—	$0.30

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

	Six Months Ended June 30, 2014		
	As Previously Reported	Effect of Change in Accounting Principle	As Adjusted
	(In thousands)		
Cash flow from operating activities			
Net income	$8,878	$(30)	$8,848
Total adjustment in net income	(469,261)	30	(469,231)
Net cash used in operating activities	(460,383)	—	(460,383)
Cash flow from investing activities			
Net cash used in investing activities	(134,866)	—	(134,866)
Cash flow from financing activities			
Net cash provided by financing activities	743,182	—	743,182
Net increase in cash and cash equivalents	147,933	—	147,933
Cash and cash equivalents at beginning of period	110,118		110,118
Cash and cash equivalents at end of period	$258,051	$—	$258,051

In January 2014, the FASB issued ASU No. 2014-04, “Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure.” ASU 2014-04 clarifies that an in substance repossession or foreclosure has occurred, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure. Interim and annual disclosure is required of both the amount of foreclosed residential real estate property held by the creditor and the recorded investment in consumer mortgage loans collateralized by

13

residential real estate property that are in the process of foreclosure. ASU 2014-04 is effective using either the modified retrospective transition method or a prospective transition method for fiscal years and interim periods within those years, beginning after December 15, 2014, and early adoption is permitted. Adoption of the new guidance did not have a significant impact on the Company's consolidated financial statements.

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

In June 2014, the FASB issued ASU No. 2014-11, "Transfers and Servicing: Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures." The ASU changes the accounting for repurchase-to-maturity transactions to secured borrowing accounting. In addition, for repurchase financing arrangements, the amendments require separate accounting for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty, which will result in secured borrowing accounting for the repurchase agreement. The ASU also requires disclosures for certain transactions comprising (1) a transfer of a financial asset accounted for as a sale and (2) an agreement with the same transferee entered into in contemplation of the initial transfer that results in the transferor retaining substantially all of the exposure to the economic return on the transferred financial asset throughout the term of the transaction. There are additional disclosure requirements for repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions that are accounted for as secured borrowings. Adoption of the new guidance did not have a significant impact on the Company's consolidated financial statements.

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

In August 2014, the FASB issued ASU 2014-14, "Receivables-Troubled Debt Restructurings by Creditors (Subtopic 310-40), Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure." Under ASU 2014-14, a mortgage loan should be derecognized and a separate receivable based on the principal and interest expected to be recovered from the governmental guarantor should be recognized upon foreclosure when all of the following conditions exist: a government guarantee exists that is not separable from the loan prior to the foreclosure; as of the date of the foreclosure the creditor has the intent to convey the real estate to the governmental agency that issued the guarantee, to make a claim on the guarantee and the creditor has the ability to recover amounts due from the governmental entity as a result of the claim; and, as of the time of the foreclosure, the claim amount that is based on the fair value of the real estate is fixed. ASU 2014-14 is effective using either the modified retrospective transition method or a prospective transition method for fiscal years and interim periods within those years, beginning after December 15, 2014. Adoption of the new guidance did not have a significant impact on the Company's consolidated financial statements.

In February 2015, the FASB issued ASU 2015-02, "Consolidation (Topic 810): Amendments to the Consolidation Analysis," which significantly changes the consolidation analysis required under U.S. GAAP. The new consolidation guidance maintains two models: one for assessing most corporate entities based on the notion that majority voting rights indicate control (the voting model) and another for assessing entities that may be controlled through other means, such as management contracts or subordinated financial support (the variable interest model). Under the new guidance, limited partnerships will be VIEs, unless the limited partners have either substantive kick-out or participating rights. There is no longer a presumption that a general partner should consolidate a limited partnership. The ASU also changes the effect that fees paid to a decision maker or service provider have on the consolidation analysis. For entities other than limited partnerships, the ASU clarifies how to determine whether the equity holders (as a group) have power over the entity. The ASU is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. Early adoption is allowed for all entities, but the guidance must be applied as of the beginning of the annual period containing the adoption date. Entities have the option of using either a

Table of Contents

full or modified retrospective approach for adoption. The Company is assessing the impact of the new guidance on its consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, "Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs," which requires the debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The ASU is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. Early adoption is permitted. The amendments in this ASU are to be applied on a retrospective basis. Adoption of the new guidance is not expected to have a significant impact on the Company’s consolidated financial statements.

Table of Contents

NOTE 2 – BUSINESS COMBINATIONS AND TRANSACTIONS

The Company completed the following acquisitions between January 1, 2014 and June 30, 2015 and used the acquisition method of accounting. Accordingly, the operating results of the acquired entities have been included in the consolidated financial statements from their respective dates of acquisition.

The following table presents a summary of acquired assets and assumed liabilities along with a summary of the acquisition consideration as of the dates of acquisition:

	Acquisition and Date Acquired	
	Banco Popular Branches November 8, 2014	Renovation Ready January 31, 2014
	(In thousands)	
Assets acquired:		
Cash and due from banks	$5,532	$—
Loans and leases receivable	1,072,449	—
Premises, equipment, and capital leases	9,002	—
Goodwill	—	2,239
Other intangible assets	15,777	761
Other assets	2,301	—
Total assets acquired	$1,105,061	$3,000
Liabilities assumed:		
Deposits	$1,076,614	$—
Other liabilities	506	1,000
Total liabilities assumed	1,077,120	1,000
Total consideration paid	$27,941	$2,000
Summary of consideration		
Cash paid	$27,941	$1,000
Common stock issued	—	1,000
Earn-out liabilities	—	1,000

Banco Popular’s California Branch Network Acquisition

Effective November 8, 2014, the Bank acquired 20 full-service branches from Banco Popular North America (BPNA) in the Southern California banking market (the BPNA Branch Acquisition). The purchase price, net of deposit premiums received of $3.9 million, was $24.0 million. The transaction added $1.07 billion in loans and $1.08 billion in deposits to the Bank.

The following table summarizes the total consideration transferred as part of the BPNA Branch Acquisition as well as the fair value adjustments to the net assets acquired as of the acquisition date:

	November 8, 2014	
	(In thousands)	
Total Consideration		$27,941
Net assets pre-acquisition		24,027
Fair value adjustments		
Loans receivable	$(12,165)	
Core deposit intangibles	15,777	
Certificates of deposit purchase premium	(916)	

Premises and equipment	1,218	
Total fair value adjustments		3,914
Fair value of net assets acquired		27,941
Net fair value in excess of consideration		$—

Table of Contents

The fair value of loans acquired from BPNA was estimated by utilizing a methodology wherein similar loans were aggregated into pools. Cash flows for each pool were determined by estimating future credit losses and the rate of prepayments. Projected monthly cash flows were then discounted to present value based on a market rate for similar loans. There was no carryover of BPNA's allowance for loan losses associated with the acquired loans as the loans were initially recorded at fair value.

Core deposit intangible asset of $15.8 million recognized as part of the BPNA Branch Acquisition was valued using a net cost savings method and was calculated as the present value of the estimated net cost savings attributable to the core deposit base over the expected remaining life of the deposits. The cost savings derived from the core deposit balance was calculated as the difference between the prevailing alternative cost of funds and the estimated actual cost of the core deposits. The core deposit intangible is being amortized over its estimated useful life of 10 years using the sum of years-digits amortization methodology.

The fair value of savings and transaction deposit accounts acquired from BPNA was assumed to approximate the carrying value as these accounts have no stated maturity and are payable on demand. Certificates of deposit were valued by projecting the expected cash flows based on the remaining contractual terms of the certificates of deposit. These cash flows were discounted based on market rates for certificates of deposit with corresponding remaining maturities.

Direct costs related to the BPNA Branch Acquisition were expensed as incurred and amounted to $4.3 million for the year ended December 31, 2014. These included technology costs related to system conversion and professional fees.

Certain valuations related to acquired loans receivable, premises and equipment, and other intangible assets and assumed deposits are still under review by management and considered preliminary and could differ significantly when management's review is finalized.

RenovationReady® Acquisition

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

The RenovationReady acquisition was accounted for under GAAP guidance for business combinations. The purchased identifiable intangible assets and assumed liabilities were recorded at their estimated fair values as of January 31, 2014. The Company recorded $2.2 million of goodwill and $761 thousand of other intangible assets. The other intangible assets are related to a customer relationship intangible.

Pro Forma Information

While the BPNA Branch Acquisition is considered a purchase of a business for accounting purposes, pro forma income statement information is not presented because the BPNA Branch Acquisition does not represent the acquisition of a business which has continuity both before and after the acquisition. Pro formation income statement information for RenovationReady is not presented because it is immaterial.

Building Sales

During the three months ended June 30, 2015, the Company sold a certain 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.

Branch Sales

On July 3, 2015, the Bank entered into a definitive agreement with Americas United Bank, a California banking corporation (AUB), pursuant to which the Bank has agreed to sell two branches and certain related assets and deposit liabilities to AUB as well as certain loans. See Note 21 for additional information.

Table of Contents

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 market, 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. 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 SBA loan pool securities, U.S. GSE and agency securities, private label residential MBS, and agency MBS. 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, 2015 and December 31, 2014.

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. Therefore, loans held for sale subjected to recurring fair value adjustments are classified as Level 2. The fair value includes the servicing value of the loans as well as any accrued interest.

Derivative Assets and Liabilities: The Company’s derivative assets and liabilities are carried at fair value as required by GAAP and are accounted for as freestanding derivatives. The Company has entered into pay-fixed, receive-variable interest rate swap contracts with institutional counterparties to hedge against variability in cash flow attributable to interest rate risk caused by changes in the LIBOR benchmark interest rate on the Company’s ongoing LIBOR-based variable rate deposits. The Company is accounting for the swaps as cash flow hedges under ASC 815. The other derivative assets are interest rate lock commitments (IRLCs) with prospective residential mortgage borrowers. 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. Changes in fair value are recorded in earnings as a component of net revenue on mortgage banking activities. These commitments are classified as Level 2 in the fair value disclosures, as the valuations are based on market observable inputs. Additional derivative assets and liabilities, typically mortgage-backed to-be-announced (TBA) securities, are used to hedge fair value changes, driven by changes in interest rates, in the Company's mortgage assets. The Company hedges the period from the interest rate lock (assuming a fall-out factor for loans that ultimately do not close) to the date of the loan sale. The estimated fair value is based on current market prices for similar instruments. Given the meaningful level of secondary market activity for derivative contracts, active pricing is available for similar assets and accordingly, the Company classifies its derivative assets and liabilities as Level 2.

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

Table of Contents

are classified as Level 3. At June 30, 2015 and December 31, 2014, $0 and $5.9 million of the mortgage servicing rights were valued based on a market bid that settled subsequent to each period end, which is included as Level 3, respectively.

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		
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In thousands)			
June 30, 2015				
Assets				
Available for sale securities:				
SBA loan pools securities	$1,618	$—	$1,618	$—
U.S. government-sponsored entities and agency securities	2,000	—	2,000	—
Private label residential mortgage-backed securities	2,146	—	2,146	—
Agency mortgage-backed securities	481,529	—	481,529	—
Loans held for sale	409,799	—	409,799	—
Derivative assets (1)	11,800	—	11,800	—
Mortgage servicing rights (2)	34,198	—	—	34,198
Liabilities				
Derivative liabilities (3)	557	—	557	—
December 31, 2014				
Assets				
Available for sale securities:				
SBA loan pools securities	$1,715	$—	$1,715	$—
U.S. government-sponsored entities and agency securities	1,982	—	1,982	—
Private label residential mortgage-backed securities	3,168	—	3,168	—
Agency mortgage-backed securities	338,830	—	338,830	—
Loans held for sale	278,749	—	278,749	—
Derivative assets (1)	6,379	—	6,379	—
Mortgage servicing rights (2)	19,082	—	—	19,082
Liabilities				
Derivative liabilities (3)	3,235	—	3,235	—

(1) Included in Other Assets on the Consolidated Statements of Financial Condition

(2) Included in Servicing Rights, Net and Servicing Rights Held For Sale on the Consolidated Statements of Financial Condition

(3) Included in Accrued Expenses and Other Liabilities on the Consolidated Statements of Financial Condition

Table of Contents

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 June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(In thousands)			
Mortgage servicing rights				
Balance at beginning of period	$21,165	$8,407	$19,082	$13,535
Transfers out of Level 3 [(1)]	—	—	—	(9,185)
Total gains or losses (realized/unrealized):				
Included in earnings—realized	—	—	—	—
Included in earnings—fair value adjustment	1,538	(565)	1,010	(250)
Included in other comprehensive income	—	—	—	—
Amortization of premium (discount)	—	—	—	—
Additions	13,699	5,996	23,891	10,322
Sales and settlements	(2,204)	(4,022)	(9,785)	(4,606)
Balance at end of period	$34,198	$9,816	$34,198	$9,816

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

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

	Fair Value (In thousands)	Valuation Technique(s)	Unobservable Input(s)	Range (Weighted Average)
June 30, 2015				
Mortgage servicing rights	$34,198	Discounted cash flow	Discount rate	9.00% to 18.00% (9.87%)
			Prepayment rate	6.09% to 33.55% (10.44%)
December 31, 2014				
Mortgage servicing rights	$13,135	Discounted cash flow	Discount rate	9.00% to 19.50% (10.09%)
			Prepayment rate	4.59% to 31.02% (13.22%)
June 30, 2014				
Mortgage servicing rights	$9,816	Discounted cash flow	Discount rate	10.00% to 16.42% (10.92%)
			Prepayment rate	4.34% to 36.13% (14.20%)

The significant unobservable inputs used in the fair value measurement of the Company's servicing rights include the discount rate and prepayment rate. 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.

Table of Contents

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 market, 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 maturities 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, 2015.

Impaired Loans and Leases: The fair value of impaired loans and leases with specific allocations of the allowance for loan and lease losses 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 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 $0 and $0 for the three months ended June 30, 2015 and 2014, respectively, and $22 thousand and $0 for the six months ended June 30, 2015 and 2014, respectively.

Alternative Investments (Affordable Housing Fund Investment & SBIC): 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 $487 thousand and $7.1 million for Affordable House Fund Investment and SBIC at June 30, 2015, respectively.

Table of Contents

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

		Fair Value Measurement Level		
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In thousands)			
June 30, 2015				
Assets				
Impaired loans:				
Single family residential mortgage	$5,271	$—	$—	$5,271
Commercial and industrial	5,125	—	—	5,125
Other real estate owned:				
Single family residential	50	—	—	50
December 31, 2014				
Assets				
Impaired loans:				
Single family residential mortgage	$6,206	$—	$—	$6,206
Commercial and industrial	4,313	—	—	4,313
SBA servicing rights	484	—	—	484
Other real estate owned:				
Single family residential	423	—	—	423

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(In thousands)			
Impaired loans:				
Single family residential mortgage	$—	$(181)	$—	$(332)
Other consumer	—	—	—	(2)
Other real estate owned:				
Single family residential	6	—	1	—

Table of Contents

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 Measurement Level			
		Level 1	Level 2	Level 3	Total
	(In thousands)				
June 30, 2015					
Financial assets					
Cash and cash equivalents	$458,990	$458,990	$—	$—	$458,990
Time deposits in financial institutions	1,900	1,900	—	—	1,900
Securities available for sale	487,293	—	487,293	—	487,293
Securities held to maturity	53,414	—	53,303	—	53,303
FHLB and other bank stock	34,187	—	34,187	—	34,187
Loans held for sale	746,651	—	752,707	—	752,707
Loans and leases receivable, net of allowance	4,438,308	—	—	4,539,113	4,539,113
Accrued interest receivable	14,875	14,875	—	—	14,875
Derivative assets	11,800	—	11,800	—	11,800
Financial liabilities					
Deposits	5,105,010	—	—	4,945,705	4,945,705
Advances from Federal Home Loan Bank	350,000	—	350,097	—	350,097
Long term debt	264,077	—	268,498	—	268,498
Derivative liabilities	557	—	557	—	557
Accrued interest payable	4,207	4,207	—	—	4,207
December 31, 2014					
Financial assets					
Cash and cash equivalents	$231,199	$231,199	$—	$—	$231,199
Time deposits in financial institutions	1,900	1,900	—	—	1,900
Securities available for sale	345,695	—	345,695	—	345,695
FHLB and other bank stock	42,241	—	42,241	—	42,241
Loans held for sale	1,187,090	—	1,195,834	—	1,195,834
Loans and leases receivable, net of allowance	3,919,642	—	—	4,045,465	4,045,465
Accrued interest receivable	15,113	15,113	—	—	15,113
Derivative assets	6,379	—	6,379	—	6,379
Financial liabilities					
Deposits	4,671,831	—	—	4,575,264	4,575,264
Advances from Federal Home Loan Bank	633,000	—	633,083	—	633,083
Long term debt	93,569	—	100,788	—	100,788
Derivative liabilities	3,235	—	3,235	—	3,235
Accrued interest payable	2,044	2,044	—	—	2,044

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).

FHLB and other bank stock: FHLB 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: The fair values of securities held to maturity are based on pricing received from an independent pricing service that utilizes matrix pricing to calculate fair value (Level 2).

Loans and leases receivable, net of allowance for loan and lease losses: 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 offering 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. No adjustments have been made for changes in credit within the loan portfolio. 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).

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).

Table of Contents

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, 2015				
Held to maturity				
Corporate bonds	$53,414	$82	$(193)	$53,303
Total securities held to maturity	$53,414	$82	$(193)	$53,303
Available for sale				
SBA loan pool securities	$1,600	$18	$—	$1,618
U.S. government-sponsored entities and agency securities	1,946	54	—	2,000
Private label residential mortgage-backed securities	2,135	13	(2)	2,146
Agency mortgage-backed securities	480,883	1,985	(1,339)	481,529
Total securities available for sale	$486,564	$2,070	$(1,341)	$487,293
December 31, 2014				
Available for sale				
SBA loan pool securities	$1,697	$18	$—	$1,715
U.S. government-sponsored entities and agency securities	1,940	42	—	1,982
Private label residential mortgage-backed securities	3,169	12	(13)	3,168
Agency mortgage-backed securities	338,072	1,363	(605)	338,830
Total securities available for sale	$344,878	$1,435	$(618)	$345,695

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 and SBA loan pool securities, expected maturities may differ from contractual maturities because borrowers generally have the right to call or prepay obligations with or without call or prepayment penalties. For that reason, mortgage-backed securities and SBA loan pool securities are not included in the maturity categories.

	June 30, 2015			
	Held To Maturity		Available For Sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
Maturity:				
Within one year	$—	$—	$—	$—
One to five years	—	—	1,946	2,000
Five to ten years	15,414	15,231	—	—
Greater than ten years	38,000	38,072	—	—
SBA loan pool, private label residential mortgage-backed and agency mortgage-backed securities	—	—	484,618	485,293
Total	$53,414	$53,303	$486,564	$487,293

At June 30, 2015 and December 31, 2014, 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 stockholders' equity.

Table of Contents

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(In thousands)			
Gross realized gains on sales of securities available for sale	$—	$15	$—	$560
Gross realized losses on sales of securities available for sale	—	—	(2)	(38)
Net realized gains (losses) on sales of securities available for sale	$—	$15	$(2)	$522
Proceeds from sales of securities available for sale	$—	$1,272	$174	$52,245
Tax benefit on sales of securities available for sale	$—	$—	$(1)	$—

Securities available for sale with carrying values of $32.7 million and $27.1 million as of June 30, 2015 and December 31, 2014, respectively, were pledged to secure FHLB advances, public deposits and for other purposes as required or permitted by law.

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

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(In thousands)					
June 30, 2015						
Held to maturity						
Corporate bonds	$5,225	$(193)	$—	$—	$5,225	$(193)
Total securities held to maturity	$5,225	$(193)	$—	$—	$5,225	$(193)
Available for sale						
Private label residential mortgage-backed securities	$160	$—	$510	$(2)	$670	$(2)
Agency mortgage-backed securities	141,497	(1,211)	10,141	(128)	151,638	(1,339)
Total securities available for sale	$141,657	$(1,211)	$10,651	$(130)	$152,308	$(1,341)
December 31, 2014						
Available for sale						
Private label residential mortgage-backed securities	$372	$(9)	$1,355	$(4)	$1,727	$(13)
Agency mortgage-backed securities	68,200	(332)	22,212	(273)	90,412	(605)
Total securities available for sale	$68,572	$(341)	$23,567	$(277)	$92,139	$(618)

The Company did not record other-than-temporary impairment (OTTI) for securities available for sale for the six months ended June 30, 2015 and 2014.

At June 30, 2015, the Company’s securities available for sale portfolio consisted of 100 securities, 39 of which were in an unrealized loss position and securities held to maturity consisted of 6 securities, 1 of which was in an unrealized loss position. The unrealized losses are related to an overall increase in interest rates and a decrease in prepayment speeds of the agency mortgage-backed securities.

The Company monitors to ensure it has adequate credit support and as of June 30, 2015, the Company did not have the intent to sell these securities and it is not likely that it will be required to sell the securities before their anticipated recoveries. Of the Company's $487.3 million securities available for sale portfolio, $486.2 million were rated AAA, AA or A and $1.1 million were rated BBB based on the most recent credit rating from the rating agencies as of June 30, 2015. All securities held to maturity were rated BBB as of June 30, 2015. The Company considers the lowest credit rating for identification of potential OTTI.

Table of Contents

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	Purchased Credit Impaired Loans	Total Loans and Leases Receivable
	($ in thousands)				
June 30, 2015					
Commercial:					
Commercial and industrial	$—	$771,112	$771,112	$365	$771,477
Commercial real estate	—	796,142	796,142	11,004	807,146
Multi-family	—	696,768	696,768	—	696,768
SBA	—	53,866	53,866	3,021	56,887
Construction	—	32,022	32,022	—	32,022
Lease financing	—	131,189	131,189	—	131,189
Consumer:					
Single family residential mortgage	597,554	873,507	1,471,061	251,982	1,723,043
Green Loans (HELOC) - first liens	117,881	—	117,881	—	117,881
Green Loans (HELOC) - second liens	4,773	—	4,773	—	4,773
Other consumer	113	131,796	131,909	—	131,909
Total gross loans and leases	$720,321	$3,486,402	$4,206,723	$266,372	$4,473,095
Percentage to total gross loans and leases	16.1 %	77.9 %	94.0 %	6.0 %	100.0 %
Allowance for loan and lease losses					(34,787)
Loans and leases receivable, net					$4,438,308
December 31, 2014					
Commercial:					
Commercial and industrial	$—	$489,766	$489,766	$1,134	$490,900
Commercial real estate	—	988,330	988,330	11,527	999,857
Multi-family	—	955,683	955,683	—	955,683
SBA	—	32,998	32,998	3,157	36,155
Construction	—	42,198	42,198	—	42,198
Lease financing	—	85,749	85,749	—	85,749
Consumer:					
Single family residential mortgage	222,306	595,100	817,406	231,079	1,048,485
Green Loans (HELOC) - first liens	123,177	—	123,177	—	123,177
Green Loans (HELOC) - second liens	4,979	—	4,979	—	4,979
Other consumer	113	161,826	161,939	—	161,939
Total gross loans and leases	$350,575	$3,351,650	$3,702,225	$246,897	$3,949,122
Percentage to total gross loans and leases	8.9 %	84.8 %	93.7 %	6.3 %	100.0 %

Allowance for loan and lease losses	(29,480)
Loans and leases receivable, net	$3,919,642

27

Table of Contents

Non Traditional Mortgage Loans

The Company’s non-traditional mortgage (NTM) portfolio is comprised of three interest only products: Green Account Loans (Green Loans), fixed or adjustable hybrid interest only rate mortgage (Interest Only) loans and a small number of additional loans with the potential for negative amortization. As of June 30, 2015 and December 31, 2014, the NTM loans totaled $720.3 million, or 16.1 percent of the total gross loan portfolio, and $350.6 million, or 8.9 percent of the total gross loan portfolio, respectively. The total NTM portfolio increased by $369.7 million, or 105.5 percent, during the six months ended June 30, 2015, due mainly to interest only loans transferred from loans held for sale of $277.5 million.

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

	June 30, 2015				December 31, 2014			
	Count	Amount	Percent		Count	Amount	Percent	
	($ in thousands)							
Green Loans (HELOC) - first liens	143	$117,881	16.3	%	148	$123,177	35.1	%
Interest-only - first liens	494	585,437	81.2	%	207	209,207	59.7	%
Negative amortization	31	12,117	1.7	%	32	13,099	3.7	%
Total NTM - first liens	668	715,435	99.2	%	387	345,483	98.5	%
Green Loans (HELOC) - second liens	17	4,773	0.7	%	19	4,979	1.4	%
Interest-only - second liens	1	113	0.1	%	1	113	0.1	%
Total NTM - second liens	18	4,886	0.8	%	20	5,092	1.5	%
Total NTM loans	686	$720,321	100.0	%	407	$350,575	100.0	%
Total gross loan portfolio		$4,473,095				$3,949,122		
% of NTM to total gross loan portfolio		16.1 %				8.9 %		

Green Loans

Green Loans are single family residential 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, 2015 and December 31, 2014, Green Loans totaled $122.7 million and $128.2 million, respectively. At June 30, 2015 and December 31, 2014, $10.6 million and $12.5 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 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 single family residential 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, 2015 and December 31, 2014, interest only loans totaled $585.6 million and $209.3 million, respectively. At June 30, 2015 and December 31, 2014, $4.1 million and $2.0 million of the interest only loans were non-performing, respectively.

Loans with the Potential for Negative Amortization

Negative amortization loans totaled $12.1 million and $13.1 million at June 30, 2015 and December 31, 2014, respectively. The Company discontinued origination of negative amortization loans in 2007. At June 30, 2015 and December 31, 2014, 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 loan-to-value ratios. While Green Loans have the potential for negative amortization, they are excluded from the loans with the potential for negative amortization discussed in this paragraph.

Table of Contents

Risk Management of Non-Traditional Mortgages

The Company has determined that the most significant performance indicators for NTMs are loan-to-value (LTV) and Fair Isaac Company (FICO) scores. Accordingly, the Company manages credit risk in the NTM portfolio through semi-annual review of the loan portfolio that includes refreshing FICO scores on the Green Loans and home equity lines of credit, as needed in conjunction with portfolio management, and ordering third party automated valuation models. The loan review is designed to provide a method of identifying borrowers who may be experiencing financial difficulty before they actually fail to make a loan payment. Upon receipt of the updated FICO scores, an exception report is run to identify loans with a decrease in FICO of 10 percent or more and/or a resulting FICO of 620 or less. The loans are then further analyzed to determine if the risk rating should be downgraded which will increase the reserves the Company will establish for potential losses. A report of the semi-annual loan review is published and regularly monitored.

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 is the first indication that the borrower may have difficulty in making their future payment obligations.

As a result, the Company proactively manages the portfolio by performing detailed analysis on its portfolio with emphasis on the NTM 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 the 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. The individual loans are monitored for possible downgrading of risk rating, and trends within the portfolio are identified that could affect other interest only loans scheduled for payment changes in the near future.

NTM Performance Indicators

The following table presents the Company's NTM Green Loans first lien portfolio at June 30, 2015 by FICO scores that were obtained during the quarter ended June 30, 2015, comparing to the FICO scores for those same loans that were obtained during the quarter ended December 31, 2014:

	By FICO Scores Obtained During the Quarter Ended June 30, 2015			By FICO Scores Obtained During the Quarter Ended December 31, 2014			Change		
	Count	Amount	Percent	Count	Amount	Percent	Count	Amount	Percent
	($ in thousands)								
June 30, 2015									
FICO Score									
800+	24	$15,720	13.3 %	28	$19,274	16.4 %	(4)	$(3,554)	(3.1)%
700-799	74	59,367	50.4 %	69	49,543	41.9 %	5	9,824	8.5 %
600-699	26	18,189	15.4 %	28	30,408	25.8 %	(2)	(12,219)	(10.4)%
<600	7	7,848	6.7 %	8	11,867	10.1 %	(1)	(4,019)	(3.4)%
No FICO	12	16,757	14.2 %	10	6,789	5.8 %	2	9,968	8.4 %
Totals	143	$117,881	100.0 %	143	$117,881	100.0 %	—	$—	— %

The Company updates FICO scores on a semi-annual basis, typically in the second and fourth quarters or as needed in conjunction with proactive portfolio management.

Table of Contents

Loan to Value

The table below represents the Company's single family residential NTM first lien portfolio by loan-to-value ratio (LTV) 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)											
LTV's[1]												
June 30, 2015												
< 61%	82	$58,054	49.2 %	120	$173,343	29.6 %	16	$6,649	54.9 %	218	$238,046	33.2 %
61-80%	36	42,145	35.8 %	277	377,324	64.5 %	11	4,508	37.2 %	324	423,977	59.3 %
81-100%	19	12,519	10.6 %	38	16,094	2.7 %	3	574	4.7 %	60	29,187	4.1 %
> 100%	6	5,163	4.4 %	59	18,676	3.2 %	1	386	3.2 %	66	24,225	3.4 %
Total	143	$117,881	100.0 %	494	$585,437	100.0 %	31	$12,117	100.0 %	668	$715,435	100.0 %
December 31, 2014												
< 61%	77	$58,856	47.8 %	60	$93,254	44.7 %	15	$6,023	46.0 %	152	$158,133	45.8 %
61-80%	45	46,177	37.5 %	54	81,472	38.9 %	12	5,901	45.0 %	111	133,550	38.6 %
81-100%	18	11,846	9.6 %	33	14,927	7.1 %	4	781	6.0 %	55	27,554	8.0 %
> 100%	8	6,298	5.1 %	60	19,554	9.3 %	1	394	3.0 %	69	26,246	7.6 %
Total	148	$123,177	100.0 %	207	$209,207	100.0 %	32	$13,099	100.0 %	387	$345,483	100.0 %

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

Table of Contents

Allowance for Loan and Lease Losses

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

The Company also maintains a reserve for unfunded loan commitments at a level that is considered adequate to cover the estimated and known inherent risks. The probability of usage of the unfunded loan commitments and credit risk factors determined based on outstanding loan balance of the same customer or outstanding loans that shares similar credit risk exposure are used to determine the adequacy of the reserve. As of June 30, 2015 and December 31, 2014, the reserve for unfunded loan commitments was $2.1 million and $1.9 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 adequate to absorb losses in the loan and lease portfolio. The determination of the amount of the allowance for loan and lease losses and the provision for loan and lease losses is based on management’s current judgment about the credit quality of the loan and lease portfolio and takes into consideration known relevant internal and external factors that affect collectability when determining the appropriate level for the allowance for loan and lease losses. Additions to the allowance for loan and lease losses are made by charges to the provision for loan and lease losses. Identified credit exposures that are determined to be uncollectible are charged against the allowance for loan and lease losses. Recoveries of previously charged off amounts, if any, are credited to the allowance for loan and lease losses.

The following table presents a summary of activity in the allowance for loan and lease losses for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(In thousands)			
Balance at beginning of period	$29,345	$20,003	$29,480	$18,805
Loans and leases charged off	(79)	(383)	(436)	(586)
Recoveries of loans and leases previously charged off	47	641	269	1,076
Transfer of loans from (to) held-for-sale	—	258	—	(705)
Provision for loan and lease losses	5,474	2,108	5,474	4,037
Balance at end of period	$34,787	$22,627	$34,787	$22,627

Table of Contents

The following table presents the activity and balance in the allowance for loan and lease losses and the recorded investment, excluding accrued interest, in loans and leases by portfolio segment and is based on the impairment method as of or for the three and six months ended June 30, 2015:

	Commercial and Industrial	Commercial Real Estate	Multi-family	SBA	Construction	Lease Financing	Single Family Residential Mortgage	Other Consumer	Unallocated	Total
	(In thousands)									
Allowance for loan and lease losses:										
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 allowance balance	$6,884	$4,445	$3,680	$674	$579	$1,646	$12,950	$1,686	$2,243	$34,787
Loans:										
Individually evaluated for	$5,125	$353	$—	$8	$—	$—	$26,019	$294	$—	$31,799

impairment										
Collectively evaluated for impairment	765,987	795,789	696,768	53,858	32,022	131,189	1,562,923	136,388	—	4,174,924
Acquired with deteriorated credit quality	365	11,004	—	3,021	—	—	251,982	—	—	266,372
Total ending loan balances	$771,477	$807,146	$696,768	$56,887	$32,022	$131,189	$1,840,924	$136,682	$—	$4,473,095

The increase in ALLL on single family residential (SFR) mortgage loans was mainly due to SFR mortgage loans transferred from held for sale of $476.9 million. The decrease in ALLL on multi-family loans was mainly due to sales of $242.6 million of such loans and a higher composition of loans acquired at fair value through business acquisitions in multi-family loans. At June 30, 2015, a large portion of multi-family loans were acquired from the BPNA Branch Acquisition, which included purchase discounts that led to a lower level of ALLL.

Table of Contents

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

	Commercial and Industrial	Commercial Real Estate	Multi-family	SBA	Construction	Lease Financing	Single Family Residential Mortgage	Other Consumer	Unallocated	Total
	(In thousands)									
Allowance for loan and lease losses:										
Balance at March 31, 2014	$2,367	$6,449	$2,720	$211	$352	$622	$6,147	$782	$353	$20,003
Charge-offs	—	—	(3)	—	—	—	(206)	(174)	—	(383)
Recoveries	27	438	—	175	—	—	—	1	—	641
Transfer of loans to held-for-sale	—	—	—	—	—	—	258	—	—	258
Provision	613	(1,272)	691	(125)	893	108	1,090	463	(353)	2,108
Balance at June 30, 2014	$3,007	$5,615	$3,408	$261	$1,245	$730	$7,289	$1,072	$—	$22,627
Balance at December 31, 2013	$1,822	$5,484	$2,566	$235	$244	$428	$7,044	$532	$450	$18,805
Charge-offs	—	—	(3)	(17)	—	—	(357)	(209)	—	(586)
Recoveries	53	754	—	267	—	—	—	2	—	1,076
Transfer of loans to held-for-sale	—	—	—	—	—	—	(705)	—	—	(705)
Provision	1,132	(623)	845	(224)	1,001	302	1,307	747	(450)	4,037
Balance at June 30, 2014	$3,007	$5,615	$3,408	$261	$1,245	$730	$7,289	$1,072	$—	$22,627
Individually evaluated for impairment	$—	$—	$—	$—	$—	$—	$309	$—	$—	$309
Collectively evaluated for impairment	3,007	5,615	3,408	261	1,245	730	6,659	1,072	—	21,997
Acquired with deteriorated credit quality	—	—	—	—	—	—	321	—	—	321
Total ending allowance balance	$3,007	$5,615	$3,408	$261	$1,245	$730	$7,289	$1,072	$—	$22,627
Loans:										

Individually evaluated for impairment	$4,507	$3,148	$1,651	$6	$—	$—	$26,413	$211	$—	$35,936
Collectively evaluated for impairment	362,604	518,020	232,528	25,258	30,761	57,754	902,317	131,978	—	2,261,220
Acquired with deteriorated credit quality	1,429	14,576	—	3,420	—	—	284,083	1,549	—	305,057
Total ending loan balances	$368,540	$535,744	$234,179	$28,684	$30,761	$57,754	$1,212,813	$133,738	$—	$2,602,213

Table of Contents

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, 2015			December 31, 2014		
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan and Lease Losses	Unpaid Principal Balance	Recorded Investment	Allowance for Loan and Lease Losses
	(In thousands)					
With no related allowance recorded:						
Commercial:						
Commercial and industrial	$—	$—	$—	$4,803	$4,708	$—
Commercial real estate	1,220	353	—	1,910	1,017	—
Multi-family	—	—	—	1,747	1,594	—
SBA	22	8	—	24	6	—
Consumer:						
Single family residential mortgage	21,527	20,748	—	15,729	15,131	—
Other consumer	294	294	—	507	503	—
With an allowance recorded:						
Commercial:						
Commercial and industrial	5,208	5,125	253	4,310	4,313	788
Consumer:						
Single family residential mortgage	5,453	5,271	433	6,422	6,206	500
Total	$33,724	$31,799	$686	$35,452	$33,478	$1,288

Table of Contents

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

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

Table of Contents

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, 2015			December 31, 2014		
	NTM Loans	Traditional Loans and Leases	Total	NTM Loans	Traditional Loans and Leases	Total
	(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 $164 in 2015 and $478 in 2014	14,716	27,992	42,708	14,592	23,789	38,381

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

	June 30, 2015			December 31, 2014		
	NTM Loans	Traditional Loans and Leases	Total	NTM Loans	Traditional Loans and Leases	Total
	(In thousands)					
Commercial:						
Commercial and industrial	$—	$3,732	$3,732	$—	$7,143	$7,143
Commercial real estate	—	680	680	—	1,017	1,017
Multi-family	—	854	854	—	1,834	1,834
SBA	—	338	338	—	285	285
Construction	—	—	—	—	—	—
Lease financing	—	924	924	—	100	100
Consumer:						
Single family residential mortgage	4,123	21,425	25,548	2,049	13,370	15,419
Green Loans (HELOC) - first liens	10,593	—	10,593	12,334	—	12,334
Green Loans (HELOC) - second liens	—	—	—	209	—	209
Other consumer	—	39	39	—	40	40
Total nonaccrual loans and leases	$14,716	$27,992	$42,708	$14,592	$23,789	$38,381

Table of Contents

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, 2015, excluding accrued interest receivable (which is not considered to be material), by class of loans and leases:

	June 30, 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	$5,637	$170	$4,014	$9,821	$587,733	$597,554
Green Loans (HELOC) - first liens	8,072	2,222	—	10,294	107,587	117,881
Green Loans (HELOC) - second liens	—	—	—	—	4,773	4,773
Other consumer	—	—	—	—	113	113
Total NTM loans	13,709	2,392	4,014	20,115	700,206	720,321
Traditional loans and leases:						
Commercial:						
Commercial and industrial	1,053	14	169	1,236	769,876	771,112
Commercial real estate	2,900	358	—	3,258	792,884	796,142
Multi-family	335	—	—	335	696,433	696,768
SBA	30	—	230	260	53,606	53,866
Construction	—	—	—	—	32,022	32,022
Lease financing	447	243	924	1,614	129,575	131,189
Consumer:						
Single family residential mortgage	18,509	6,698	17,491	42,698	830,809	873,507
Other consumer	132	—	27	159	131,637	131,796
Total traditional loans and leases	23,406	7,313	18,841	49,560	3,436,842	3,486,402
Purchased Credit Impaired (PCI) loans:						
Commercial:						
Commercial and industrial	—	—	184	184	181	365
Commercial real estate	—	—	691	691	10,313	11,004
SBA	372	191	619	1,182	1,839	3,021
Consumer:						
Single family residential mortgage	13,257	3,531	7,154	23,942	228,040	251,982
Total PCI loans	13,629	3,722	8,648	25,999	240,373	266,372
Total	$50,744	$13,427	$31,503	$95,674	$4,377,421	$4,473,095

Table of Contents

The following table presents the aging of the recorded investment in past due loans and leases as of December 31, 2014, excluding accrued interest receivable (which is not considered to be material), by class of loans and leases:

	December 31, 2014					
	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	$1,415	$165	$2,049	$3,629	$218,677	$222,306
Green Loans (HELOC) - first liens	8,853	—	437	9,290	113,887	123,177
Green Loans (HELOC) - second liens	294	—	209	503	4,476	4,979
Other consumer	—	—	—	—	113	113
Total NTM loans	10,562	165	2,695	13,422	337,153	350,575
Traditional loans and leases:						
Commercial:						
Commercial and industrial	79	37	3,370	3,486	486,280	489,766
Commercial real estate	2,237	—	—	2,237	986,093	988,330
Multi-family	1,072	208	—	1,280	954,403	955,683
SBA	82	—	254	336	32,662	32,998
Construction	—	—	—	—	42,198	42,198
Lease financing	1,055	36	100	1,191	84,558	85,749
Consumer:						
Single family residential mortgage	17,185	7,878	10,411	35,474	559,626	595,100
Other consumer	9	89	5	103	161,723	161,826
Total traditional loans and leases	21,719	8,248	14,140	44,107	3,307,543	3,351,650
PCI loans:						
Commercial:						
Commercial and industrial	—	—	—	—	1,134	1,134
Commercial real estate	—	—	951	951	10,576	11,527
SBA	878	—	300	1,178	1,979	3,157
Consumer:						
Single family residential mortgage	13,262	3,501	4,510	21,273	209,806	231,079
Total PCI loans	14,140	3,501	5,761	23,402	223,495	246,897
Total	$46,421	$11,914	$22,596	$80,931	$3,868,191	$3,949,122

Table of Contents

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 six months ended June 30, 2015, there were 2 modifications through bankruptcy discharges. There were no modifications for the three and six months ended June 30, 2014. The following table summarizes the pre-modification and post-modification balances of the new TDRs for the three and six months ended June 30, 2015:

	Three Months Ended			Six Months Ended		
	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
	($ in thousands)					
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, 2015 and 2014, there were no loans and leases that were modified as TDRs during the past 12 months that had payment defaults during the periods.

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

	June 30, 2015			December 31, 2014		
	NTM Loans	Traditional Loans	Total	NTM Loans	Traditional Loans	Total
	(In thousands)					
Commercial:						
Commercial real estate	$—	$—	$—	$—	$—	$—
SBA	—	8	8	—	6	6
Consumer:						
Single family residential mortgage	—	4,495	4,495	—	4,269	4,269
Green Loans (HELOC) - first liens	4,542	—	4,542	3,442	—	3,442
Green Loans (HELOC) - second liens	294	—	294	294	—	294
Total	$4,836	$4,503	$9,339	$3,736	$4,275	$8,011

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, 2015 and December 31, 2014.

Table of Contents

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. Classification of problem single family residential loans is performed on a monthly basis while analysis of non-homogeneous loans and leases is performed on a quarterly basis. The Company uses the following definitions for risk ratings:

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

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

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

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

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

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

Table of Contents

The following table presents the risk categories for loans and leases as of June 30, 2015:

	June 30, 2015					
	Pass	Special Mention	Substandard	Doubtful	Not-Rated	Total
	(In thousands)					
NTM loans:						
Single family residential mortgage	$581,334	$12,097	$4,123	$—	$—	$597,554
Green Loans (HELOC) - first liens	99,179	398	18,006	298	—	117,881
Green Loans (HELOC) - second liens	4,773	—	—	—	—	4,773
Other consumer	113	—	—	—	—	113
Total NTM loans	685,399	12,495	22,129	298	—	720,321
Traditional loans and leases:						
Commercial:						
Commercial and industrial	746,236	3,065	21,811	—	—	771,112
Commercial real estate	774,529	10,041	11,572	—	—	796,142
Multi-family	680,912	4,778	11,078	—	—	696,768
SBA	53,107	—	759	—	—	53,866
Construction	32,022	—	—	—	—	32,022
Lease financing	129,492	138	1,559	—	—	131,189
Consumer:						
Single family residential mortgage	833,492	18,593	21,422	—	—	873,507
Other consumer	131,696	61	39	—	—	131,796
Total traditional loans and leases	3,381,486	36,676	68,240	—	—	3,486,402
PCI loans:						
Commercial:						
Commercial and industrial	80	—	285	—	—	365
Commercial real estate	5,662	968	4,374	—	—	11,004
SBA	347	283	2,391	—	—	3,021
Consumer:						
Single family residential mortgage	—	—	143	—	251,839	251,982
Total PCI loans	6,089	1,251	7,193	—	251,839	266,372
Total	$4,072,974	$50,422	$97,562	$298	$251,839	$4,473,095

Table of Contents

The following table presents the risk categories for loans and leases as of December 31, 2014:

	December 31, 2014					
	Pass	Special Mention	Substandard	Doubtful	Not-Rated	Total
	(In thousands)					
NTM loans:						
Single family residential mortgage	$219,747	$279	$2,280	$—	$—	$222,306
Green Loans (HELOC) - first liens	104,640	399	18,138	—	—	123,177
Green Loans (HELOC) - second liens	4,770	—	209	—	—	4,979
Other consumer	113	—	—	—	—	113
Total NTM loans	329,270	678	20,627	—	—	350,575
Traditional loans and leases:						
Commercial:						
Commercial and industrial	477,319	117	12,330	—	—	489,766
Commercial real estate	943,645	14,281	30,404	—	—	988,330
Multi-family	932,438	6,684	16,561	—	—	955,683
SBA	32,171	—	827	—	—	32,998
Construction	42,198	—	—	—	—	42,198
Lease financing	85,613	36	100	—	—	85,749
Consumer:						
Single family residential mortgage	569,871	10,395	14,834	—	—	595,100
Other consumer	161,701	85	40	—	—	161,826
Total traditional loans and leases	3,244,956	31,598	75,096	—	—	3,351,650
PCI loans:						
Commercial:						
Commercial and industrial	104	—	1,030	—	—	1,134
Commercial real estate	6,676	985	3,866	—	—	11,527
SBA	677	351	2,129	—	—	3,157
Consumer:						
Single family residential mortgage	—	—	268	—	230,811	231,079
Total PCI loans	7,457	1,336	7,293	—	230,811	246,897
Total	$3,581,683	$33,612	$103,016	$—	$230,811	$3,949,122

Table of Contents

Purchased Credit Impaired Loans

During the three months ended June 30, 2015 and the years ended December 31, 2013 and 2012, the Company acquired loans and leases through business acquisitions and purchases of loan pools for which there was, at acquisition, evidence of deterioration of credit quality subsequent to origination and it was probable, at acquisition, that all contractually required payments would not be collected. The following table presents the outstanding balance and carrying amount of those loans and leases, which are sometimes collectively referred to as "PCI loans," as of the dates indicated:

	June 30, 2015		December 31, 2014	
	Outstanding Balance	Carrying Amount	Outstanding Balance	Carrying Amount
	(In thousands)			
Commercial:				
Commercial and industrial	$443	$365	$1,767	$1,134
Commercial real estate	13,012	11,004	13,708	11,527
SBA	4,021	3,021	4,220	3,157
Consumer:				
Single family residential mortgage	301,291	251,982	283,067	231,079
Total	$318,767	$266,372	$302,762	$246,897

The following table presents a summary of accretable yield, or income expected to be collected for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(In thousands)			
Balance at beginning of period	$85,295	$108,348	$92,301	$126,336
New loans or leases purchased	(74)	—	(74)	—
Accretion of income	(4,894)	(6,615)	(9,942)	(13,784)
Changes in expected cash flows	(128)	27,595	(153)	27,726
Disposals	(1,659)	(2,486)	(3,592)	(13,436)
Balance at end of period	$78,540	$126,842	$78,540	$126,842

The Company completed one bulk loan acquisition during the three and six months ended June 30, 2015 with unpaid principal balances and fair values of $82.5 million and $79.9 million, respectively, at the acquisition date. The Company determined that certain of the loans in the bulk acquisitions reflected evidence of credit quality deterioration since origination and it was probable, at acquisition, that all contractually required payments would not be collected. The unpaid principal balances and fair values of PCI loans in this transaction, at the date of acquisition, were $31.6 million and $30.4 million, respectively. The Company did not purchase any PCI loans during the three and six months ended June 30, 2014.

During the three and six months ended June 30, 2015, the Company did not sell any PCI loans. During the three months ended June 30, 2014, the Company sold a portion of PCI loans with unpaid principal balances and carrying values of $2.5 million and $1.5 million, respectively, and recognized no net gain or loss on sale of loans from the transaction. During the six months ended June 30, 2014, the Company sold a portion of PCI loans with unpaid principal balances and carrying values of $30.2 million and $17.6 million, respectively, and recognized net gain on sale of loans of $2.3 million from the transaction.

43

Table of Contents

NOTE 6 – SERVICING RIGHTS

The Company retains mortgage servicing rights (MSRs) from certain of its sales of residential mortgage loans. MSRs on residential mortgage loans are reported at fair value. Income earned by the Company on its MSRs is derived primarily from contractually specified mortgage servicing fees and late fees, net of curtailment costs and third party subservicing costs. The Company retains servicing rights in connection with its SBA loan operations, which are measured using the amortization method.

Income from servicing rights was $2.0 million and $774 thousand for the three months ended June 30, 2015 and 2014, respectively, and $1.6 million and $2.0 million for the six months ended June 30, 2015 and 2014, respectively. The increase in the three-month period was mainly due to an increase in unpaid principal balance of loans sold with servicing retained. The decrease in the six-month period was mainly due to a loss recognized on the fair value of servicing rights. These amounts are reported in Loan Servicing Income in the Consolidated Statements of Operations. The following table presents a composition of servicing rights as of the dates indicated:

	June 30, 2015	December 31, 2014
	(In thousands)	
Mortgage servicing rights, at fair value	$34,198	$19,082
SBA servicing rights, at cost	744	484
Total	$34,942	$19,566

Mortgage loans sold with servicing retained are not reported as assets and are subserviced by a third party vendor. The unpaid principal balance of these loans at June 30, 2015 and December 31, 2014 was $3.10 billion and $1.92 billion, respectively. Custodial escrow balances maintained in connection with serviced loans were $17.7 million and $8.3 million at June 30, 2015 and December 31, 2014, respectively.

Mortgage Servicing Rights

At June 30, 2015 and December 31, 2014, $0 and $5.9 million of the mortgage servicing rights were valued based on a market bid that settled subsequent to each period end, which were classified as Level 3, respectively. The following table presents the key characteristics, inputs and economic assumptions used to estimate the fair value of the MSRs as of the dates indicated:

	June 30, 2015	December 31, 2014
	($ in thousands)	
Fair value of retained MSRs	$34,198	$13,135
Discount rate	9.87 %	10.09 %
Constant prepayment rate	10.44 %	13.22 %
Weighted-average life (in years)	7.10	5.80

The following table presents activity in the MSRs for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(In thousands)			
Balance at beginning of period	$21,165	$18,553	$19,082	$13,535
Additions	13,699	5,996	23,891	11,136
Changes in fair value resulting from valuation inputs or assumptions	1,538	(565)	1,010	(1,350)
Sales of servicing rights	—	(13,397)	(5,862)	(12,150)

Other—loans paid off	(2,204)	(771)	(3,923)	(1,355)
Balance at end of period	$34,198	$9,816	$34,198	$9,816

Table of Contents

SBA Servicing Rights

The Company used a discount rate of 7.25 percent to calculate the present value of cash flows and an estimated prepayment speed based on prepayment data available. Discount rates and prepayment speeds are reviewed quarterly and adjusted as appropriate. The following table presents activity in the SBA servicing rights for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(In thousands)			
Balance at beginning of period	$664	$327	$484	$348
Additions	144	69	339	69
Amortization, including prepayments	(64)	(21)	(79)	(42)
Balance at end of period	$744	$375	$744	$375

NOTE 7 – OTHER REAL ESTATE OWNED

The following table presents the activity in other real estate owned for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(In thousands)			
Balance at beginning of period	$498	$150	$423	$—
Additions	—	503	534	653
Sales and net direct write-downs	(448)	(48)	(885)	(48)
Net change in valuation allowance	—	—	(22)	—
Balance at end of period	$50	$605	$50	$605

The following table presents the activity in the other real estate owned valuation allowance for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(In thousands)			
Balance at beginning of period	$54	$—	$32	$—
Additions	—	—	22	—
Net direct write-downs and removals from sale	—	—	—	—
Balance at end of period	$54	$—	$54	$—

The following table presents expenses related to foreclosed assets included in Loan Servicing and Foreclosure Expenses on the Consolidated Statements of Operations for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(In thousands)			
Net gain (loss) on sales	$6	$—	$23	$—
Operating expenses, net of rental income	—	—	—	—
Total	$6	$—	$23	$—

The Company did not provide loans for sale of other real estate owned during the three and six months ended June 30, 2015 and 2014.

Table of Contents

NOTE 8 – GOODWILL AND OTHER INTANGIBLE ASSETS, NET

At June 30, 2015, the Company had goodwill of $31.6 million related to the RenovationReady, CS Financial, Private Bank of California, and Beach Business Bank acquisitions.

The Company tests its goodwill for impairment annually as of August 31 (the Measurement Date). At the Measurement Date, the Company, in accordance with ASC 350-20-35-3, evaluates, based on the weight of evidence, the significance of all qualitative factors to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying amount. The assessment of qualitative factors at the most recent Measurement Date indicated that it is not more likely than not that impairment existed; as a result no further testing was performed.

During the three months ended June 30, 2015, the Company wrote off a portion of core deposit intangibles on non-interest bearing demand deposits and money market accounts acquired through the BPNA Branch Acquisition of $258 thousand due to the deposits being transferred to held for sale for the pending sale of two branches announced subsequent to June 30, 2015. See Note 21 - Subsequent Events for additional information.

Core deposit intangibles are amortized over their useful lives ranging from 4 to 10 years. As of June 30, 2015, the weighted average remaining amortization period for core deposit intangibles was approximately 7.8 years. Customer relationship intangible, related to the RenovationReady acquisition, is amortized over its useful life of 5.0 years. As of June 30, 2015, the remaining amortization period for customer relationship intangible was approximately 3.6 years. Trade name intangibles, related to the RenovationReady and CS Financial acquisitions, have indefinite useful lives. The following table presents a summary of other intangible assets as of the dates indicated:

	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
	(In thousands)		
June 30, 2015			
Core deposit intangibles	$30,904	$10,259	$20,645
Customer relationship intangible	670	190	480
Trade name intangibles	780	—	780
December 31, 2014			
Core deposit intangibles	$31,162	$7,237	$23,925
Customer relationship intangible	670	123	547
Trade name intangibles	780	—	780

Aggregate amortization of intangible assets was $1.5 million and $944 thousand for the three months ended June 30, 2015 and 2014, respectively, and $3.1 million and $1.9 million for the six months ended June 30, 2015 and 2014, respectively. The following table presents estimated future amortization expenses as of June 30, 2015:

	Remainder of 2015	2016	2017	2018	2019 and After	Total
	(In thousands)					
Estimated future amortization expense	$2,747	$4,946	$4,066	$3,205	$6,161	$21,125

The Company has identified operating segments for purposes of management reporting and, accordingly, reallocated goodwill reporting units. Management reallocated goodwill to the reporting units using a relative fair value approach. The carrying values of goodwill allocated to the reportable segments were $29.5 million and $2.1 million to the Banking segment and Mortgage Banking segment, respectively, at June 30, 2015. See Note 19 for additional information.

46

Table of Contents

NOTE 9 – FEDERAL HOME LOAN BANK ADVANCES AND OTHER BORROWINGS

At June 30, 2015, $300.0 million of the Bank's advances from the FHLB were fixed-rate and had interest rates ranging from 0.30 percent to 0.34 percent with a weighted average interest rate of 0.32 percent and $50.0 million of the Bank’s advances from the FHLB were variable-rate and had a weighted average interest rate of 0.24 percent. At December 31, 2014, $400.0 million of the Bank’s advances from the FHLB were fixed-rate and had interest rates ranging from 0.19 percent to 0.82 percent with a weighted average interest rate of 0.31 percent, and $233.0 million of the Bank’s advances from the FHLB were variable-rate and had a weighted average interest rate of 0.27 percent.

Each advance is payable at its maturity date. Advances paid early are subject to a prepayment penalty. At June 30, 2015 and December 31, 2014, the Bank’s advances from the FHLB were collateralized by certain real estate loans with an aggregate unpaid principal balance of $1.77 billion and $1.84 billion, respectively. The Bank’s investment in capital stock of the FHLB of San Francisco totaled $17.3 million and $29.8 million at June 30, 2015 and December 31, 2014, respectively. Based on this collateral and the Bank’s holdings of FHLB stock, the Bank was eligible to borrow an additional $1.02 billion at June 30, 2015.

The Bank maintained a line of credit of $111.8 million from the Federal Reserve Discount Window, to which the Bank pledged loans with a carrying value of $149.7 million with no outstanding borrowings at June 30, 2015. The Bank also maintained available unsecured federal funds lines of credit of $85.0 million and potential borrowings under repurchase agreements up to $403.9 million at June 30, 2015.

On March 30, 2015, Banc of California, Inc. established a line of credit of $20.0 million with a financial institution with a maturity date of March 28, 2016 at a floating interest rate equal to a LIBOR rate plus 2.25 percent or a prime rate, the proceeds of which are to be used for working capital purposes. The Company had no outstanding borrowings under this line of credit at June 30, 2015.

NOTE 10 – LONG TERM DEBT

Senior Notes

On April 23, 2012, the Company completed the public offering of $33.0 million aggregate principal amount of its 7.50 percent Senior Notes due April 15, 2020 (the Senior Notes I) at a price to the public of $25.00 per Senior Note I. Net proceeds after discounts were approximately $31.7 million.

On December 6, 2012, the Company completed the issuance and sale of an additional $45.0 million aggregate principal amount of the Senior Notes I at a price to the public of $25.00 per Senior Note I, plus accrued interest from October 15, 2012. Net proceeds after discounts, including a full exercise of the $6.8 million underwriters' overallotment option on December 7, 2012, were approximately $50.1 million.

On April 6, 2015, the Company completed the issuance and sale of $175.0 million aggregate principal amount of its 5.25 percent Senior Notes due April 15, 2025 (the Senior Notes II, together with the Senior Notes I, the Senior Notes). Net proceeds after discounts were approximately $172.8 million.

The Senior Notes were issued under the Senior Debt Securities Indenture, dated as of April 23, 2012 (the Base Indenture), as supplemented by the First Supplemental Indenture dated as of April 23, 2012 for the Senior Notes I, and the Second Supplemental Indenture dated as of April 6, 2015 for the Senior Notes II (the Supplemental Indentures and together with the Base Indenture, the Indenture), between the Company and U.S. Bank National Association, as trustee.

The Senior Notes are the Company's senior unsecured debt obligations and rank equally with all of the Company's other present and future unsecured unsubordinated obligations. The Senior Notes I and II bear interest at a per-annum rate of 7.50 percent and 5.25 percent, respectively. The Company makes interest payments on the Senior Notes I quarterly in arrears and on the Senior Notes II semi-annually in arrears.

The Senior Notes I and II will mature on April 15, 2020 and April 15, 2025, respectively. The Company may, at its option, on any scheduled interest payment date for the Senior Notes I (beginning with April 15, 2015) redeem the Senior Notes I in whole or in part, and on or after January 15, 2025 for the Senior Note II redeem the Senior Notes II in whole at any time or in part from time to time, in each case on not less than 30 nor more than 60 days' prior notice. The Senior Notes will be redeemable at a redemption price equal to 100 percent of the principal amount of the Senior Notes to be redeemed plus accrued and unpaid interest to the date of redemption.

The Indenture contains several covenants which, among other things, restrict the Company's ability and the ability of the Company's subsidiaries to dispose of or incur liens on the voting stock of certain subsidiaries and also contains customary events of default.

Tangible Equity Units – Amortizing Notes

On May 21, 2014, the Company issued $69.0 million of 8.00 percent tangible equity units (TEUs) in an underwritten public offering. A total of 1,380,000 TEUs were issued, including 180,000 TEUs issued to the underwriter upon exercise of its overallotment option, with each TEU having a stated amount of $50.00. Each TEU is comprised of (i) a prepaid stock purchase contract (each a Purchase Contract) that will be settled by delivery of a specified number of shares of Company Common Stock and (ii) a junior subordinated amortizing note due May 15, 2017 (each an Amortizing Note) that has an initial principal amount of $10.604556 per Amortizing Note, bears interest at a rate of 7.50 percent per annum and has a scheduled final installment payment date of May 15, 2017. The Company has the right to defer installment payments on the Amortizing Notes at any time and from time to time, subject to certain restrictions, so long as such deferral period does not extend beyond May 15, 2019.

The Purchase Contracts and Amortizing Notes are accounted for separately. The Purchase Contract component of the TEUs is recorded in Additional Paid in Capital on the Consolidated Statements of Financial Condition. The Amortizing Note is recorded in Long Term Debt on the Consolidated Statements of Financial Condition. The relative fair values of the Amortizing Notes and Purchase Contracts were estimated to be approximately $14.6 million and $54.4 million, respectively. Total issuance costs associated with the TEUs were $4.0 million (including the underwriter discount of $3.3 million), of which $857 thousand was allocated to the liability component and $3.2 million was allocated to the equity component of the TEUs. The portion of the issuance costs allocated to the debt component of the TEUs is being amortized over the term of the amortizing note. Net proceeds of $65.0 million from the issuance of the TEUs were designated to partially finance the BPNA Branch Acquisition and for general corporate purposes. See Note 15 for additional information.

Table of Contents

NOTE 11 – INCOME TAXES

For the three months ended June 30, 2015 and 2014, income tax expense was $11.5 million and $436 thousand, respectively, and the effective tax rate was 41.9 percent and 5.1 percent, respectively. For the six months ended June 30, 2015 and 2014, income tax expense was $21.0 million and $627 thousand, respectively, and the effective tax rate was 42.4 percent and 6.6 percent, respectively. The Company’s effective tax rate increased due to the release of a valuation allowance during the three and six months ended June 30, 2014, and an increase in the ASC 740-10-25 liability and interest expense related to the settlement of the 2010 and 2011 Internal Revenue Service examination.

The Company accounts for income taxes by recognizing deferred tax assets and liabilities based upon temporary differences between the amounts for financial reporting purposes and tax basis of its assets and liabilities. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion, or all, of the deferred tax asset will not be realized. In assessing the realization of deferred tax assets, management will continue to evaluate both positive and negative evidence on a quarterly basis, including the existence of any cumulative losses in the current year and the prior two years, the amount of taxes paid in available carry-back years, future taxable income and tax planning strategies. Based on this analysis, management determined that it was more likely than not that all of the deferred tax assets would be realized. Therefore, no valuation allowance was provided against the deferred tax assets of $12.1 million and $16.4 million at June 30, 2015 and December 31, 2014, respectively.

ASC 740-10-25 (formerly FIN 48) relates to the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements. ASC 740-10-25 prescribes a threshold and a measurement process for recognizing in the financial statements a tax position taken or expected to be taken in a tax return and also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company had unrecognized tax benefits of $340 thousand and $5.4 million at June 30, 2015 and December 31, 2014, respectively. The Company has changed its tax accounting method for various items and therefore, the total amount of unrecognized tax benefits has decreased by $5.1 million. The Company believes that it is reasonably possible that the total amount of unrecognized tax benefits will decrease up to $340 thousand in the next twelve months due to the Company's filing of amended returns. As of June 30, 2015, the total unrecognized tax benefit that, if recognized, would impact the effective tax rate was $340 thousand. At June 30, 2015 and December 31, 2014, the Company had $25 thousand and $23 thousand accrued for interest or penalties, respectively. In the event the Company is assessed interest and/or penalties by federal or state tax authorities, such amounts will be classified in the consolidated financial statements as income tax expense.

The Company and its subsidiaries are subject to U.S. Federal income tax as well as income tax in multiple state jurisdictions. The Company is no longer subject to examination by U.S. Federal taxing authorities for years before 2010 (with the exception of Gateway Bancorp, a predecessor entity, which is currently under exam by the Internal Revenue Service for the 2008 and 2009 tax years).The statute of limitations for the assessment of California Franchise taxes has expired for tax years before 2010 (other state income and franchise tax statutes of limitations vary by state).

ASU 2014-01 was adopted effective January 1, 2015. Under this standard, amortization of investments in Qualified Affordable Housing Projects is reported within income tax expense. See Note 1 for additional information.

Table of Contents

NOTE 12 – MORTGAGE BANKING ACTIVITIES

The Bank originates conforming single family residential mortgage loans and sells these loans in the secondary market. The amount of net revenue on mortgage banking activities is a function of mortgage loans originated for sale and the fair values of these loans and derivatives. Net revenue on mortgage banking activities includes mark to market pricing adjustments on loan commitments and forward sales contracts, and initial capitalized value of mortgage servicing rights (MSRs).

During the three and six months ended June 30, 2015, the Bank originated $1.27 billion and $2.28 billion, respectively, and sold $1.22 billion and $2.14 billion, respectively, of conforming single family residential mortgage loans in the secondary market. The net gain and margin were $34.8 million and 2.75 percent, respectively, and loan origination fees were $4.6 million for the three months ended June 30, 2015. For the six months ended June 30, 2015, the net gain and margin were $69.2 million and 3.04 percent, respectively, and loan origination fees were $8.1 million. Included in the net gain is the initial capitalized value of our MSRs, which totaled $13.6 million and $23.4 million, on loans sold to Fannie Mae, Freddie Mac and Ginnie Mae for the three and six months ended June 30, 2015, respectively.

During the three and six months ended June 30, 2014, the Bank originated $715.1 million and $1.23 billion, respectively, and sold $651.0 million and $1.18 billion, respectively, of conforming single family residential mortgage loans in the secondary market. The net gain and margin were $23.2 million and 3.25 percent, respectively, and loan origination fees were $2.9 million for the three months ended June 30, 2014. For the six months ended June 30, 2014, the net gain and margin were $38.4 million and 3.13 percent, respectively, and loan origination fees were $5.1 million. Included in the net gain is the initial capitalized value of our MSRs, which totaled $5.9 million and $10.7 million, on loans sold to Fannie Mae and Freddie Mac for the three and six months ended June 30, 2014, respectively.

Mortgage Loan Repurchase Obligations

In addition to net revenue on mortgage banking activities, the Company records provisions to the representation and warranty reserve representing our initial estimate of losses on probable mortgage repurchases or loss reimbursements. Total provision for loan repurchases was $1.6 million and $968 thousand for the three months ended June 30, 2015 and 2014, respectively, and $2.9 million and $1.5 million for the six months ended June 30, 2015 and 2014, respectively. Of these total provisions for loan repurchases, the Company recorded an initial provision for loan repurchases of $574 thousand and $638 thousand for the three months ended June 30, 2015 and 2014, respectively, and $1.1 million and $638 thousand for the six months ended June 30, 2015 and 2014, respectively, against net revenue on mortgage banking activities.

The following table presents a summary of activity in the reserve for losses on repurchased loans for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(In thousands)			
Balance at beginning of period	$8,432	$5,866	$8,303	$5,427
Provision for loan repurchases	1,573	968	2,901	1,539
Payments made for loss reimbursement on sold loans	(594)	(660)	(1,793)	(792)
Balance at end of period	$9,411	$6,174	$9,411	$6,174

Table of Contents

NOTE 13 – RISK MANAGEMENT AND DERIVATIVE INSTRUMENTS

The Company uses derivative instruments and other risk management techniques to reduce its exposure to adverse fluctuations in interest rates in accordance with its risk management policies. The Company utilizes forward contracts and investor commitments to economically hedge mortgage banking products and may from time to time use interest rate swaps as hedges against certain liabilities.

On September 30, 2013 and January 30, 2015, the Company entered into pay-fixed, receive-variable interest-rate swap contracts for the notional amounts of $50.0 million and $25.0 million, respectively, with maturity dates of September 27, 2018 and January 30, 2022, respectively. These swap contracts were entered into with institutional counterparties to hedge against variability in cash flows attributable to interest rate risk caused by changes in the LIBOR benchmark interest rate on the Company's ongoing LIBOR based variable rate deposits. The Company is accounting for the swaps as cash flow hedges under ASC 815. The fair values of the interest rate swaps were net gain (loss) of $166 thousand and $(235) thousand as of June 30, 2015 and December 31, 2014, respectively.

The Company originates residential real estate mortgage loans and generates revenues from the origination and sale of these loans. Although management closely monitors market conditions, such activities are sensitive to fluctuations in prevailing interest rates and real estate markets. As of June 30, 2015, approximately 82.8 percent of all properties securing loans held for sale were located in California. A change in the underlying economic conditions of the California residential real estate market could have an adverse impact on the Company's results of operations.

In connection with mortgage banking activities, if interest rates increase, the value of the Company's loan commitments to borrowers and fixed rate mortgage loans held-for-sale are adversely impacted. The Company attempts to economically hedge the risk of the overall change in the fair value of loan commitments to borrowers and mortgage loans held for sale by selling forward contracts on securities with government-sponsored enterprises (GSEs) and investors in loans. Forward contracts on securities of GSEs and loan commitments to borrowers are non-designated derivative instruments and the gains and losses resulting from these derivative instruments are included in Net Revenue on Mortgage Banking Activities in the Consolidated Statements of Operations. At June 30, 2015, the resulting derivative assets of $11.4 million and liabilities of $292 thousand, are included in Other Assets and Accrued Expenses and Other Liabilities, respectively, on the Consolidated Statements of Financial Condition. At June 30, 2015, the Company had outstanding forward sales commitments totaling $562.0 million. At June 30, 2015, the Company was committed to fund loans for borrowers of approximately $398.7 million.

The net losses relating to free-standing derivative instruments used for risk management were $0 and $5.5 million for the three months ended June 30, 2015 and 2014, respectively, and $2.7 million and $9.1 million for the six months ended June 30, 2015 and 2014, respectively, and are included in Net Revenue on Mortgage Banking Activities in the Consolidated Statements of Operations.

The following table presents the amount and market value of derivative instruments included in the Consolidated Statements of Financial Condition as of the dates indicated. Note 3 contains further disclosures pertaining to the fair value of mortgage banking derivatives.

	June 30, 2015		December 31, 2014	
	Notional Amount	Fair Value	Notional Amount	Fair Value
	(In thousands)			
Included in assets:				
Interest rate lock commitments	$377,175	$9,497	$179,923	$5,750
Mandatory forward commitments	562,000	1,872	25,735	629
Interest rate swap	50,000	431	—	—

Total included in assets	$989,175	$11,800	$205,658	$6,379
Included in liabilities:				
Interest rate lock commitments	$21,537	$292	$10,075	$197
Mandatory forward commitments	—	—	364,829	2,803
Interest rate swap	25,000	265	50,000	235
Total included in liabilities	$46,537	$557	$424,904	$3,235

Table of Contents

NOTE 14 – STOCK COMPENSATION PLANS

Share-based Compensation Expense

For the three months ended June 30, 2015 and 2014, share-based compensation expense was $2.6 million and $2.0 million, respectively, and the related tax benefits were $1.1 million and $800 thousand, respectively. For the six months ended June 30, 2015 and 2014, share-based compensation expense was $4.3 million and $2.8 million, respectively, and the related tax benefits were $1.8 million and $1.1 million, respectively.

On July 16, 2013, the Company's stockholders approved the Company's 2013 Omnibus Stock Incentive Plan (the 2013 Omnibus Plan). Upon the approval of the 2013 Omnibus Plan, the Company ceased being able to grant new awards under the Company's 2011 Omnibus Incentive Plan or any prior equity incentive plans. The 2013 Omnibus Plan provides that the aggregate number of shares of Company common stock that may be subject to awards under the 2013 Omnibus Plan will be 20 percent of the then outstanding shares of Company common stock (the Share Limit), provided that in no event will the Share Limit be less than the greater of 2,384,711 shares of Company common stock and the aggregate number of shares of Company common stock with respect to which awards have been properly granted under the 2013 Omnibus Plan up to that point in time. As of June 30, 2015, based on the number of shares then registered for issuance under the 2013 Omnibus Plan, 2,448,838 shares were available for future awards under the 2013 Omnibus Plan.

Unrecognized Share-based Compensation Expense

The following table presents unrecognized share-based compensation expense as of June 30, 2015:

	Unrecognized Expense	Average Expected Recognition Period
	($ in thousands)	
Stock option awards	$897	2.8 years
Restricted stock awards and restricted stock units	13,457	2.6 years
Total	$14,354	2.6 years

Stock Options

The Company has issued stock options to certain employees, officers and directors. Stock options are issued at the current market price on the date of grant (or, in the case of options granted under the 2013 Omnibus Plan, at the closing market price on the business day before the date of grant), and generally have a three to five year vesting period and contractual terms of seven to ten years.

The following table represents stock option activity as of and for the three months ended June 30, 2015:

	Number of Shares	Weighted-Average Exercise Price per Share	Weighted-Average Remaining Contract Term	Aggregated Intrinsic Value (In thousands)
Outstanding at beginning of period	828,530	$12.72	7.4 years	$229
Granted	—	$—		